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Bachelor's Thesis

Accounting

WEB-BASED CORPORATE SOCIAL RESPONSIBILITY REPORTING

Author: Eeva Siljala

Opponent: Jaakko Tamminen

Instructor: Ulla Kotonen

ABSTRACT

Author: Eeva Siljala

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Due to concerns regarding globalisation and sustainable development, corporate social responsibility (CSR) is topical in the business context and in the field of accounting. The main objective of this study was to review previous academic literature in the field of CSR reporting and develop an insight into CSR reporting in the Web-based environment. The main purpose was to find out what Web-based CSR reporting is like and how companies are utilising the Internet to communicate on responsibility issues. I did not, however, collect empirical research data but limited my study into theoretical and descriptive examination. In order to create an insight into Web-based reporting, I examined the development, motives and current practices of CSR reporting. I concluded that the Internet is a unique, interactive communication channel that is used differently compared with annual reports. The amount of companies engaging in Web-based CSR reporting is increasing and the reporting practices in terms of e.g. content and accessibility of information vary. I also concluded that many companies have not yet discovered the true potential of the Web as an interactive communication medium.

CONTENTS

1 Introduction

1.1 Background of the study

Although businesses create wealth and generate a lot of what is good in society, the benefits have a price: economic activity may have negative environmental, social and economic consequences. Because businesses don't operate in isolation - on the contrary, they constantly interact with a network of stakeholders - these negative side-effects may cause problems in many levels: to individuals, communities and even whole nations. Traditional legal and regulatory means are inadequate to solve all these issues, questions and problems roused by business activities, which raises a question of responsibility in the business context.

Lately, the significance of corporate social responsibility (CSR) and social disclosure have grown due to several reasons, such as new concerns regarding globalisation and large scale industrial change, social criteria influencing investment decisions (European Commission 2001, 5), accounting scandals and malpractices in the recent years as well as the fast development of information technology (Niskala & Tarna 2003, 9-10). The development of information technology and the Internet has opened up new possibilities and challenges for corporate reporting as the amount of information accessible has grown exponentially: in the 21st century, both the good and the bad news are immediately for everyone to access.

Since effective two-way communication is a powerful tool for building stakeholder trust, loyalty and respect towards the company (Wheeler & Elkington 2001, 2), exploiting the Web as a vehicle for communicating on corporate responsibility issues deserves attention. The first studies examining electronic CSR documents appeared some ten years ago including the work by Esrock and Leichty (1998; 2000) and Williams and Ho Wern Pei (1999), for example. Since then web-based CSR disclosure has been studied from numerous perspectives, concentrating on e.g. the language (Coupland 2006) and content (Chapple & Moon 2005) of CSR accounts. Building on the previous studies, this study tries to form a general view of the elements examined in the field of Web-based CSR reporting.

1.2 Research problems, objectives and limitations

The main objective of this study is to provide with an overview of the research regarding Web-based CSR reporting. Through a review of the previous research, my aim is to identify the key characteristics of social disclosure in the Web. As a descriptive study, the aim is to develop insight rather than test hypothesis. The study attempts to answer the following research questions:

- What is Web-based CSR reporting like?
    - What is CSR reporting like in general?
- How and why are companies utilising the Web for CSR reporting?
    - What are the reasons for CSR reporting in general?
    - What are the characteristic features of the Web as a corporate reporting tool?

Answering these questions is important and interesting because of the growing phenomenon of corporate information dissemination in the Web and because of the topicality of CSR in the field of accounting. In order to understand social disclosure in the Web-based environment, it is crucial to examine the phenomenon of CSR and CSR reporting in general in terms of its definitions, theoretical perspectives and practices. However, it is not in the scope of this study to report everything written about Web-based CSR reporting, but to provide an overview. The study is also limited into theoretical examination.

1.3 Research data and methods

This study is qualitative and theoretical. This is also a descriptive study, which means that I will attempt to describe what web-based CSR reporting is like, not to give normative statements of what it should be like. As the purpose of this study is to review literature, I will not collect empirical research data, but build my study on previous academic and professional literature, particularly on the articles published in scientific publications.

CSR and CSR reporting are popular issues in journals like Accounting, Auditing and Accountability Journal, Journal of Business Ethics and Academy of Management Review. In the field of CSR and CSR reporting in general, authors such as Gray, Adams, Guthrie, Carroll and Elkington are probably among the most cited ones. CSR reporting practices have mainly been examined in the developed countries, such as European countries, UK, United States, Canada, Japan and Australia.

The studies examining Internet-based social accounting practices have covered geographic areas such as Asia (Chapple & Moon 2005; Williams & Ho Wern Pei 1999), UK (Coupland 2006), and Spain (Capriotti & Moreno 2007). Despite the international comparisons by Chapple and Moon (2005) and Williams and Ho Wern Pei (1999), research in the field of Web-based CSR reporting is mostly nation-bound. The articles regarding corporate reporting on the Internet cited in this study have been published in journals such as Accounting, Organizations and Society, Accounting Horizons and The International Journal of Accounting.

1.4 Structure of the research

The remainder of the study is structured as follows: Next chapter deals with the foundations, definitions and different perspectives of CSR and CSR reporting. In the third chapter I will introduce some theoretical explanations for CSR reporting, including accountability and political economy theory with its implications to stakeholder and legitimacy theory. Current reporting practices and the voluntary nature of social disclosure will also be discussed in this chapter. The first three chapters form the basis for concentrating on Web-based corporate (responsibility) reporting in the fourth chapter. The conclusions are presented in the fifth chapter.

