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Measuring to manage and create stakeholder value

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**MEASURING TO MANAGE AND CREATE STAKEHOLDER VALUE
AN EMPIRICAL INVESTIGATION OF ITALIAN CSR PORTRAIT**

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ABSTRACT

Our paper aims at clarifying how firms prioritize those responsibilities that go beyond economic and financial ones, what they expect from the adoption of a CSR profile, and whether or not they are linking CSR programs and activities to the specific features of industries they belong to. Nonfinancial reports published by Italian Stock Exchange companies were analyzed using content analysis to record the typology and amount of disclosure per stakeholder in CSR-related areas. Results show CSR as synonym of increased engagement and transparency about what companies stand for, how they operate, innovate and collaborate in their context of reference. Adopting a CSR portrait is perceived as the postulate of being trustworthy and, as a direct result, of being able to deliver profitable growth. Industry specificities affect CSR priorities.

Implications for companies interested in extending their reporting practices are provided, highlighting the advantages of extending disclosure to still poorly covered areas.

Keywords: *corporate social responsibility; nonfinancial reporting; CSR disclosure; stakeholder management*

**Measuring to manage and create value:
An empirical investigation of Italian CSR portrait**

Introduction

Corporate Social Responsibility (CSR), defined as the voluntary integration of economic, social and environmental objectives in the relationships with company stakeholders beyond legal prescriptions, has clearly attained a high degree of relevance for a large number of different actors: from the largest companies to small and mid-sized firms.

Along with the increasing number of companies acknowledging and internalizing the importance of CSR values and practices, a variety of sources have pressured firms and organizations to move away from economic and financial measures as an all-inclusive way to evaluate corporate performance. This has been the cause and result of a substantial shift to the more action oriented concept of social responsiveness (Frederick, 1998), which recognize the existence of a sort of parallelism between corporate socially responsible behavior and the aptitude of companies to systematically provide clear evidence of the social, economic and environmental impacts on their stakeholders (Hummels & Timmer, 2004). Accordingly, a new zeitgeist has emerged: the unavoidable link between the measurement of social and environmental performance and the ability to manage these dimensions of corporate behavior.

Social, environmental and sustainability reports are placed in the context described above: on the one hand, they substantially contribute to both formalizing firms' positions on CSR and providing a viable opportunity to assert commitment to good business practices; on the other hand, reporting practices represent not only a step towards evaluating and measuring the overall corporate responsibility performance, but also, and most important, a concrete opportunity to identify strengths and weaknesses across the whole spectrum of corporate responsibility (Nitkin & Brooks, 1998) and stakeholder relationships.

While, however, numerous studies have investigated the disclosure of nonfinancial information (Adams, 2004; Epstein, Flamholtz, & McDonough, 1976; Gray, Kouhy, & Lavers, 1995; Guthrie & Parker, 1989; Niskala & Pretes, 1995; Preston, 1981), only recently has research considered disclosure in a stakeholder-based setting, and extended the research focus to a more comprehensive CSR-reporting framework, based on the triple bottom line approach. In other words, although the content of nonfinancial disclosure has been addressed in an increasing number of studies, the adopted perspective has often been partial, impeding the development of a complete CSR portrait (Schwartz & Carroll, 2003) for firms engaged in responsible practices and related consequences as perceived by firms.

Starting from these premises, our study attempts to partially fill this gap by investigating how companies engaged in socially and environmentally responsible practices interpret their CSR relationship with stakeholders, through an in-depth analysis of companies' nonfinancial reporting practices.

In particular, reviewing the experience of the Italian Stock Exchange companies that publish a nonfinancial report¹ we aim at clarifying how firms prioritize those responsibilities that go beyond economic and financial ones, what they expect from the adoption of a CSR profile, and whether or not they are linking CSR programs and activities to the specific features of industries they belong to.

In the sections that follow, we first locate our research within the most relevant literature on CSR disclosure. Then we present the results of the content analysis, highlighting CSR areas most covered by sample companies. Discussion and implications are provided in the last section.

