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Corporate Social Responsibility (CSR) in times of Global Financial Crisis. A study of CSR Reporting practices

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ABSTRACT

Recent events in the last decade have evidenced the important of Corporate Governance practices, increasing the relevance of corporate strategies such as, CSR and their impact to the profitability of a firm. In the present study we focus on the relationships between the financial crisis and CSR reporting practices. While in the literature review section we identify the linkages between corporations responsibilities and the causes of the Financial Crisis and the evolution of CSR communication, the main objective of the present study is to analyze the relationships between the Financial Crisis and CSR and Ethical behavior, in addition to identifying how these events affected CSR reporting practices during the 2007-2011 period, analyzing whether corporations acting conservatively diminish their CSR practices (Cheney et al. 1990), or rather seize the opportunity to improve their corporate image and generate competitive advantages (Freeman, 2009).

The present research utilizes Content and Archival analysis comparing scores for Report type, Adherence of Application Levels, and report status for 2,790 companies that published CSR reports following the GRI guidelines during the period 2007 -2011. Using Analysis of Variances Tests (ANOVA) as the main statistical method in a before-after event design, corporations reports where coded and processed to determine the relationships between scores in the above mentioned variables and other grouping variables such as company region, size and industry type. Contrary to Neoclassical or traditional views of CSR critics, it was concluded through the findings of this research that the Global Financial Crisis of the 2007-2011 period, had a positive effect in CSR reporting particularly for corporations in the Financial, Energy and Utilities sectors. In other words businesses increased the quality and amount of reporting as a strategy to regain trust in businesses, as represented by the increasing scores in Report Type, Report Status, and Application of the GRI Framework. These trends proved to be statistically significant. According to these results we can say that the Global Financial Crisis, actually worked as a temporary boost to CSR and Sustainability reporting, as there was an all industry and market clamor for higher standards in transparency and corporate governance.

Key words: *Financial Crisis, Global Reporting Initiative (GRI), CSR Reporting, Sustainability, Corporate disclosure, CSR communication*

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LIST OF ABBREVIATIONS & SYMBOLS

AA1000	**AccountAbility AA1000 norm**
BofA	**Bank of America**
CC	**Corporate Citizenship**
CDO	**Collateralized Debt Obligations**
CDS	**Credit Default Swaps**
CERES	**Coalition for Environmentally Responsible Economies**
COP	**Global Compact's annual Communication on Progress**
CSE	**Corporate Social Entrepreneurship**
CSO	**Corporate Social Opportunity**
CSR	**Corporate Social Responsibility**
CFP	**Corporate Financial Performance**
CRB	**Center for Responsibility in Business**
CRT	**The Caux Round Table**
CSP	**Corporate Social Performance**
DIIM	**OECD Declaration on International Investment and Multinational Enterprises**
EBIT	**Earnings Before Interest and Taxes (EBIT)**
EUREP	**Euro-retailer Produce Working Group**
FCIC	**Financial Crisis Inquiry Commission**
FTAs	**Free Trade Agreements**
GFC	**Global Financial Crisis**
GRI	**Global Reporting Initiative**
IBASE	**Brazilian Institute of Social and Economic Analysis**
ICB	**Industry Classification Benchmark**
ICM	**Interbank Credit Market**
IEC	**International Electrotechnical Commission**
IIRC	**International Integrated Reporting Council**
ILO	**International Labour Organization**
ISCT	**Integrative Social Contract Theory**
ISO	**International Organization for Standardization**
MDG	**Millennium Development Goals**
MNEs	**Multinational Enterprises**
MBS	**Mortgage Backed Securities**
NINJA	**No income, no job, no assets borrowers of the subprime mortgages**
NGO	**Non-Governmental Organizations**
NPC	**OECD - National Points of Contact**
NPO	**Non-Profit Organizations**
ODA	**OECD's Official development assistance program**
OECD	**Organization for Economic Co-operation and Development**
OHSAS	**Occupational Health and Safety Assessment Series**
OH&S	**Occupational Health and Safety**
PR	**Public Relations**
TBL	**Triple Bottom Line**
SA8000	**Social Accountability SA 8000 norm**
SAGE	**ISO Strategic Advisory Group on Environment**
SCT	**Social Contract Theory**

SEA	**Social and Environmental Accounting**
UDHR	**The Universal Declaration of Human Rights**
UN	**United Nations**
UNGC	**United Nations Global Compact**
UNGP	**UN Guiding Principles on Business and Human Rights**
WFTO	**The World Fair Trade Organization**

INTRODUCTION

Recent events in the last decade have evidenced the important of Corporate Governance practices, increasing the relevance of corporate strategies such as, CSR and their impact to the profitability of a firm. In the present study we focus on the relationships between the financial crisis and CSR reporting practices.

This research aims to provide a more accurate description of the effects of periods of financial crisis over the performance of social disclosure based on the analysis of empirical data of companies reporting under the GRI framework.

We also argue that by ranking and awarding companies CSR through the votes of people rather than through the obvious objective measures that their own methodology provides, the GRI has had a misstep in their successful PR track record (Vives, 2011) and should avoid similar strategies that may potentially taint their reputation.

The main objective of this study is to demonstrate through the analysis of empirical data on CSR reporting the influence of financial crisis periods over reporting trends of companies working under GRI framework. Arguably one of the most widely used and systematically structured frameworks for CSR reporting (Brown *et al.* 2007).

A secondary objective is to advocate for the wider utilization of quantitative variables based on widely used existing frameworks, such as the GRI, cross comparison among firms, and objective interpretation will help the adoption of standardized concepts and measurements in the CSR discipline.

The research focus of the present study is centered in establishing a methodology to compare reporting scores for companies using CSR reporting frameworks. We propose that the calculation of these indicators to measure CSR disclosure (Report Type, Report Status and Adherence/application level) is a relevant step towards raising objectivity in the comparison of Corporate Social Performance among companies and even to establish correlations to financial performance.

Literature Gaps

The predominant line of studies argument that as times of financial crisis exerts their influence over companies, management behaves in a conservative way. We believe that there are not enough studies based on empirical evidence that support this argument (Njoroge 2009, Fernandez and Soto 2009, Karaibrahimoglu 2010).