2 Concepts of CSR and CSR reporting

2.1 Foundation and development of corporate responsibility

Corporate social responsibility is not a new concept, but as Carroll (1999) suggests, the concern of business' influence on surrounding society dates back for centuries. However, as a definitional construct CSR was introduced in the 1950´s, as the book *Social Responsibilities of the Businessman* (1953) by Bowen marked the beginning of a modern era of responsibility in the business context. Because of his early and significant research, Bowen has even been addressed as the father of corporate social responsibility. (Carroll 1999, 268-270)

Following Bowen's seminal work, the discussions and debates of the social responsibility of businesses were very much alive in the 1960's, particularly in North America and Europe. No longer were corporations of market capitalism assumed as benign institutions. It was against this background that the concept of CSR marched into view in the early 1970's and continued to be a hot topic throughout the beginning of the decade. However, as a result of a worldwide recession in the late 1970's, the focus of businesses on their social responsibilities quietly faded away just to return in the mid-1990s. The return was partly due to the major environmental disasters in the late 1980s that increased the concern over environmental issues and placed them at the core of business thinking. (Gray et al. 1996, 92-93; 97)

During the past five decades the academic interest towards CSR has produced a number of studies examining the various aspects of corporate responsibility, including its ideological foundations, purposes, management and the development of performance measurement and external disclosure (Ullmann 1985, 540). Despite the decades of interest and research on the topic, consistent definitions and vocabulary are yet to be developed in the field of CSR. According to Werther and Chandler, CSR can be referred to as "corporate responsibility (CR)", "corporate citizenship", "corporate community engagement", "community relations", "corporate stewardship" or "social responsibility" (Werther & Chandler 2006, 6). There have been efforts to differentiate the content of these terms (Talvio & Välimaa 2004, 37). In this study, however, the terms will be considered as synonyms as it is not relevant for the purpose of this study to make such differentiations.

At its simplest, the concept of CSR embraces the responsibilities of businesses to their stakeholders and society (Niskala and Tarna 2003, 19). Views of the responsibilities range from the idea of the only ethical responsibility of a company being shareholder value maximization to a belief that companies have responsibilities to all their past, present and future stakeholders (see Unerman & O'Dwyer 2007, 338).

What kind of responsibilities, then, are companies considered to have?

2.2 Different approaches to CSR

In 1970, the Nobel award-winning economist Milton Friedman made his famous statement: "The social responsibility of business is to increase its profits (Friedman 1970, 13). " Like Milton, some see profitability as the overriding corporate responsibility, while others might consider CSR primarily a public relations necessity and tool (Esrock & Leichty 1998, 307). There seems to be a consensus, however, that corporate responsibility is usually considered to involve the concern with more than mere profit-making (Dawkings & Lewis 2003, 188) and obeying the law (McWilliams & Siegel 2001, 117).

Carroll has given a four-part definition for CSR, suggesting that corporate responsibility "encompasses the economic, legal, ethical, and discretionary (philanthropic) expectations that society has of organisations at a given point in time (Carroll 1979, 500)". This old definition - however, reflecting the current consideration of CSR (Reynolds & Yuthas 2007, 48) - suggests that the responsibility of business is to make profit as well as to obey the law. Ethical and discretionary responsibilities extend to behaviours and practices that go beyond obedience to the law. (Carroll 1999, 283)

Another way of modelling CSR is to emphasise the independence of economic, social and environmental responsibility. This so called 'triple bottom line' thinking was introduced by Elkington (1998) in his book *Cannibals with Forks: the Triple Bottom Line of 21st Century Business*. The triple bottom line model of stakeholder communication aims at economic prosperity, environmental quality and social justice (Wheeler & Elkington 2001, 1). In the sense of triple bottom line, CSR can be viewed as balancing between the three different roles companies play when conducting business (Panwar et al. 2006, 6).

Economic responsibility involves caring for the sustainability of business actions as well as the consequences of the actions to stakeholders. Economic actions can influence the stakeholders either directly or indirectly. Environmental responsibility means caring for the ecological environment and may include issues such as efficient use of natural resources and fighting against global warming. Social responsibility may involve paying attention to the wellbeing of employees, respecting human rights and caring for consumer protection. Social responsibility can also be divided into direct and indirect responsibility. (Niskala & Tarna 2003, 19-20)

As the different definitions and perspectives bring out, CSR is a collective name for many different actions (Godfrey & Hatch 2007, 88): CSR can take an endless amount of forms, have numerous focuses and cover a great deal of subjects. Corporate responsibility means different things to different people, and it has an industry specific dimension (Decker 2004, 714): the content of CSR in an organisation depends on the operating environment and the framework in which the organisation operates (Niskala & Tarna 2003, 24).

2.3 Why CSR?

When companies operate on ordinary market terms, being socially responsible is not self-evident (Nielsen & Thomsen 2007, 30). However, there is much evidence of a substantially growing number of organisations reporting on their CSR activities (e.g. KPMG 2005, 9), which makes it important to discuss the motives and drivers of engaging in CSR.

According to Graafland and van de Ven (2006) companies develop CSR policies for economic and moral reasons. CSR can affect the profitability in multiple ways, as good social reputation can enhance marketing and financial performance and be rewarded by customers and employees. (Graafland & van de Ven 2006, 114) The relationship between CSR and financial performance is controversial, though, as researchers have reported positive, negative or neutral impact of CSR on economic performance (see McWilliams & Siegel 2000, 604). According to the moral view, engaging in CSR is regarded as a moral duty towards the society (Graafland & van de Ven 2006, 114-115). Many researchers, on the other hand, emphasise the image building motives as drivers of CSR policies (Esrock & Leichty 1998, 307).

To give an empirical illustration, the majority of the 250 major companies worldwide examined by KPMG named economic considerations (such as innovation and learning, employee motivation and risk management and reduction) as the main drivers of CSR. However, more than half also reported ethical reasons. Reputation and image building was mentioned only by a quarter of the survey respondents as a motive for CSR. (KMPG 2005, 18)

As stated earlier in this chapter, organisations are considered to have responsibilities to their *stakeholders*, which is why I will next clarify who the stakeholders are and what their expectations of companies in terms of CSR are.