Theoretical background

Over time CSR reporting has become a key element in discussing the relationship between business and society as a result of two partly related shifts. One side includes the shift from the recognition of a generic social role and responsibility within society (Davis, 1960) to social responsiveness, that is, the development of a core ability to find out concrete responses to social pressures (Frederick, 1986; 1998). However, more recently a second shift has emerged: from a generic responsiveness to society at large to the importance of locating and classifying relevant stakeholders. Stakeholder theory (Freeman, 1984) and the related stakeholder management approach (Mitchell, Agle, & Wood, 1997; Post, Preston, & Sachs, 2002a) are representative of this movement, which recognize stakeholder dialogue as functional to enhance both a company's sensitivity to its environment and the environment's understanding of the dilemmas facing the organization (Kapstein & Van Tulder, 2003; O'Dwyer, 2005). As a result, nonfinancial reporting becomes the locus of firm-society dialogue, the external and systematic result of firms' thoughts about what CSR is and how it can be shared with their social context.

Although the progressive affirmation of the stakeholder management approach both at the practitioner and academic level, the development of a research interest specifically devoted to the analysis of nonfinancial disclosure practices in a stakeholder-based setting is quite recent. A number of conceptual and empirical studies address the need for a stakeholder approach in dealing with nonfinancial disclosure (Cormier, Gordon, & Magnan, 2004; Roberts, 1992; 1998; Ullmann, 1985), highlighting the related benefits. On the one hand, each subject of the evaluation and reporting process is able to immediately recognize her/his role and weight within the company's strategies and operations. On the other, companies have the opportunity to constantly monitor the changing and multidimensional environmental system in which they operate (Sirgy, 2002).

Along with research supporting the necessity for a stakeholder approach in dealing with CSR disclosure, an increasing number of studies have started focusing more on the content of nonfinancial disclosure. Accordingly, many studies have attempted to determine the amount and type of social and environmental disclosures that companies are publishing (Deegan & Gordon, 1996; Gray et al., 1995; Guthrie & Parker, 1989). Others have focused more on reporting itself, exploring the determinants of

¹ *Nonfinancial reports* include social reports, sustainability reports, environmental reports, health-safety-environment reports and CSR reports.

certain disclosure areas on the one hand (Adams, 2002; Patten, 2002; Roberts, 1992), and the effect of disclosure and reporting practices on performance on the other (Blacconiere & Patten, 1994). These studies have noted the variability in firms' practices according to country, company size, the nature of the industry and the level of profitability. Results are not completely consistent in terms of both existence and direction of the correlation between variables, suggesting the necessity to focus the analysis to homogeneous samples in order to control for inconsistencies.

Overall, existing literature tends to converge on the following conclusion. If companies want to obtain their stakeholders' support, they must not only communicate, but also give concrete evidence that they are committed to continual, long-term improvement. Therefore, a sustainable and responsible company must identify, measure, monitor and report all social, environmental and economic effects of its operations on society at large, in order to increase both external and internal dialogue with constituencies and improve managerial awareness of and control over social impact of corporate activity.

These points are relevant to our paper because we are interested in investigating how actually firms translate their perceptions of their context of reference into nonfinancial disclosure practices and related CSR profiles. If we accept the empirical maxim that *firms are what they do* (Post, Preston, & Sachs, 2002b) CSR topics chosen for reporting provide overall insight into a company's current priorities and expectations.

Research Method

The study was conducted on the Italian Stock Exchange companies that publish a non financial report. The existence of a nonfinancial report was determined via a web-site-based survey for a total of 46 out of 270 listed companies (17 percent).

Italy represents a fertile context of reference for CSR-related practices for several reasons. First, the Italian government supports a voluntary involvement of firms in CSR practices and tools. In fact, social and environmental reporting and disclosure are not mandatory. This is consistent with the mainstream view of CSR as voluntarily and strategically adopted by firms. Second, public policies in Italy support a multi-stakeholder approach to CSR, believing strongly that policies and practices should result from an exchange relationship between all the stakeholder categories. This makes it a suitable empirical setting to investigate companies' perceptions about stakeholder needs and requests, as well as for depicting stakeholder-based CSR portraits. Finally, the Italian political view of CSR is based on the belief that responsible practices represent a viable competitive opportunity for the whole economic system. CSR is seen as a strategic tool to achieve better performance and economic sustainability in the long haul. This perspective has to be considered, in that it could have affected the way companies think about the outcomes related to the adoption of a specific CSR portrait.