In addition the present study aims to describe how disclosure is affected through different industries following the classification put forward by the Industry Classification Benchmark. Previous studies based on content analysis focus in particular industries. Nevertheless the nature of the activities of different industries make companies more sensitive and prone to exerting different kind of impacts on society and the environment, in the present study we analyze them using the objective parameters of the GRI framework observing that companies in the Energy and Utilities and Financial Institutions have high levels of compliance to the framework, which was represented by their high Adherence/Application scores.

Theoretical underpinnings

This research draws extensively from stakeholder's theory and we argue that CSR efforts and ultimately the legitimacy of corporations are based on the social contract theory. Stakeholder theory is the foremost central concept to CSR literature and allows a comprehensive de-construction of the discipline (Wang, 2008; Agle and Mitchell, 2008). Under the lens of corporations' stakeholders we aim to illustrate a methodology in order to measure CSR reports emitted under a particular framework.

Research question and Contribution

As previously explained, in this research we intend to understand the changes in CSR disclosure policies during times of financial crisis, by comparing the reporting behavior of companies emitting CSR communications under the GRI framework. We compare the results on variables such as Report Type, Report Status and Adherence/application level. These variables were derived from the GRI's reporting database, in order to determine if CSR reports where created in the same quality and manner during times of financial crisis and on normal periods.

The aim is to answer the following research questions:

Does Global Financial Crisis (GFC) affect the availability of CSR transparency? In this study we found that CSR disclosure did not remain constant, and actually is affected by the Global Financial Crisis. We did this by analyzing the reports of companies integrating the GRI’s Report Data Base, in controlled periods and those years in which financial crisis is present.

By also aiming to answer how is the CSR communication (CSR reports) affected by the Global Financial Crisis, and how does participation in CSR frameworks is affected during financial crisis?, we look into the direction of the effect. Previous studies (Njoroge 2009, Fernandez and Soto 2009, Karaibrahimoglu 2010) argue that following neoclassical theories, companies affected by the financial crisis pull back on their CSR programs and disclosure. The findings of this study contradict these ideas as we found a positive relation between CSR disclosure and Global Financial Crisis observing an actual increase on reports and their compliance to the GRI.

The structure of this research will be presented as follows: The first two chapter of this study present the object and purpose of study and the main methodology used in the research section for data collection and analysis. We start the literature review by analyzing the concept of CSR. It is important to mention that we do this as an effort to minimize confusion with the intention to identify the conventions of the concept as a contemporary and relevant corporate practice. It is the opinion of the author of this document, that the discussion on the semantics on the definition of CSR is somewhat irrelevant as it barely contributes anything useful to the practice. Nevertheless it is essential to establish the agreements on what constitutes the responsibilities of corporations and the communication strategies of CSR communication, while also explaining the motivations behind the engagement in CSR efforts.

Chapter three deals with the understanding of the Global Financial Crisis and its causes in terms of Corporate Social Responsibility. In addition we analyze if CSR as a corporate discipline or philosophy would have made a difference in order to prevent or minimize the effects of the credit crisis that commenced with the Lehman Brothers collapse in 2008.

The middle section of this document discusses the current state of global frameworks for Responsible corporations, which shape the understanding and reach of contemporary sustainable practices. The existence of Guidelines and Frameworks for CSR and Sustainability reporting is also addressed in this section. Chapter four deals with the evolution of Social Accounting and CSR/Sustainability reporting, and their main contribution to corporate communication in understanding and addressing Stakeholder needs.

Finally Chapter five presents the design and execution of the study based in the analysis of 2790 companies that integrate the GRI-List and their published reports for the 2007-2011 period. The main objective of the present study is to analyze how the financial crisis affected CSR reporting practices during this period, analyzing whether corporations acting conservatively diminish their CSR practices (Cheney *et al.* 1990), or rather seize the opportunity to improve their corporate image and generate competitive advantages (Freeman, 2009).

CHAPTER 1. DEFINITION OF THE PROBLEM AND PURPOSE OF STUDY

1.1 PURPOSE OF STUDY

We have witnessed a socio-economic revolution led by organizations, since the late 80's a variety of ethic codes, agreements and guidelines of voluntary compliance, have been emerging from different organisms, both private and public, and from International and local levels. The idea of organizations that play a key role in society, a role that is not restricted to the creation of wealth and employment, is becoming an idea that gets more and more acceptance every day. At the same time the contemporary world experience a level of interrelation under the globalized economic system that has not been experienced before. Corporations that in some cases have reached budgets that even surpass those of some states integrate this global system. The old model of corporate management based on profit maximization for the stockholder, has demonstrated to be not only harmful to society in general, but also for all stakeholders, in particular those that are less salient or prominent to the organization.

In the wake of the Global Financial Crisis the world came to the realization that the failure or collapse of a few, or even a single one of these humongous corporations can have repercussions to the whole Global Financial system. The need for Corporate Social Responsibility, Business Ethics and Corporate Governance is something that will be discussed and supported by the present paper; furthermore this research determines the effects of Financial Crisis on Corporate Social Responsibility reporting.

Based in the idea that CSR is not only a generally accepted but a necessary practice in a globalized world is then necessary to homologize and ensure the consistency of disclosed information, even when in times of Global Financial Crisis, in this study we determine if organization scale back their CSR as shown by a decreasing of the quantity and quality of their CSR disclosure output, or if organizations respond to the demands of stakeholders and fill the accountability, business ethics, and corporate responsibility vacuum that accompanied the Crisis and the events that caused it.

The present document is a counter argument for studies that support the traditional idea of corporations abandoning CSR in times of financial crisis (Njoroge, 2009; Fernandez and Soto, 2009; Karaibrahimoglu, 2010; Cheney *et al.* 1990). As shown by the empirical data, we argue that the Global Crisis present an opportunity for corporations to face their responsibilities and at the same time harvest the benefits from having Socially Responsible practices, resulting in direct or indirect positive impacts to financial returns (Bitcha, 2003; Schreck, 2009). In this sense it is necessary not only to promote CSR in times of economic constrains but also to promote the consistency of reporting practices, we must support the argument for integrated reporting and universality of indicators. Stakeholders and society in general most be able to evaluate the evolution of sustainable and socially responsible practices across time. The existence of norms and guidelines about disclosure simplifies the processes and allows for comparability and usefulness of the information to stakeholders.