A current definition by Carroll and Bucholtz holds a stakeholder to be “any individual or group who can affect or is affected by the actions, decisions, policies, practices or goals of the organisation (Carroll & Bucholtz 2006, 67)”. As such, the stakeholders of companies will include their customers and employees, regulators and investors and the natural environment as well as the communities in which the companies operate (Dawkings & Lewis 2003, 188).

It has been argued that in today’s society, the future of a company is dependent on how it is viewed by its key stakeholders (Cornelissen 2004, 9) and the failure to behave ethically in the eyes of them can pose a threat for the financial health of companies. However, ethical behaviour can only influence business performance, if the stakeholders who have leverage over the corporate decision-making decide that their views matter. (Zadek 1998, 1423)

Stakeholders provide companies with resources with the expectation that their own needs and interests are satisfied. In exchange for capital, for example, shareholders may expect not only a descent return on their investment, but also working conditions respectful of human rights. When customers buy products or services, the may expect product safety and environmentally-friendly manufacturing processes. Similarly, as communities provide businesses with location and infrastructure, they probably expect the companies to improve the quality of life of their residents, not to damage it. (Maignan et al. 2002, 398)

The societal effects of organisations also often interest a substantially broader group of stakeholders than the traditional business issues, including for example civic organisations and ethical investors (Niskala & Tarna 2003, 54). Ethical investors tend to seek out companies with a good reputation while avoiding those associated with poor employment practices or environmentally damaging operations, for example (Panwar et al. 2006, 5).

In order to understand these potentially competing environmental, social, ethical and economic expectations of different stakeholders, companies need to engage in a stakeholder dialogue (Unerman & Bennett 2004, 685) and not only change their practices, but also report how they have performed against the social, environmental and ethical criteria (Zadek 1998, 1427). However, identifying and reaching the stakeholders and engaging in a dialogue with them are not easy tasks (Unerman & Bennett 2004, 685-686). The Internet is considered helpful by promoting a proactive and customised interaction between the companies and their key stakeholders (SustainAbility 1999, 7).

2.4 Development of CSR reporting

Compared with financial reporting, CSR reporting is quite a new phenomenon. Financial reporting, however, is not a sufficient way of illustrating the actions of an organisation from the perspective of different stakeholders and society. (Niskala & Tarna 2003, 14) The appearance of non-financial reporting can thus be viewed as an attempt to enhance the transparency of corporate actions with respect to environmental and social issues (Nielsen & Thomson 2007, 29). CSR reporting is one step in the development towards a comprehensive reporting and measurement of the elements influencing the firm value, taking sustainable values and long-term success into account (Niskala & Tarna 2003, 15).

Corporate social responsibility reporting - also called “corporate social accounting”, “social responsibility accounting” or “social disclosure” (see Guthrie & Parker 1989, 343) - can be defined as “the process of communicating the social and environmental effects of organisations’ economic actions to particular interest groups within society and to society at large”. Thus, CSR reporting is an extension of the accountability of organisations beyond the conventional task of giving a financial account for shareholders. (Gray et al. 1996, 3)

According to Parker’s (1986) definition, CSR reporting involves corporate reporting on the social effects of its activities, the effectiveness of its social programs, the discharging of its social responsibilities and the stewardship of its own social resources (see Guthrie & Parker 1989, 343).

Although there is evidence of some organisations providing social disclosure of certain level since the late 1800s (e.g. Guthrie & Parker 1989), the very first internally generated social reports attempting to build a comprehensive image of the organisations interactions with its external environment appeared in the 1970s. This was also the decade of entrance of the employee-related reporting into the reporting practices of many organisations. (Gray et al. 1996, 101; 104; 116)

The intensity of CSR reporting was low until the dramatic increase in the environmental reporting in the 1990’s, which was the decade of mainstreaming of social and environmental reporting, particularly in Europe and North America (Neu et al. 1998, 266; Wheeler & Elkington 2001, 2; 5). Until the end of 1990s the reports mainly concentrated on environmental, safety and health concerns, but have since moved toward a greater coverage of social issues. Particularly the recent corporate governance scandals have increased the trend toward sustainable business practice. (KPMG 2005, 7; 24)

3 Rationales of CSR reporting and reporting practices

3.1 Theoretical explanations of CSR reporting

The voluntary nature of CSR reporting leads to a question why it occurs. Similar to traditional financial reporting, there are many possible explanations and competing theories of CSR reporting (Gray et al 1996, 45). In this study, however, I will concentrate on three quite recent theories employed widely in the accounting literature - including political economy theory, stakeholder theory and legitimacy theory - as the perspectives drawn from these theories seem the most insightful.

Although there are differences among stakeholder theory, legitimacy theory and political economy theory, all three approaches focus on the organisational-environmental interconnection and give a systems-oriented view of the organisation and society (Neu et al. 1998, 267; Gray et al. 1996, 45). According to a systems-oriented perspective, an organisation is assumed to have influence upon and be influenced by the society in which it operates. From this perspective, corporate reporting is considered as an important means by which the external conceptions of an organisation can be influenced. (Deegan 2002, 292)

Before going deeply into the three theories, it is essential to briefly discuss the accountability framework for analysing the transmission of CSR information.

3.1.1 Accountability

In a democratic society, the ones controlling the resources must provide accounts to society of the use of the resources (Gray et al. 1996, 37). This concept of *accountability* follows on from the acceptance of corporate responsibilities (Unerman & O'Dwyer 2007, 338): if there are no social responsibilities, there is no social accountability to discharge (Gray et al. 1996, 56).

Accountability has been defined by Gray et al. as “the duty to provide an account (by no means necessarily a financial account) or reckoning of those actions for which one is held responsible”. As such, accountability involves a responsibility to take an action and a responsibility to provide an account for it. (Gray et al. 1996, 38) According to Benston, organisations are accountable to shareholders, stakeholders and society in general (Benston 1982, 88).