The reports were then analyzed using content analysis, which has been widely adopted in studies on social and environmental annual reports (Abbott & Monsen, 1979; Ernst, 1978; Guthrie & Mathews,

1985; Guthrie & Parker, 1989). Results were also analyzed for differences between industry sectors, using three classifications: trade and services, financial services and industrials.

The choice to focus the analysis solely on nonfinancial reporting is justified by several reasons. In particular, such reports help focus on a firm's CSR prioritization because managers commonly use them to signal what is important to stakeholders (Cormier et al., 2004). Even more important, nonfinancial reports are produced regularly, thus allowing for comparative analysis across time and space. Finally, even though nonfinancial reporting is voluntary in Italy, companies increasingly rely on an external verification process in order to increase the reliability of data and information disclosed to stakeholders (63 percent of analyzed reports rely on external assurance process). In this sense, using reporting as a unit of analysis minimizes the risk of inconsistencies between what is disclosed and what is actually accomplished.

In order to record the typology and amount of disclosure in different CSR-related categories an interrogation instrument was constructed based on a previous comparative analysis of the standard reporting frameworks available on the markets (Author ref). As shown in Table 1, the interrogation instrument records disclosure based on stakeholders (seven categories considered: human resources, shareholders and the financial community, customers, suppliers, public authorities and institutions, communities and environment) and a checklist of disclosure themes for each stakeholder.

Given the recording instrument and consistent with previous literature, the amount of disclosure (i.e., incidence rate) *per content category* consisted of recording whether or not a company made a disclosure in the category. For example, an incidence rate of 100 per cent for the content category "A" indicates that all the analyzed reports include that category.

We are aware that exclusive reliance on incidence rates may be problematic (Hackston & Milne, 1996). That is, incidence rates may mislead in treating equally companies that make one or more disclosures. However, in voluntary disclosure, a large quantity of disclosure is not necessarily preferable to smaller amounts. In other words, since there is no shared common language, to assign a greater value to a company that discloses more in a given area may involve an unwanted degree of subjectivity. For this reason, measuring disclosure in terms of aggregate incidence rate remains the most objective and comparable measure in this sort of content analysis.

After recoding disclosure themes based on incidence rates, subsequent readings of our data were devoted to let priorities emerge, thus merging concepts and related contents into more general conceptual categories (Locke, 2001), in order to gradually move from evidence based on reports to a more general causal explanation.

Findings

Table 1 shows the result of the content analysis. Each cell corresponds to an incidence rate, that is, the percentage of firms disclosing each theme over the total sample and also by industry.

Human resources are given the highest priority, in that they are present in 100 per cent of the sampled cases. This result is consistent with the origin of nonfinancial reporting in Italy, i.e., as internal communication tools to support the relationship between the company and employees' representatives (e.g., trade unions). Accordingly, health and safety issues, training initiatives, staff composition, employment policies and industrial relations are the most covered dimensions of the responsible relationship with the workforce. Companies declare to be aware that all the initiatives aimed at improving the quality of corporate climate would lose they ability to enhance company attractiveness as a good place to work, if they weren't preceded by maximum safety in working conditions. For this reason, there is certain uniformity with reference to the inclusion of detailed information on activities directed toward maximizing and preventing health and safety risks.

Skill development is what follows, with the publicizing of training project and skill-development courses. A uniformity of views exists on the relevance of developing professionalism to improve organizational performance and attractiveness to actual and potential workers. Training is unavoidably linked to transparent employment policies, with a description of employment cycles and indication of the causes associated with negative trends. For the same reason, the description of industrial relations has not been left out of the reports, with an emphasis on themes such as the compliance with the right to organize and collective bargaining, disciplinary measures and litigation. Such area are then complemented by staff composition by categories, age, seniority in grade, geographical origin, nationality, kind of contract and educational qualification. These indicators aim mainly at painting a complete quantitative picture, to clearly represent the company's specific situation, making it possible to fit it into the local context and allow the stakeholders to do comparative assessments.

Though not so common as the themes described above, other aspects can be found in the reports that are associated with the aim to reinforce company reputation for transparency and reliability (see table 1 for details). Examples are policies for equality of treatment by which companies claim to perceive diversity as a crucial source of creativity and innovation, but also the rate of absenteeism and its causes, as well as descriptions of activities aimed at improving the quality of workers' lives: from social clubs to in-house kindergarten, from tax counseling to employee housing or insurance services.