1.2 HYPOTHESES AND METHODOLOGY

1.2.1 IDENTIFICATION OF THE PROBLEM, RESEARCH QUESTIONS AND HYPOTHESIS

In this research we intend to understand the changes in CSR disclosure policies during times of financial crisis, in order to determine if CSR reports where created in the same quality and manner for corporations that were committed to CSR previously, or at the beginning of the crisis, which leads to the following research questions:

RQ1. Does Global Financial Crisis (GFC) affect the availability of CSR transparency?

According to most CSR theorist and supporters CSR, is a long-term commitment and strategy that provides real competitive advantages to Corporations which supports the idea that CSR practices, or at least disclosure should remain constant over time. In contrast, if we consider other traditional Neo-classic positions both regarding financial crisis and CSR (Friedman, 1970) companies are consider to decrease their engagement in philanthropy and other activities that may hurt their bottom line, but does this include their reporting? As CSR is considered more and more an industry standard it should remain constant.

RQ2. How is the CSR communication approach affected by the Global Financial Crisis?

To provide a deeper understanding on the approaches to CSR reporting during times of financial crisis, we will analyze the difference in reporting trends by industry and size of corporation, the central question is the compliance to the GRI framework and the degrees in which compliance occurs. In other words, companies may still produce the same amount of CSR reports but decrease compliance or simply abandon the framework, another possible behavior may be to rely less on third party firms in order to audit those reports (self-declared).

RQ3. How does participation in CSR frameworks is affected during financial crisis?

By answering the first two questions, can we conclude that a specific framework, in this case the GRI, is affected in a particular direction? Adherence level to the framework may change depending on the external pressure of economic constrains. In summary we can present the Hypothesis of the present research by:

H0: CSR performance is immutable in financial crisis periods

No change on CSR reporting practices would be represented by not having any discernable variance in the amount or quality of reports by companies in the subject group (companies reporting under the GRI guidelines). These phenomena will be evidenced by the answers to our research questions, for instance if we observe no variance in the quality of reporting during Financial periods (answer to Research Questions 1 and 2).

No change in the quality and amount of CSR disclosure could be interpreted as corporations being highly committed to their CSR disclosure maintaining the same level of reporting even in those years where financial resources to sustain their CSR strategies are more limited. This would be the desired outcome as we argue that in order for CSR information to be useful and reliable for stakeholders and society in general it must be both consistent and sufficient. However the Classic wing theorist, and CSR's Business Case proponents would argue that the natural response for companies would be to restrain all their resources that may not yield a short them profit, in this case CSR activities.

H1: CSR performance is significantly different in financial crisis periods

This event can be interpreted in different ways depending on the direction of the change. In the event of a decrease of both quality and quantity of CSR disclosure, this would mean that CSR disclosure is not central to corporations and therefore uncertainty and conservative policies are forcing corporations to make a trade abandoning CSR as a measure to reduce costs and undesirable effects. In contrast the event of a reduction of only the quality of published reports, the change would indicate that CSR is more of a market operation requirement and corporations rescale their CSR disclosure to the bare minimum, not actually eliminating CSR programs or their disclosure. This Hypothesis was formulated after considering the possible answers to all our research questions. This is the main hypothesis as we are trying to define not only the occurrence of this phenomenon, but the nature of the research questions of this study are inquiring for an answer on the direction of the trends followed by reporting companies during a Financial Crisis.

1.3 METHODOLOGIES AND DATA COLLECTION

CSR as a corporate theory and a management practice is a construct of organizations, furthermore, Sustainability disclosure and CSR reports are crucial sources for analysts and scholars, if we intend to use reporting frameworks in a reliable way that resembles the objectivity and reliability of accounting standards, CSR reporting should also be reliable and persistent, even when in times of financial crisis. In other words even when CSR activities may vary over time, and be affected by economic constrains, CSR disclosure policies and availability of reports should remain constant. But in reality, this may not prove true; Wayne Visser (2008) concludes that the effect of financial crisis on CSR varies depending on "how deep CSR runs in the organization" in other words, if organizations consider CSR efforts to be a superficial philanthropic exercise, rather than a more strategic or embedded topic into the organization. The future of the discipline is at stake, we cannot move forward to the integrated report if CSR disclosure is not consistent.

In recent years social reporting has become a standard practice for corporations; providing them with an effective way to disclose their practices on matters such as, environmental protection, labor conditions and other aspects not related to their financial performance, that was not previously available to them. Many academics agree that CSR serves the best interest of corporations, as it leads to positive responses from consumers (Wigley, 2008). It may be that the only positive outcome from the Global Financial Crisis is the increased interest in corporate governance, CSR and transparency; this as a response to the irresponsible de-regulation and irregular practices that caused the mortgage crisis.

Content Analysis is a recurrent methodology that is helpful to study corporate annual reports and CSR. Content Analysis is also a tool that has been frequently used in Social and Environmental Accounting literature since the 70's (Milne *et al.* 1999). In the present research we applied Content analysis to the CSR reports of firms that published them using the GRI Framework, which is considered to be the most widely used framework for CSR disclosure. Using the GRI database[1] we analyzed the content and topics of CSR reports of the companies that published these documents following the guidelines of the GRI during the years of the Global Financial Crisis.

Traditionally content analysis when applied to CSR examines the extent of reporting in firm publications, particularly in annual or sustainability reports. This is considered problematic by some authors (Beresford, 1974) due to the qualitative and narrative nature of corporate literature. Because of this we propose to analyze reports through the lens of existing reporting frameworks that offer quantitative parameters to allow for more objective examination. Combining this instruments provide tools for stakeholders that need to ponder the tendencies of corporations to overstate CSR performance in order to create a positive impression imbedding PR messages into their corporate communications (Ullman,1985).