One goal of CSR is to discharge the social accountability of organisations, which can be achieved by disclosing information (Gray et al. 1996, 38; 56). Social and environmental accounting and reporting are thus means by which an organisation can demonstrate how their corporate responsibilities have been discharged (Unerman & O’Dwyer 2007, 338). In fact, social and environmental disclosure is essential for the development of accountability (Gray et al. 1996, 33).

The process of discharging accountability arises from a two-way relationship between an accountor (e.g. a company) and an accountee (e.g. a shareholder). The relationship is socially construct and provides the accountee with a right to information. These relationships - or ‘social contracts’ as they can be called - between society and the members of it determine the basis for rights and responsibilities regarding the information flows, the law laying down the minimum level. (Gray et al. 1996, 39) A social contract is based on a notion that although the goal of business is to be profitable, an intangible agreement between an organisation and society exists (Coupland 2006, 867).

3.1.2 Political economy theory

Political economy has been defined in various ways, for example as the “social, political and environmental framework within which human life takes place (Gray 1996, 57)”. According to the political economy theory perspective politics, economics and society cannot be separated and economic activity can’t be isolated from the political, social and institutional framework in which the economic activity takes place (Deegan 2002, 292; Gray et al. 1995, 52).

It is argued that the perspectives of political economy theory make it easier to consider broader societal issues that affect the way organisations operate, and what information they choose to disseminate (Deegan 2002, 292). Accounting reports are perceived as political, economic and social documents which are able to transfer political, economic and social meanings for a pluralistic set of audiences. The reports provide a tool for “constructing, sustaining and legitimising economic and politic arrangements, institutions and ideological themes which contribute to the corporation’s private interests”. (Guthrie & Parker 1990, 166)

An important point drawn for political economy theory is related to its international implications: CSR disclosures are significantly influenced by the environmental, social, and economic environment in which the organisation operates. (Williams & Ho Wern Pei 1999, 395)

3.1.3 Stakeholder theory and legitimacy theory

Both legitimacy theory and stakeholder theory are built on the foundation of political economy theory (Deegan 2002, 292). In literature, the theories are often treated as competing theories, when, according to Gray et al. they could better be seen as two mutually supportive theories (Gray et al. 1995, 52).

Consistent with the systems-based view of an organisation, stakeholder theory recognises the complicated and dynamic nature of the interaction between an organisation and its environment accepting the fact that different groups within society have different views of how organisations should operate, and different abilities to influence the organisations (Gray et al. 1996, 45; Deegan 2002, 295). From the perspective of stakeholder theory, voluntary CSR disclosures can be interpreted as indicators of the most relevant stakeholders of an organisation, and of those which the organisation wishes to influence (Gray et al. 1996).

According to stakeholder theory, things are seen from the perspective of the management, who are concerned with the continued success of the organisation. The continued success - that is, existence - depends on the support of the stakeholders:

the activities of the organisation have to be adjusted in order to gain the support and approval of the stakeholders. (Gray et al. 1996, 53)

The stakeholders are identified by the company - not the society - to the extent to which the company thinks them to further the goals of the company. The more powerful and important the stakeholder, the more the activities have to be adjusted and the more effort is needed to manage the stakeholder relationship. Information (whether financial or social accounting) is an essential element the organisation can employ to manage the stakeholders in order to gain their support. From the perspective of the stakeholder theory, social disclosure is thus seen as one part of the dialogue between the company and its stakeholders. (Gray et al. 1995, 53; Gray et al. 1996, 46)

However, there is much empirical evidence that it is the management's desire to legitimise the various aspects of the organisation's actions that motivates corporate social and environmental reporting (Deegan 2002, 282). Since it adds conflict and dissention to the stakeholder theory, legitimacy theory can also be used to explain CSR practice a little more (Gray et al. 1996, 46).

At its simplest, legitimacy theory postulates that organisations can only continue to exist, if the value system to which the organisation operates is perceived by the society to be congruent with the society's own value system (Gray et al. 1996, 46). Thus, it is the society that provides organisations with their legal status and right to exist. Corporations are not inherently entitled to resources, and in order to allow their existence, societies expect their benefits to exceed the costs. (Mathews 1993, 26)

Again congruent with the systems-oriented perspective, legitimacy theory is based upon the idea of organisations operating in society via a social contract. Companies agree to perform certain actions in order to gain the approval of their goals and ultimately, their survival. Corporate disclosures can be used to legitimise the actions of the company, and therefore enough social information needs to be disclosed so that the society is able to asses, whether the organisation has been a good corporate citizen. (Guthrie & Parker 1989, 344)

Organisational legitimacy mitigates problems such as product boycotts and other disturbing actions by external parties, giving the management a degree of freedom to decide how and where business is conducted (Neu et al. 1998, 265). However, there are many reasons why organisations may not be perceived as legitimate. Expectations of society might change, and what once was acceptable is no longer considered to be so. There might also occur a failure in the organisation’s performance (an accident or a financial malpractice, for example), which impacts the reputation and legitimacy of the organisation. (Deegan 2002, 296) Therefore social disclosure may be considered as a reaction to the factors in the company’s environment (Guthrie & Parker 1989).

As a conclusion it can be said that there are many ways of looking at CSR practice and no single, generally accepted and wholly specified theory of the phenomenon exists. The theories reviewed in this study can be considered broadly similar, as they recognise the power of the society to pressure companies to disclose social and environmental information and, on the other hand, the desire and ability of organisations to use the information to legitimate actions and decline criticism (Gray et al. 1996, 48). However, the theoretical explanations for social disclosure specifically over the Internet are nonexistent (Williams & Ho Wern Pei 1999, 395).