Overall, achieving a reputation as a good place to work is explicitly associated not only to positive labor market outcome but also to superior competitive positioning and financial gains.

The relationship with the *community* of reference represents the second most covered stakeholder, included in 98 per cent of the reports. Firms tend to interpret their socially responsible relationship with the community in which they operate and progress, focusing on their ability to be good citizens, directly involved in projects targeted to improve life conditions, social inclusion, education, art and heritage development, and so. Direct involvement is often accompanied by corporate giving, which consists of donations, gifts, gratuities, benefactions and other exclusively monetary corporate contributions to so-

cial organizations or community development projects. Activities aimed at stakeholder engagement are what come after the description of what firms do for their community as responsible citizens. Recognizing the changed role of stakeholders as increasingly active and able to affect company activities and performance, companies have an interest in demonstrating their ability to engage in open dialogue with policies, values and plans directly resulting from regular discussions with stakeholders on what can and needs to be prioritized.

Customers are third in term of disclosure coverage, included in 95 per cent of the nonfinancial reports. The responsible relationship with them starts with a detailed description of market development trends in terms of new customers attracted by the firm over time and new products and services developed. If providing such information is explicitly aimed at proving the company innovative ability and its dynamism, the inclusion of data concerning product and service information and labeling is closely linked to the meaning of CSR. Companies share a firm commitment in demonstrating that business and market development have to be both addressed toward those product and services that actually protect customer interests and supported by transparent communication on quality, environmental impacts and product safety. What follows is the description of customer satisfaction-oriented initiatives in order to provide evidence of the firms' openness and ability to listen to key stakeholder issues and respond to them. As a whole, firms that to associate information on the responsible relationship with customers to the enhancement of their reputation as reliable, open, able to innovate and trustworthy exchange partners.

The responsible relationship with customers is followed by that with the *natural environment* (93 per cent). There is convergence toward the description of environmental strategies as a way to demonstrate company commitment to long-term objectives and sustainable development. CSR and environmental sustainability are perceived as mutually consonant, assuming that a responsible player should be able to consider not only the needs expressed by its stakeholders, but also the impact of its operations on the environment. These reasons justify the inclusion of a variety of information on environmental strategy: from corporate policies for environmental protection and promotion to environmental certification and management tools adopted by firms to improve their eco-efficiency and operational sustainability. Education and training projects on environmental issues and relations with key environmental agencies and organizations are also included in this section. They are followed by data on actual environmental impact such as energy consumption, materials and emissions.

Suppliers are covered in 79 per cent of the cases, with their inclusion associated to the need to demonstrate company ability to be accountable for value creation practices that cross organizational boundaries. This translates into detailed descriptions of supplier management policies centered on demonstrating non-discriminatory procedures pertinent to suppliers, and consistency in values and stakeholder orientation along the entire supply chain. In this context, responsibility is associated with the development of a systematic ability to think about the effects of company operations, by adopting a cross-

boundary perspective and taking into consideration the resulting actions by all the actors variably involved in the production processes.

The responsible relationship with public authorities is what comes after (included in 76 per cent of the cases), as an attempt to demonstrate commitment to local development both through the adoption of codes of conduct and rules for compliance with law and collaborating with local authorities and institutions on community development projects. Of course compliance comes first, in order to stress the lack of pending situations and demonstrate consistency with behavior declared through codes of conduct, ethical codes, policies, and so on.

The least covered area is that regarding *shareholders* (71 per cent). This result is probably due to the fact that shareholders are the main audience for other traditional communication tools, typically financial and annual reports. Financial highlights, investor relations and corporate governance have the highest incidence rates. Firms, however, seem to share the same reason for inclusion: social and environmental responsibilities are not in contrast with economic robustness, operational efficiency and financial performance. A virtuous cycle is highlighted between economic performance and social performance, meaning that the more profits made the more resources are available to improve social and environmental performance. But also the opposite is true meaning that improving the relationship with stakeholders via trust and mutual support is functional to better economic and financial performance.