[1] The "GRI Report list 1999-2011" downloaded from the GRI website https://www.globalreporting.org, Retrieved from: URL:http://www.globalreporting.org/NR/rdonlyres/9457F6CA-2123-407D-A10A-C3A9E2929782/0/GRIReportsList19992011.xls, Las accessed February, 13, 2013.

1.3.1 METHODOLOGIES AND SAMPLE

The main methods used in the present research are content analysis and archival analysis, in the likeness of other similar studies in the CSR field (Branco and Rodrigues, 2008). As mentioned above Content analysis is one of the most widely used and adequate tools to analyze CSR corporate self-disclosure documents such as Environmental and Sustainability Reports (Morhardt *et al.* 2002; Clarkson *et al.* 2008), and analysis of information on corporate websites (Jose and Lee 2007, Rahman and Post, 2011).

According to Adams and Schvaeveldt (1985), one of the main advantages of content analysis when applied to social research, is its "unobtrusive" quality as a research technique. According to the authors content analysis provides insights that other research techniques would not be able to provide, by eliminating the distortion or influence effect that the presence of the researcher exerts over the studied subjects (*i.e.* when interviewees lie or color responses, as they are conscious of being studied).

In addition when relevant archival analysis was used to draw information of particular CSR communications, corporate reports and the available CSR information in their websites. According to Scandura and Williams (2000) Archival Analysis is referred to 'field study using secondary data' which also according to Bents and Shapiro (1998) is useful when approaching multidisciplinary phenomena because it allows integration of data from different sources and perspectives.

In the present study's data collection effort we relied in the published GRI report list[2], as it will be explained in subsequent chapters the Global Reporting Initiative disclosure framework is the most comprehensive and widely used set of guidelines that oversee corporate disclosure of CSR and Sustainability activities. This standard offers a set of guidelines that regulate the format and type of information that is presented in annual CSR reports, by proposing reporting principles for an organization's economic, environmental and social performances that integrate the triple bottom line. The GRI framework encompasses all type of corporations from different industries by offering supplemental sector guidelines in order to compensate for the differences and particular characteristics of corporations grouped in 12 different sectors: electric utilities, financial services, media, oil & gas, apparel & footwear, automotive, logistics & transportation, telecommunications, food processing, construction & real estate, public agency, event organizers, mining & metals, NGO and airports.

We decided upon the GRI as a framework due to the strong practitioner and institutional support. Since its creation in 1999 has arguably become the leader among voluntary reporting systems, securing financial and moral support of important grants and institutions such as the John D. and Catherine McArthur Foundation, the Charles Stewart Mott Foundation, the Spencer T. and Ann W. Olin Foundation, the Ford Foundation, the V. Kann Rasmussen Foundation, the

[2] *Ibid.*

United Nations Foundation and the World Bank.[3]. Kofi Annan publicly recognized GRI's contribution:

"I am delighted to convey my warmest wishes to the official inauguration of the Global Reporting Initiative, which brings together actors from all sectors of society in a coalition for greater sustainability, respect for human rights and labour standards. By offering guidelines that enable companies to report on their work to improve environmental and social conditions, the GRI has a unique contribution to make in fostering corporate transparency and accountability beyond financial matters."

"The GRI is an important complement to my own Global Compact initiative, which advances universal principles in the same areas, and provides a value-based platform for efforts to foster good corporate citizenship through learning, projects and dialogue. I commend the close collaboration between the GRI and the Compact, and the key role played by the UN Environmental Programme in both."

"Companies participating in both initiatives recognize that the GRI is a practical expression of the Compact, and that companies which report under the GRI fully meet the Compact's reporting requirements. I hope that over time, all Global Compact companies will make use of the GRI and, conversely, that all GRI companies which do not yet support the Compact will do so soon. Above all, I look

[3] *During its early years (1999-2002), the GRI secure over $7 million total in grants the most prominent of wich where donated by the U.N.($ 3.75 million) and the World Bank ($2 million),* Brown *et al.* 2007.

forward to a long and fruitful partnership between our two initiatives as we work towards our common cause."[4]

Furthermore the World Bank also recognized the GRI as the second most influential standard in Corporate Social Responsibility in 2003. The above establishes the standard in question as one of the front runners in the creation of a universal standard for CSR.

CHAPTER 2. LITERATURE REVIEW

The present study is greatly based on Stakeholder theory and the basic idea that stakeholders are concerned on the impact of the activities of corporations. Stakeholders are invested in the social and environmental performance of corporations. As we will discuss in this chapter stakeholder are members of society and the organization that can affect or are affected by the activities of the organization (Freeman, 1984). As such stakeholders are the object to CSR reports and other type of corporate communication.

In order to appropriately respond to CSR disclosure, stakeholders need to interpret and analyze the social disclosure of corporations in a methodical and equitable manner. This is one of the main purposes that motivated the creation of CSR standards for reporting. Frameworks such as the GRI offer parameters that can be used to measure the quality of disclosure over time and how are they

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[4] In a message delivered on 4 April to the GRI inaugural event held at UN Headquarters see: http://www.unglobalcompact.org/newsandevents/speeches_and_statements/sg_complement_to_compact.html

affected by events such as the Financial Crisis. This thesis supports the argument that CSR is more comprehensively studied through stakeholder theory. (Sweeny, 2009, Wang, 2008; Agle and Mitchell, 2008).

In summary it should be noted that the present study borrows heavily from stakeholder theory, as we believe that this is the core concept of the discipline. Analyzing CSR phenomena through the lenses of this theory allows for a comprehensive deconstruction and better understanding. Nevertheless in order to broaden the understanding on the objectives of the present research, it is essential to provide an overview of the parent literature and its core ideas. The present chapter provides a theoretical context of the elements surrounding the concept and discipline of CSR. Furthermore in this chapter we will explain the ontological and epistemological disposition of the research towards the subject matter. Following an examination of the concept, we will explain the main theories underpinning CSR. Major focus would be placed in Stakeholder Theory a concept that would help readers connect and evaluate CSR efforts through the viewpoint of different participants of this social and managerial practice. Finally there will be an analysis of previous works that dwell on the relationships and effects of Global Financial Crisis (GFC) and CSR.