3.2 Reporting practices and models

3.2.1 Characteristics of social accounting

Social and environmental accounting is a contextual concept (Nielsen & Thomson 2007, 29). Reporting practices vary over time and between countries and tend to depend on company size and industry (Gray et al 1996, 142). There is evidence that the larger the company, the more social information is provided (e.g. Esrock & Leichty 1998, 309). Reporting might also be dependent on the organisation form. Recent evidence was provided by Tuominen et al., who found that limited liability form organisations were leading co-operatives in CSR reporting (Tuominen et al. 2007, 20).

It has often been assumed that CSR is largely a Western phenomenon and its emergence relates to the stage of social and economic development of the area (Chapple & Moon 2005, 417-418). Countries with established reporting practices thus include European countries and Japan, USA, Australia and South Africa, for example. Reporting practices are still emerging in areas such as Latin America, Russia and Africa. (KPMG 2005, 10; 14)

In most Western countries - with exceptions such as Sweden, Denmark, The Netherlands and Norway requiring environmental statements from certain industries (Wheeler & Elkington 2001, 5) - disclosure of social and environmental information is mostly voluntary. Consequently, the decisions of whether to disclose information and of the amount and type of disclosure are nearly completely those of the reporting organisation. (Campbell et al. 2003, 558) The decisions are dependent on contextual factors such as the company size, the specific stakeholders, the level of ambition and the nature of involvement by the company (Nielsen & Thomson 2007, 30).

In the absence of regulation, the popularity and subjects of social disclosure - and the organisations providing it - seem to wax and wane in time (Gray 1995, 49). However, the elements of corporate social accounting can be characterised and modelled in the following way:

- The accounts are formal
- The accounts are prepared by an ‘organisation’
- The reports are typically prepared about certain areas of activities or ethical issues that might affect the natural environment, employees, consumers and products as well as local and international communities
- The reports are prepared and communicated to internal and external participants of the organisation - apart from shareholders to other stakeholders as well. (Gray et al. 1996, 11-12)

There is growing evidence of the increasing amount of social and environmental information disclosed in annual reports, stand-alone reports and on corporate Websites. Despite the growing *amount* of information, a concern of the *quality* of it remains: reporting on social performance and management systems might be selective with bad news and adverse impacts left undisclosed. For example, empirical evidence from Australia by Deegan and Rankin (1996) showed that only two out of the sample of 20 companies prosecuted for breaking against environmental regulations reported the incident. (Adams & Frost 2007, 4)

The majority of companies in most countries still issue stand-alone CSR reports, but the proportion of disclosure in the annual reports is increasing. In addition to economic performance, investors make their decisions based on environmental and social performance, which is why more CSR disclosure is demanded in the annual reports. Lately, the increase in the reporting activity has been the most significant in the financial sector. (KPMG 2005, 4; 7; 12) The content of CSR disclosures may vary from brief statements to much rarer comprehensive social and environmental accounts (Gray et al. 1996, 82).

Throughout the recent history of CSR, the focus of reporting has varied between communities and customers, employees and trade unions and natural environment (Gray et al. 1996, 82). Recent empirical evidence is provided by Nielsen and Thomson, for example, who found in their case study of six Danish companies that employees, local community, environment, society, corporate governance, business strategy and measurement of CSR initiatives were the most relevant CSR issues (Nielsen & Thomson 2007, 38).

As the implementation of CSR reporting is the obligation of the reporting organisation, the users of the reports expect the disclosed information to be reliable. One means by which the reliability - and thus, the credibility - of the reports can be improved is a verification or assurance executed by an external party. An external verification or assurance is a process of verifying the functioning of governance and management systems of CSR and the information disclosed in the reports. The amount of verified reports has shown a constant growth over the past years. (Niskala & Tarna 2003, 187; 191-192) In 2005, 30 % of the reports prepared by the Global Fortune top 250 companies were verified (KPMG 2005, 5).

Next I will examine in more detail the voluntary nature of disclosing social information and the impact of increasing standardisation on reporting.

3.2.2 Voluntary vs. mandatory disclosure

Companies generally comply with certain disclosure requirements, which form the minimum level for corporate reporting. Generally speaking, companies will disclose no more information than necessary to meet the mandatory requirements, but voluntary disclosure is undertaken if it is perceived to enhance the corporate goals. (Gray et al. 1996, 66) As suggested above, CSR reporting is still voluntary for the most part and no such mandatory requirements exist in most countries. However, there seems to be a shift towards increased regulation and desire to develop harmonised reporting practices. European Commission, for example, has published the Green Book (2001) in order to develop a framework for promoting CSR at the European level (European Commission 2001, 7).

One common argument used to support voluntary CSR reporting is that companies already engage actively in CSR (Adams & Frost 2007, 2). However, since there is no regulation - only guidelines - for CSR reporting, the decisions regarding the reporting may be difficult to make and might leave organisations quite unprepared for the task of providing social disclosure (Nielsen & Thomsen 2007, 25). Many public interest groups also find voluntary CSR reporting insufficient and low in credibility (Tilt 1994, 63).

The arguments to support mandatory CSR reporting suggest that if reporting is voluntary, it leads to a focus on positive performance and minimisation of information provided. Empirical evidence from Australia also showed how mandatory requirements increased the amount of reporting. On the other hand, reporting requirements did not necessarily improve the comparability and usefulness of the disclosed information and encouraged companies to prepare standard responses to the requirement. However, as the evidence of the effectiveness of mandatory reporting practices is limited (as there is a lack of mandatory requirements), the arguments of voluntary and mandatory reporting are complicated. (Adams & Frost 2007, 5)

3.2.3 Global Reporting Initiative and other reporting models

The lack of comparability among social and environmental reports may cause confusion, which is why several reporting models, standards and guidelines have been developed by international voluntary organisations (Reynolds & Yuthas 2007, 50).