A final note is due on industry specific results. It emerges that companies belonging to different industries also prioritize disclosure themes differently. Broadly speaking, while companies in the financial services industry appear to be more customer oriented, both trade & services and industrials share a stronger focus on human resources and in particular on the disclosure of health and safety policies. In particular, industrials are also more concerned with environmental disclosure than the companies belonging to the other sectors, while reporting information to shareholders is more important in the financial services sector. More than the other two industries, companies in trade and services seem to address a wider range of stakeholder. Health and safety and work force training, quality of products to support customer relations, community projects and supplier management policies represent the most covered disclosure themes.

Discussion and conclusion

The previous section has provided an Italian picture of stakeholder-based priorities in the area of CSR related issues. As a general result, though CSR still appears mostly linked to traditional themes (e.g., environmental and worker health and safety), a clear attention toward including a wider range of stakeholders and themes emerges from the analysis. More specifically companies seem now to rely on the reporting process as a signal of their attractiveness to stakeholders (Jones & Murrell, 2001), to show dynamism, inclination to innovate, and orientation toward developing and nurturing people skills, making them the driving force of the company success and superior competitive positioning.

Moreover and consistently with previous literature (Dierkes & Preston, 1977), results support the hypothesis that industry specificities are important in determining CSR priorities and related disclosure behavior. Accordingly, companies characterized by the highest impact on the environment share the highest propensity to disclose information about the risks and impact of their activities. The situation differs in the case of consumer-oriented companies, such as banks or insurance groups. In fact, they show greater concern with demonstrating their level of engagement in the community and, in general, the social context.

Regardless of differences in the way responsible behavior is perceived and translated into practice, if one aggregates disclosure themes linking them to the reasons why firms consider them as relevant, a general framework comes out from the findings. Companies stress the need to conform to a CSR portrait as an antecedent to become a trustworthy, legitimate partner. Such responsible portrait can be traced back to a defined set of themes. They span from economic robustness and operational efficiency to maximum safety at each level (from product safety for customers to the safety of working conditions and environmental safety for the community of reference); from environmental sensitivity and long-term sustainability to responsible citizenship and open dialogue with the different categories of relevant stakeholders; from dynamism, quality and innovation in processes and products, to skill development and cross-boundary responsibility. All this is what emerges adopting the company point of view, that is, what firms consider as relevant in interpreting their responsible relationship with stakeholders. Accumulated through developing awareness of stakeholder needs and requests, trust, legitimacy and reputation are the resources needed to nurture the ability to engage in further stakeholder dialogue, create stakeholder value, achieve superior competitive performance and sustain long term growth (see figure 1). Generalizing, CSR as synonym of increased engagement and transparency about what companies stand for, how they operate, innovate and collaborate in their context of reference, becomes the postulate of being trustworthy and, as a direct result, of being able to deliver profitable growth.

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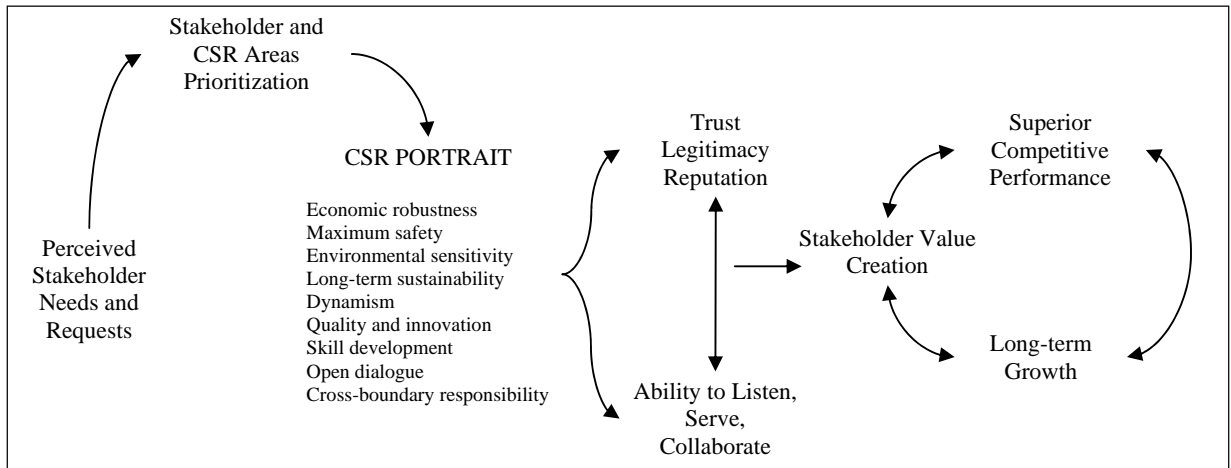
This study is not without limits. First of all, it refers to a specific empirical context. Though this allows controlling for country specific influences, it is hard to exclude the possibility that specific trait of our research setting – Italian government promotional efforts for example – might have effected how the observed CSR portrait unfolded. Any way, our analysis still represents a benchmark from which further studies can move, using category-based content analysis. It could be interesting to replicate and compare results in other countries with similar or different CSR orientation or in the same country over time. Additionally, this paper has assumed the point of view of firms in depicting CSR portrait and related outcomes. This does not imply that stakeholders would agree with them. It could be interesting for future research, to test for differences in firms and stakeholders’ view of what is relevant and to what extent views converge on the same CSR traits. Finally, a natural development of our study