2.1. THE CONCEPT OF CSR

There is not a single, universally accepted definition of Corporate Social Responsibility, whether we chose to approach CSR as a discipline or as a concept the definitions made by practitioners and scholars are wide and vague. CSR's definition ambiguity was early on explained due to the relative short life of the discipline, and because of the range and variety of social responsible actions and the differences in managerial approaches to CSR (Barth & Wolff 2009). Votaw and Sethi (1973) summarize the paradox of why even when CSR has become a central activity for organizations around the world we still don't have a definitive definition.

"The term is a brilliant one; it means something, but not always the same thing, to every- body. To some it conveys the idea of legal responsibility or liability; to others it means socially responsible behavior in an ethical sense; to still others, the meaning transmitted is that of 'responsible for', in a causal mode; many simply equate it with a charitable contribution."

After decades of major companies and organization around the world practicing CSR, the maturity of the concept has not yet reached the point of collective agreement, despite an ever-growing literature and research work, CSR is still remarkably elusive to define. Matten and Moon (2004) attribute this to three reasons caused by scholastic treatment. Firstly, it is a concept defined by value judgments with compliant application rules. Secondly, CSR is used as a synonym of a multitude of terms without scholars agreeing in their similarity or interchangeability (*i.e. sustainability, philanthropy, charitable giving, and environmental management)*. Finally the third reason to as why we cannot get consensus in a CSR definition is that there are regional and contextual specific approaches to CSR.

But even when we can't outline the limitations of CSR as a disciple, Authors converge in that CSR implies the existence of Ethical values that guide corporate behavior in the interactions of organizations and their social and natural environment (Cox & Dupret, 1999; Saldarriaga & Sepulveda, 2007).

The World Business council for Sustainable Development defines CSR as "the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families, as well as of the local community and society at large..."[5] In addition one of the more commonly accepted definitions is the one provided by the European Commission (2001, p.6) which defines CSR as "a concept whereby companies integrate social and environmental concerns in their business operations and their interaction with their stakeholders on a voluntary basis. Being socially responsible means not only fulfilling legal expectations, but also going beyond compliance."

To better define CSR we would like to reflect on the meaning of being social, "social actions are those necessary to promote progress and welfare to the individuals that are part of a society"[6], Social Responsibility (SR) is a voluntary decision that goes beyond legality, it means recognizing and accepting the compromises that individuals and corporations have with their society.

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[5] *This definition was developed in 1998 for the first WBCSD CSR dialogue in The Netherlands. For more see www.wbcsd.org*

[6] *Esguerra F., A. Reflexiones sobre lo social (Reflections about the social), Bogota , Corporacion para el desarrollo comunitario, 1992, p. 4-5.*

The term CSR implies a relation of obligation or debt between corporations and Society, the etymological and philosophical meaning of the term "Responsibility" means "answerable (to another or something). The word responsibility comes from the Latin root *responsus*, which means "morally accountable for one's actions", the concept of responsibility contains a subject or carrier (the responsible one), an authority (responsible to whom?), an object (what for?) and a recipient (to whom?), see Schreck, 2009.

The above opened the discussion about what can corporations be held responsible for. In terms of the law, Responsibility is a legal consequence from an individual's role in causing an event to happen, it also means specific duties imposed upon persons to care and provide for others. As mentioned before, scholars in favor of CSR agree that Socially Responsible entities are those who integrate economic, social and environmental concerns into their business strategies and activities, going beyond compliance (Mallin, 2009). The concept of CSR differs from Corporate Philanthropy (or charitable giving) in that CSR refers to voluntary self-regulation to improve the company and its performance, CSR obligations sprout from the exchanges between the corporation, the society and the environment. Every exchange of the corporation has outputs, and sometimes the effect of those is negative, CSR actions are those designed to improve the balance on the negative outputs resulting from the corporation's operation. The Commission of the European Communities (2001) addressed this in their definition: *"Corporate social responsibility is about companies having responsibilities and taking actions beyond their legal obligations and economic/business aims. These wider responsibilities cover a range of areas but* *are frequently summed up as social and environmental – where social means society broadly defined, rather than simply social policy issues. This can be summed up as the Triple Bottom Line (TBL) approach: i.e. economic, social and environmental".*

By that definition, Corporate Philanthropy or charitable giving, is just a particular manifestation of CSR, it is the act of corporations bestowing profits or resources to social programs or non-profit organizations. Charitable giving manifest in different type of donations, most of the time cash, but in occasion the use of facilities, services or even volunteer work, all this by direct transaction or through a foundation.

Some authors trying to approach CSR as a real, rather than a moral obligation define CSR as an obligation that the corporation has, to systematically recognize and satisfy the needs of the society and environments in which it operates through a defined social policy (Alvarez et al., 1999). The international Labour Organization (ILO) also pinpoints CSR as a real obligation, defining CSR as the *"Response to the expectations and rights generated through the relation with different stakeholders in different sectors for the fulfillment of the business mission"*[7]*.*

Another group of definitions allow CSR to have a wider scope than that of Charitable giving, these set of definitions are framed by the "Triple bottom line" approach –TBL- (Economic, Environmental and Social), that fundamentally

[7] *ILO, Social Balance Handbook , Medellin 1996, p25.*

considers that nowadays organizations, must stop concerning only on profits, and get concern with socio-politic aspects, not just because it is the right thing to do, but because it is the best survival strategy in a world of growing complexity[8].

In summary CSR can be defined as the voluntary actions and contributions that an organization undertakes in order to ensure that they don't affect negatively the environment or the society they operate within, and the voluntary compromise to aid in the solution of social or environmental problems through ethical and moral behavior in their labor relations, operation processes and communications by using activities not only limited to corporate philanthropy. CSR relies on the perception that corporations have obligations to constituent groups (stakeholders) that go beyond legality or the interests of the owners.