Global Reporting Initiative (GRI) is an international initiative for creating a generally accepted model for reporting on economic, social and environmental performance of different organisations. The development of the GRI Sustainability Reporting Guidelines took off in 1997 as a cooperation of the United Nations Environment Programme (UNEP) and the Coalition for Environmentally Responsible Economics (CERES). The main objective of the Sustainability Reporting Guidelines is to improve the comparability of CSR reports. Using the GRI guidelines, an organisation is able to give a sufficient and balanced illustration of its actions. (Niskala & Tarna 2003, 89)

The GRI reporting framework contains general and industry-specific information and can be used by organisations of any size, location or industry. The Sustainability Reporting Guidelines are composed of principles for defining report content and assuring the quality of the report, standard disclosures as well as guidance on specific technical topics. (GRI 2006, 2-3)

The reports prepared by using the GRI guidelines can be used for following purposes:

- Benchmarking the performance with respect to laws, standards, norms etc.
- Demonstrating the organisation's commitment to sustainable development
- Comparing organisational performance over time. (GRI 2006, 3)

Other leading reporting models include EMAS (Eco-Management and Audit Scheme), ISO 14000 series (International Organisation for Standardisation), SA 8000 labour standard (Social Accountability International) and AA1000 by ISEA (Institute of

Social and Ethical Accountability) (Reynolds & Yuthas 2007, 50). United Nations and OECD have also published their guidelines to promote the protection of human rights, working conditions and the environment as well as to assist multinational corporations to operate in harmony with the expectations regarding corporate responsibility. (Niskala & Tarna 2003, 40-41)

The GRI guidelines have fast received wide acceptance, as by 2005 the reports were prepared by 660 companies in 50 countries and used by various stakeholders, audit communities and experts (Niskala & Tarna 2003, 89-90; KPMG 2005, 7). Thousands of organisations worldwide have also adopted the ISO 14000 series standards. The extensive use of these guidelines can be interpreted as companies recognising the significance of stakeholder communication. (Reynolds & Yuthas 2007, 53) The development of the guidelines is moving CSR toward a mainstream business practice and improves the social involvement and performance of organisations worldwide (Godfrey & Hatch 2007, 87).

4 Web-based corporate (responsibility) reporting

4.1 The Web as a corporate reporting tool

The phenomenon of using the Internet - Web sites, extranets, intranets and other systems - as a medium for disseminating corporate information is quite recent and fast growing (Fischer et al. 2004, 412). The utilisation of the Web truly took off by the mid-1990s as the World Wide Web was developed (Lymer 1999, 290), and only five years later 90 % of the Fortune 500 companies had Web pages (Esrock & Leichty 2000, 328).

It has been argued that in the near future the Web is likely to become the main channel for disclosing (financial) corporate information (Fischer et al. 2004, 412). Wheeler and Elkington have even coined a phrase “cybernetic sustainability reporting” (CySR) for the phenomenon of organisations increasingly operating on-line and providing stakeholders with the right information in the right format at the right time (Wheeler & Elkington 2001, 2).

The Internet has had a significant impact on the external reporting of companies, in particular for two reasons: Web-based reporting improves cost efficiency and user access to information. The Web creates an opportunity to provide more information than available in the annual reports and allows flexible and interactive distribution of information. (Fischer et al. 2004, 414) The fast shift from print media to the Internet has also provided companies with the opportunity to provide more voluntary disclosure and move from words and accountability to action (SustainAbility 1999, 7).

As the Internet has changed the amount of voluntary corporate disclosure, it has also changed the expectations regarding the disclosure. Stakeholders are expected to be less and less satisfied with historical data and increasingly demand for virtual ‘windows’ into the operations of companies. (SustainAbility 1999, 7) Traditional CSR reporting defines stakeholders as outside the company and dependent on the willingness of companies to disseminate information (Reynolds & Yuthas 2007, 48), but the

Internet provides information users an opportunity to decide what they need and compile their own reports (SustainAbility 1999, 7).

Corporate communication in the Web environment has been in the interest of researchers specifically in the field of public relations and marketing communications. Particular interest has been placed on examining the use of the Web to promote dialogue, and the general usability of the Web as an information channel. (Esrock & Leichty 2000, 329) In the remainder of this chapter, I will discuss the main characteristics of Web-based corporate communication and attempt to generalise how the Web is used for communicating on corporate responsibilities.

4.1.1 Characteristics of the Web-based corporate disclosure

Companies have several reasons for going online. Some companies use their Internet presence mainly on electronic commerce, while others prefer to enhance the corporate image by disclosing information and support the corporate image strategies by controlling the information flows (Asbaugh et al. 1999, 242; Sullivan 1999, 195). In addition to image-creating tools, corporate home pages act as gatekeepers and uncertainty-reducing information sources, as they provide photographs and graphics, links to other Web sites and disseminate information (Sullivan 1999, 194).

Fischer et al. (2004) list several factors specifically associated with Web-based corporate reporting:

- Corporate information dissemination is currently (in most countries) unregulated and due to the global nature of Internet traditional regulations may not be applicable in the Web-based environment
- The conversion process of publishing information in the Web is prone to errors
- The content of corporate Web sites is exposed to access and modification by unauthorised users
- As information on the Internet can be published, modified or removed at any point in time, it is potentially very fluid in nature

- Through hyperlinks, information from external sources is easily incorporated into corporate Web sites
- There is a demand for greater timeliness, depth and breath of corporate disclosure. (Fischer et al. 2004, 416)

It is the interactive nature of the Web that primarily distinguishes this communication channel from other mass media. General publics can proactively be encouraged into direct dialogue with the company on a wide range on issues. The interactivity of the Web enables companies to have closer relations with their customers. The Internet also enables tailored messages for a wide range of diverse audiences: unlike other mass media channels, Web sites can have several sections targeted to different publics. In addition to information dissemination, Web sites can be used to collect data about the relevant publics and monitor public opinion. (Esrock & Leichty 2000, 328)

4.1.2 Internet reporting vs. annual reports

The increasing trend of companies going online raises questions of how corporations use the Internet in relation to annual reports and how these two medium differ.