would be to test for specific hypotheses emerged from the content analysis. In this ways it would be possible to show empirically whether or not firms' prediction concerning the outcome of adopting a specific CSR portrait translates into actual results.

Table 1 - Typology and amount of disclosure by industry

Incidence rates of disclosure themes by industry (%)					
Theme	Checklist	Trade & Services	Financial Services	Industrials	Total
HUMAN RESOURCES	Health and safety	92.9	89.5	100.0	93.5
	Training	92.9	100.0	76.9	91.3
	Staff composition	92.9	94.7	53.8	82.6
	Employment policy and turnover	78.6	94.7	46.2	76.1
	Industrial relations	64.3	94.7	61.5	76.1
	Equality of treatment	50.0	89.5	38.5	63.0
	Internal communication	64.3	84.2	30.8	63.0
	Scheme of wages and incentives	42.9	84.2	30.8	56.5
	Employees' benefits	50.0	84.2	15.4	54.3
	Personnel's satisfaction	50.0	26.3	30.8	34.8
	Disciplinary measures and litigation	35.7	31.6	23.1	30.4
Absenteeism	7.1	47.4	7.7	23.9	
Working hours	14.3	10.5	15.4	13.0	
COMMUNITY	Direct involvement	92.9	89.5	76.9	87.0
	Corporate giving	64.3	89.5	30.8	65.2
	Stakeholder engagement	57.1	52.6	61.5	56.5
	Virtual community	28.6	84.2	0	43.5
	Relations with the media	28.6	47.4	7.7	30.4
CUSTOMERS	Market development	78.6	100.0	92.3	91.3
	Product and service information and labeling	92.9	84.2	76.9	84.8
	Customer satisfaction and loyalty	78.6	100.0	23.1	71.7
	General characteristics	35.7	89.5	23.1	54.3
	Ethical and environmental products and services	28.6	68.4	53.8	52.2
	Promotional policies	42.9	63.2	23.1	45.7
	Privacy protection	14.3	31.6	15.4	21.7
NATURAL ENVIRONMENT	Environmental strategy	78.6	89.5	92.3	87.0
	Energy consumption, material and emissions	71.4	63.2	92.3	73.9
SUPPLIERS	Supplier management policy	85.7	89.5	76.9	84.8
	Procurement conditions	28.6	26.3	15.4	23.9
PUBLIC AUTHORITIES	Codes of conducts and compliance with laws	78.6	94.7	84.6	87.0
	Relations with local authorities	85.7	57.9	53.8	65.2
	Taxes and duties	42.9	63.2	23.1	45.7
	Contribution, Benefits and easy-term financing	21.4	26.3	0	17.4
SHAREHOLDERS	Financial highlights	78.6	94.7	92.3	89.1
	Corporate governance	71.4	89.5	46.2	71.7
	Investor relations	78.6	94.7	30.8	71.7
	Shareholders' remuneration	64.3	68.4	76.9	69.6
	Capital stock composition	64.3	84.2	53.8	69.6
	Stock price fluctuation	50.0	68.4	23.1	50.0
	Rating	35.7	73.7	15.4	45.7
	Benefits and services for shareholders	0.0	36.8	0.0	15.2

Figure 1 – CSR portrait and its outcome



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