CSR is originated form a conception of the organization that grounds its ideas, decisions, actions and results in values, that derivate in the construction of a society with more wealth, but at the same time more equal, fair and sustainable. This philosophy becomes tangible when corporations are engaged in formal activities and programs that promote the development of different interest groups, offering greater economic, social, cultural or environmental performance results, beyond the legal, ethical or economical minimum regulations that bind such organization.

[8] *Slaper T. F. and Hall J. T., The Triple Bottom Line: What is it and How Does it Work?, Indiana Business Review, 2011.*

Regardless the differences in the definition one chose to adopt, the important issue is to recognize that the demands for corporations to engage in social participation, are not likely to disappear in the future. Instead of trying to evaluate the legitimacy of the discipline by improving in its definition, we rely in the fact that the field experience shows that industry leaders are using CSR as a fundamental strategic component. The following table showcases the views of major authors on the topic of CSR.

Table 2.1 Definitions of CSR

Authors	**Definitions of CSR**
Bowen (1953)	The obligations of businessmen to pursue those policies, to make those decisions or to follow those lines of action, which are desirable in terms of the objectives, and values of our society.
Davis (1960)	Social responsibilities of businessmen need to be commensurate with their social power.
Frederick (1960)	The use of society's resources, economic and human, in such a way that the whole society derives maximum benefits beyond the corporate entities and their owners.
Eells and Walton (1961)	Problems that arise when corporate enterprise casts its shadow on the social scene and the ethical principles that ought to govern the relationships between the corporation and society.
Johnson (1971)	A socially responsible firm is one whose managerial staff balances a multiplicity of interests instead of striving only for larger profits for its shareholders.
Sethi (1975)	Being an integral part of the society, enterprises should fulfill social obligations, social responsibility and social responsiveness.
Ackerman and Bauer (1976)	Social responsibility is the business impact affecting the constituents of the enterprise.
Carroll (1979)	Suggested an early emphasis on economic, then legal and finally concern for ethical and discriminatory aspects.
Jones (1980)	Notion that corporations have an obligation to constituent groups and society other than stockholders and beyond that prescribed by law and union contract.
Epstein (1987)	Achieving outcomes from organizational decisions

	concerning specific issues, which have beneficial rather than adverse effects on pertinent corporate stakeholders.
Wood (1991)	Moral responsibilities of individual managers to make ethical decisions are the most basic of CSR components, followed by the organization's obligation to obey social and legal norms.
Frederick et al., (1992)	Corporate social responsibility can be defined as a principle stating that corporations should be accountable for the effects of any of their actions on their community and environment
Khoury et al., (1999)	Corporate social responsibility is the overall relationship of the corporation with all of its stakeholders. These include customers, employees, communities, owners/investors, government, suppliers and competitors. Elements of social responsibility include investment in community outreach, employee relations, creation and maintenance of employment, environmental stewardship and financial performance
Marsden, 2001	(CSR) is about the core behavior of companies and the responsibility for their total impact on the societies in which they operate. CSR is not an optional add-on nor is it an act of philanthropy. A socially responsible corporation is one that runs a profitable business that takes account of all the positive and negative environmental, social and economic effects it has on society
McWilliams and Siegel, 2001	Actions that appear to further some social good, beyond the interests of the firm and that which is required by law
Pinney, 2001	Corporate social responsibility (CSR) or corporate citizenship (CC) can most simply be defined as a set of management practices that ensure the company minimizes the negative impacts of its operations on society while maximizing its positive impacts
Andersen, 2003	We define corporate social responsibility broadly to be about extending the immediate interest from oneself to include one's fellow citizens and the society one is living in and is a part of today, acting with respect for the future generation and nature
Van Marrewijk, 2003	In general, corporate sustainability and CSR refer to company activities – voluntary by definition – demonstrating the inclusion of social and environmental concerns in business operations and in interactions with stakeholders
Heal, 2005	Corporate social responsibility involves taking actions, which reduce the extent of externalized costs or avoid distributional conflicts.

Stiglitz, 2010	There is meaning to individual and corporate responsibility. Firms need to do more than just maximize their market value. And individuals within corporations need to think more about what they do and the impacts on others. They cannot get by saying that they are "just" maximizing their incomes.

Source: Author own elaboration

Table 2.1 exemplifies the variety of definitions in the field, regardless of the quantity and availability, CSR definitions are also consistent, and referring to five dimensions, the first three dimensions refer to the Triple bottom line: the environmental dimension, the social dimension, the economic dimension, the remaining dimension are the stakeholder dimension and the voluntariness. The following table explains the dimension and exemplifies how those dimensions are phrased in most common definitions.

Table 2.4 exemplifies how these dimensions are most commonly worded or phrased in popular definitions.

Table 2.2 Dimensions of CSR in definitions

Dimensions	Example Phrases
Environmental Dimension	"environment" Frederick et al., 1992, Marsden, 2001. "environmental stewardship" (Khoury et al., 1999) "environmental concerns in business operations" Van Marrewijk, (2003)
Social Dimension	"lines of action, which are desirable in terms of the objectives, and values of our society." Browen (1953) "fulfill social obligations" Sethi (1975) "impact on the societies in which they operate" Marsden, 2001. "impacts of its operations on society" Pinney, 2001 "what they do and the impacts on others" Stiglitz, 2010
Economic Dimension	"The use of society's resources, economic and human, in such a way that the whole society derives maximum benefits" Frederick (1960) "A socially responsible corporation is one that runs a profitable business" Marsden, 2001 "multiplicity of interests instead of striving only for larger profits" Johnson (1971) "business operations" Van Marrewijk, 2003
The stakeholder dimension	"beyond the corporate entities and their owners" Frederick (1960) "the constituents of the enterprise" Ackerman and Bauer (1976) "obligation to constituent groups" Jones (1980) "interaction with their stakeholders" Van Marrewijk, 2003 "relationship of the corporation with all of its stakeholders" Epstein (1987) "adverse effects on pertinent corporate stakeholders" Khoury et al., (1999)
Voluntariness dimension	"voluntary" Van Marrewijk, 2003 "beyond that prescribed by law and union contract. Jones (1980) "beyond the interests of the firm and that which is required by law" McWilliams and Siegel, 2001

Source: Own elaboration

The congruency and consistency on the definitions and the dimensions present in CSR definitions across the board, makes the lack of a universally accepted definition a more irrelevant problem than critics make it to be, what definitions are doing is describing a phenomenon, therefore the greater challenge is for businesses to understand how CSR is socially constructed in a specific context and how to develop business strategies accordingly (Dahlsrud, 2008).