Annual reports in the print format are a traditional medium of disseminating accounting information (Williams & Ho Wern Pei 1999, 392). According to Neu et al. (1998), the annual reports are an efficient medium of managing public impressions and a primary information source for e.g. investors, governments and employees. Annual reports also posses a degree of credibility not associated with other communication methods. (Neu et al. 1998, 269)

However, the Web as an alternative mechanism provides several advantages unavailable in the annual reports in print format. Anyone connected to the network can provide or access the information from any location at any time, and the information obtained is timely and relevant. In contrast, printed material delivered by mail may be out of date once received. Low costs and better space allocation are further advantages over annual reports. (Williams & Ho Wern Pei 1999, 392-393)

One of the main implications of the advantages over the Internet is its potential to harmonize disclosure practices. If the management perceives the information dissemination via Internet to be more efficient than through paper-based reports and the benefits of Web-based reporting to exceed the costs, it may lead to an incentive for companies to uniform their disclosures to meet the stakeholder needs globally. (Williams & Ho Wern Pei 1999, 390) The firms that in general prepare high-quality external reporting often perceive the Internet as an effective communication channel (Asbaugh et al. 1999, 243).

The choice of which medium to use for disclosing information is dependent on the target audience to whom the message is intended (Zéghal & Ahmed 1990, 47). Many researchers have argued that the presentation of corporate responsibility information is likely to differ depending on the medium used (Williams & Ho Wern Pei 1999, 394). Since there are differences among annual reports and the Internet, it is likely that CSR reporting practices vary between annual reports and Web sites.

Williams and Ho Wern Pei examined CSR reporting in annual reports and on Web sites in Australasia and discovered that Australian and Singaporean companies report more on their Web sites than in annual reports (Williams & Ho Wern Pei 1999, 401). Similarly, Douglas (2004) found Irish financial institutions reporting more responsibility information over the Internet than in annual reports. Brando and Rodrigues as well concluded that by Portuguese banks, more emphasis was placed on CSR reporting in annual reports than on Web sites. Patten and Crampton (2004), on the other hand, found that more negative environmental information could be found in annual reports than on Web sites. (see Brando & Rodrigues 2006, 236; 245)

4.2 Corporate social responsibility and the Web

As the amount of Internet users is increasing, it is clear that companies should implement a CSR communication strategy that utilises different media, targets different stakeholders and presents different scopes (regional, national etc.) (Jones et al. 1999, 71). According to Esrock and Leichty (1998), the Internet can be used in corporate responsibility reporting either as an image-building or public consultation tool.

Via Internet, companies can response to needs and concerns of different publics in a direct, timely and flexible manner. However, in addition to these passive forms of self-presentation, the Internet enables companies to move to more active forms of agenda-setting in public policy issues. As an interactive medium, the Internet can be used to express a company's views on policy issues. (Esrock & Leichty 1998, 308-309)

The Internet can also be utilised by extending the information provided in the environmental and social reports in print format. Companies can create environmental reporting Web sites that offer background information, detailed information, multimedia, interactivity and time-series data. (Jones et al. 1999, 71)

But what kind of CSR information - and how - are companies reporting on their Web sites?

4.2.1 Social disclosure practices on corporate Web sites

In terms of the amount of disclosure, a survey of 150 major companies worldwide found 74 % of the sample reporting on financial performance on the Internet, 55 % providing environmental information and less than 10 % providing social disclosure. Only 6 % of the environmental and social reports were in a downloadable format. (SustainAbility 1999, 9-10) In their examination of Fortune 500 companies, Esrock and Leichty found that 90 % of the sample had home pages and 82 % of them provided social responsibility messages (Esrock & Leichty 1998, 312). Thus, the amount of companies providing CSR information via Internet has been significant as early as the late 1990s.

Esrock and Leichty also found that the larger the company, the more social responsibility material could be found on the corporate Web page, which may be a result of greater expectations and demands placed on large companies by publics (Esrock & Leichty 1998, 315). In their examination of Portuguese banks, Brando and Rodrigues also discovered that well known banks with higher visibility placed more emphasis on image building through social disclosure (Brando & Rodrigues 2006, 245).

Entries to the environmental and social information on corporate Web sites vary. In some cases the entry can be found under “About us” whilst in others under “Investor relations” (Nielsen & Thomson 2007, 39). Capriotti and Moreno found the majority of their sample companies having a specific section for CSR information, labelled either as “Corporate Social Responsibility”, “Corporate Responsibility”, “Social Responsibility” or “Sustainable Development” (Capriotti & Moreno 2007, 87).

Coupland (2005) compared the accessibility of financial and CSR information, and noticed that more clicks were needed to access a downloadable CSR document than a similar version of a financial report. Entries to CSR issues were also wholly unconnected to those of financial reports. Coupland argues that the separate and physically distanced structure of the reports enables the corporate response for accountability to be relevant to each audience, as the audiences of financial and CSR reports can be considered different and potentially opposite. (Coupland 2005, 871; 873)

Coupland also argues that an examination of the images through which CSR-related information can be reached on the Web sites should be interpreted as status-evoking information (Coupland 2006, 879). That is, the more clicks needed to reach the information, the less predominant the information is for the organisation.