Definitions of CSR also show that CSR is not something new or a contemporary concern for corporations, businesses have always had social, environmental and economic impacts, corporations have always have to deal with stakeholders in the shape of governments, consumers, owners etc. The innovation of the concept of CSR comes from the operational side, from the practical field, what has essentially changed is how corporations deal with society and the environment, due to the effects of globalization corporations are faced with a rapidly changing context.

2.2 EVOLUTION OF THE CONCEPT OF CORPORATE SOCIAL RESPONSIBILITY

Corporate Social Responsibility (CSR) as a management discipline has gone mainstream, to the point that it is not just and industry standard, but an industry on his own right, with a considerable amount of entities dedicated to assist and certify the sustainable activities and reports of organizations in all sectors of the economy. This is due to several causes, but more prominently because of the socio-economical inequalities and problems originated from globalized economies; these problems have attracted attention. They also have created several expectations about the desired behavior of corporations and the balance of exchanges between society and profit oriented entities (Dusuki, 2008). CSR is consider to be the product of modern corporate behavior, but some scholars such as J. W. Anderson (1986), believe that there have been earlier demonstration of Corporate Philanthropy that can be considered forms of Social Responsibility in businesses that date from medieval times[9].

Demonstrations of CSR in industrial societies were first recorded in Victorian times, when British entrepreneurs such as the Clark family, or the Cadbury brothers, and other distinguished leaders of industry realized the need to implement various social welfare schemes in order to have and maintain a healthy and motivated workforce. Among the first philanthropic efforts that constituted these early demonstrations of CSR where actions like facilitating workers housing, community support by building hospitals, churches, parks and hospitals (Clement-Jones, 2005). The CSR efforts of the 19th century where not just localized, all around the industrialized world, pioneer managers like the German Robert Bosch, who introduced similar benefit schemes for his workers. The creations of foundations such as the Carnegie and Rockefeller foundations are among the earliest organized CSR efforts in America (Cherry, 1972), in the later part of the century even similar efforts appeared in Japanese factories (Hall, 1988).

Cultural influences also shaped philanthropic efforts at the time, and can be found in literary works that used social critic as their subject matter; works such as Dickens' literary labor or utopian socialists, authors like Robert Owen, Saint-

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[9] *In his book Anderson presents an interesting account of examples dating from the Pre-medieval period (5000B.C.-550A.D.) to the time where the concept gain social Prominence (1930-1988). Conroy (2007) states that the earliest demonstrations of CSR 3000 B.C.*

Simon or Charles Fourier. The legacy of these great thinkers also inspired, and was complemented by the writings of other socialists such as Frederick Engels and Karl Marks who first insisted on the unsustainable nature of amoral Capitalism.

Industrialization changed completely the role of businesses as operations went from the workshop to larger scale, the input and output required to maintain commercial activity increased the impact to individuals and society, giving origin to some isolated efforts. One example of these early initiatives can be found in the personnel and compensation polices applied in Henry Ford's plant at Highland Park in 1914, where compensation and working hours were way above industry standards (Zerk, 2006).

But it was not until the advent of the figure of multinational corporations that the discussion on the topic really evolved. Up until that moment there was no clear idea of whether companies had an inherent responsibility towards society. In 1929 the then Dean of Harvard Business School Walter B. Donham raised the point when he stated that *"Business have been long centuries before the dawn of history, but business as we know is new – new in its broadening scope, new in its social significance. Business has not learn to handle these changes, nor does it recognize the magnitude of its responsibilities for the future of civilization"*[10]. It was around this point in time, when the concept of CSR as we know it today started to take shape. In the works of Berle and Means (1932), the authors

[10] *Quoted in K. Peattie, 'Research Insights into Corporate Social Responsibility Part I (2002) 1(2) New Academy Review 33, 50.*

introduced an analysis of shareholders rights, accountability and transparency through the concepts of 'ownership', 'control' and 'regulatory instruments', elements that would later integrate Stakeholder Theory.

As many concepts in management, Stakeholder Theory has its roots in the empirical field, in 1935 Johnson & Johnson published a document called "Try Reality" in which the company identified its responsibility towards different groups, furthermore, it was also at Johnson & Johnson that in 1945, one of the earliest Corporate Codes was published in the form of a company-wide credo containing the institution's social and ethical aspirations (Zerk, 2006).

Academic discussion reflected the evolution on the field, and It was in 1953 that Howard Rothmann Bowen first explored the concept of Corporate Social Responsibility, when he introduced it in his book "*Social Responsibility of the businessman"*, he presented CSR as the commitment of individuals: *"businessmen have an obligation to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society"* (Bowen, 1953). In his work Bowen states business are expected to produce social goods such as higher standards of living through economic progress and security.

During the 60's, CSR evolved beyond Bowen's conception of individual responsibility towards social and environmental accountability, and the academic discussion focused on the drivers and motivations behind Social responsibility (Davis, 1967). At the beginning of the decade Eells and Walton explained the concept in terms of the problems and influence that characterize the relationships between the corporation and society (Eells & Walton 1961). It is at this point of CSR's history, that the first serious, and most memorable of critics of the discipline stepped forward. In 1962 Milton Friedman, plainly labeled the practice as 'subversive'. Friedman came to be the most infamous and criticized opponents of CSR when he published his article "The Social Responsibility of business is to create its profits"; as the title states, Friedman believed that the only responsibility of business was to maximize profits to its owners and stakeholders, operating within the legal framework of the society in which it operates (Friedman, 1970). Friedman view was later labeled as the Neoclassical approach to CSR.