Capriotti and Moreno (2007), using a sample of 35 companies listed on the Spanish Stock Exchange, found that the most present and relevant CSR issues on Web sites are those concerning the general characteristics of the company and its products and services, which underline self-presentation as the function of corporate Web sites. Another issue with a great presence was corporate governance. However, there was a substantial lack of reporting on economic actions, which is inconsistent with the triple bottom line thinking. (Capriotti & Moreno 2007, 88)

Esrock and Leichty (1998), on the other hand found that the most common responsibility items on the Web pages of Fortune 500 companies were community and civic involvement, ecology and environment and education. They also found that very few companies were using their websites for collecting information on and monitoring the public opinions and attitudes. The most popular means for disseminating CSR information on the Web pages were news releases (53 %), annual reports (33 %) and links to other websites (33 %). (Esrock & Leichty 1998, 312-313)

Chapple and Moon (2005) divided CSR information present on the Web sites of leading Asian corporations into three categories: community involvement, socially responsible production processes and employee relations. They discovered that notwithstanding the considerable variation, community involvement was the most present category. (Chapple & Moon 2005, 429)

4.2.2 Actual utilisation or mere potential?

In this chapter I have reported several potential benefits of using the Internet for corporate responsibility reporting. It is evident that there is a great amount of companies utilising the Web, but have they discovered the true potential of this communication channel? It seems to be the conclusion of many studies that on average, companies still have improvements to make.

Sriram (2006) questions the relevance and usefulness of information on corporate Web sites, since the level of some relevant items (such as forward-looking information, off-balance sheet information and non-financial information) is low and most companies are not following the best reporting practices when distributing information on their Web sites. (Sriram 2006, 10)

In terms of CSR reporting, Esrock and Leichty (1998) discovered that only few companies used their Web sites to proactively correspond with public audiences and to promote their position on public policy issues. The Web pages were used to disseminate corporate social responsibility issues similarly as traditional one-way communication channels, that is, for image-building purposes. (Esrock & Leichty 1998, 317)

Similarly, Capriotti and Moreno recently found that regarding CSR issues, the interactivity level of the Web pages of their sample companies was very low. Reporting was thus limited focusing on the dissemination of information rather than favouring dialogue and interactivity with their publics. (Capriotti & Moreno 2007, 89)

Dawkings (2005) as well argues that even though corporations increasingly use the Web to customise their responsibility messages to different stakeholders, independent social reports are only useful to certain engaged audiences. Many stakeholder audiences are not proactively seeking information on responsibility issues, and thus creative offline communications are also needed. (Dawkings 2005, 112) Unerman and Bennett (2004), as well, suggest that the Internet should be used together with other forms of stakeholder dialogue, because although stakeholder dialogue over the Internet may give voice to previously unheard stakeholders, it still might ignore several stakeholders upon who companies may have significant influence. (Unerman & Bennet 2004, 702-703)

5 Summary and Conclusions

The aim of this study was, by reviewing the academic literature, to develop an insight into corporate social responsibility reporting in the Internet environment. In order to do that, I first conceptualised CSR reporting in terms of its foundations, reasoning and current reporting practices. I also looked into the characteristics of and motives for corporate reporting over the Internet in general.

For the past decade, at least, social responsibilities of business have been current topics in the business context and in the field of accounting. The focuses and significance of CSR have varied in time, but CSR is not very likely to leave the business agenda in the near future. The success of companies is argued to be dependent on how the companies are viewed by their key stakeholders and society, which makes ethical behaviour vital for companies. The evidence of the relationship between social end economic performances is controversial, though.

Corporate responsibilities can be divided into social, economic and environmental responsibilities, for example. Companies are considered to have responsibilities to society at large and to specific stakeholders, not only shareholders. These stakeholders include for example employees, customers, governments and communities. The needs and expectations of the different stakeholders may be competing, and in order to understand the various expectations, companies need to engage in a stakeholder dialogue. The Internet as two-way communication channel is particularly helpful in this task.

Since there is a lack of consensus regarding the theoretical framework of social accounting, this study concentrated on providing a systems-oriented view of the organisations and society, according to which organisations have influence upon and are influenced by the society. CSR reporting can be motivated by the management’s desire to legitimise the actions of the company or to gain approval by their stakeholders. The goal of social accounting is thus to influence the external perceptions of the organisation.

One of the main challenges of social accounting is its voluntary nature. The lack of a comprehensive regulatory framework makes CSR reporting a non-systematic activity and may lead to the lack of credibility of the disclosed information. For this reason, internationally applicable reporting guidelines (such as GRI and ISO 14000 standard series) have been developed to harmonize reporting practices and to improve the comparability of the disclosed information. An external verification of the provided disclosures mitigates the credibility problem to some extent. There are, however, demands and arguments for mandatory social and environmental reporting, but evidence of the effectiveness of mandatory requirements is limited.

The fast development of information technology has opened up many doors for corporate reporting. The Internet provides faster, cheaper and more interactive reporting reaching a wide range of people, regardless of their geographical location. The Web also enables the customisation of the messages to different stakeholders. The emergence of the Internet has not only changed the reporting of companies, but also the expectations of stakeholders, as there are demands for greater timeliness and depth and breath of information.

In addition to electronic commerce and distribution of financial information, corporate Web sites are used to communicating on responsibility issues. It seems, though, that annual reports are still the main medium of information dissemination, as many researchers argue that more social information can be found in annual reports than on Web sites.

The reporting practices over the Internet vary greatly among countries and companies. However, many companies report for example on their employee relations and community involvement.

Judging by the amount of organisations providing social disclosure in the Web and by the location of the information on the Web sites, it can be said that companies have noticed the significance of CSR information to Web site users. However, many companies seem to lack the ability (or desire) to utilise the full potential of the opportunities provided by this interactive communication medium. This may partly be due to the fact that many of the studies cited in this study are some ten years old. As the

Internet is a fast evolving medium, reporting practices may have changed since these examinations.

Another question mark is the relevance and reliability of the information released on corporate Web sites. Even though the reports were externally verified, they are exposed to possibly unauthorised use after release. Web-based CSR reports may also ignore the needs of certain stakeholders, which is why offline communications are still needed.

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