As a reaction to Friedman's arguments, scholars of the time (McGuire 1963, Frederick 1960, Walton 1967), introduced the element of voluntarism, the argument change in order to accommodate the critiques of economist like Friedman by stating that CSR is a concept that goes beyond the economic and legal expectations of the firm, based on the "iron law of responsibility" by Davis (1960) which states that social responsibilities need to be commensurate with their social influence. In other words, social obligations of the firm should extend so they embrace the needs and welfare of its employees and society.

The 1970's brought a new context of social critique, countermovement and the inclusion of environmentalism as a response to consumerism and the increasing operation and reach of MNEs, which became suddenly faced with the moral expectations of society and government. Before this decade there was no record of an organized protest against a major American corporation. The major case that incorporates the then current social sentiment and public disapproval on war profiteering into business management theory was the case of "Dow Chemical"[11]. At the moment the company response was only reactive and weak, but it created a generation of increasingly conscious managers and consumers, and since then the concept of CSR began to be associated with a distinguishable social movement (Wilcox & Mohan 2007). It was at this point that some CSR proponents suggested the idea of responsible social organizations, as those, which balance a variety of interest beyond the pursuit of larger profits (Johnson, 1971).

In the late 70's Ackerman and Bauer made a huge contribution to the discussion of CSR, first they argued that CSR must abandon the original focus that views the practice as a "social or ethical issue", in favor of an operational emphasis that threats the practice as a management one. They also argued that companies should be proactive and lastly, not also reaffirmed that companies should define their social responsibilities in terms of the impact on its employees, customers, owners, vendors and communities; but also recognizing that both internal and external stakeholders can practice CSR (Ackerman and Bauer, 1976).

[11] *Dow Chemical was responsible for the production and commercialization of the chemical known as "Agent Orange" (Napalm) a chemical designed to disable enemy forces by burning the body by chemical means (defoliating). Even when Dow Chemical was not responsible for the creation of the compound or its use, and its revenues from napalm represented only 0.05% of total sales, the mismanagement of civil protests and criticism made the company liable and vulnerable, this experience give birth to a new wave of managements that fused environmental concerns, human rights and Public relations (Wilcox & Mohan 2007 p.7)*

Contemporarily NGO's and Governments where more inclined to intervene or rule against Multinational Enterprises (MNEs), corporations, and governments acted by actively creating and sanctioning laws that shaped public opinion about the responsibilities of business. Furthermore proliferation of Multinational Trade Agreements on the 80's and 90's introduced the concept of good citizenship to the theory of CSR as means to earn a "Social or Market License" a way to require companies to comply with their social obligations (Sethi 1975).

The argument of voluntarism as an essential element of CSR, was at first properly articulated by Carroll (1979), which retooled Maslow's (1954) hierarchy of needs (Figure 2.1), according to some scholars; Carroll's Pyramid is probably the best-known model of Social responsibility (Visser 2006, Werna et. all 2009). In his work Carroll consider four key dimensions of CSR, in order to express the kind of commitment, and the depth of said commitment to social responsibilities. The importance of Carroll's model and the reason behind it, is that it recognizes that the basic and first concern of corporations is their economic responsibility, companies are expected to produce services and products in exchange of economic profit, while operating within the legal system, they operate internationally and legally, and in that way addressing Friedman's critique to CSR. At the same time there is a limit to the legal obligation, or in other words legal systems only cover a limited amount of these social and ethical obligations. From this point it depends on the own sophistication or penetration of the awareness to those external social needs and their integration to the corporation's culture; therefore recognizing the voluntary and discretionary aspects of corporate philanthropy. Carroll model was overly discussed by scholars, and even became the base of further models (Jones, 1980; Dalton and Cosier 1982; Wartick and Cochran 1985).

Figure 2.1 Carroll's Pyramid Model

Source: Visser 2006, Weerna et all. 2009

By the 1980's there was a shift of power from State control, to Market control, powerful multinationals affected the politics and social life of host countries to a point that their hunger for greater profits brought out cases of neocolonialism characterized by exploitative policies. The iconic example of this behavior is how the term "banana republic" came to be[12]. This was a period of huge commercial growth aid by flourishing FTA's, corporate scandals and apologetic philanthropy. Under this regime CSR emerged as a "corporate strategy" with recorded

[12] *The Chiquita Brand International case is one example on how abusive practices perpetuated unethical practices and monopoly. The control of the company formerly known as United Fruit Company reached on to the politics of several countries in Latin America. Stauber and Rampton 1995.*

environmental, product, and human rights violations by titans of industry such as Shell, Nike, Nestle and Wal-Mart. Consumers, investors and managers realized the value of practicing Corporate Social responsibility (Zerk 2006). During this decade the CSR movement gained momentum under environmentalism and reactions to consumerism and globalization. For instance the Union Carbide plant disaster in Bhopal India in 1984[13], and the Royal Dutch company failure to intervene in the Ken Saro-Wiwa case in Nigeria in 1995; these two cases more than any other cases in the history of Public relations shaped the opinion of consumer, investors and policy makers, to the point that indignation over environmental and human rights abuse made inconceivable for a company to not give an account of their actions, and hence forth sustainability reports became mainstream. Nowadays, the great majority of leading companies dedicate a considerable amount of resources to design, manage, and report on activities to promote their performance on responsibility or sustainable actions.

Up until 1999 the CSR movement continued to gain strength, but it was not until the Global Compact in the Davos Forum in January 31, 1999, that the movement of CSR gained international recognition. The Global Compact offered nine universal principles in matter of Human Rights, Labor Relations and the Environment. The pact also linked corporations, international labor organizations, NGO's and UN organisms in order to stimulate collaboration and to create a fair global market. In the middle of 2004, with the support of the

[13] *See Richard T. De George, Corporate Moral Responsibility: The Bhopal incident, Archives of the Angelo State University Symposium on American Values, edited by Kenneth L. Stewart, Angelo State University. Retrieved from http://www.angelo.edu/events/university_symposium/85_George.php, last accessed 5/16/2012.*

United Nations convention Against Corruption, a 10^{th} principle was crated with the purpose of battling corruption and fomenting transparency.

Table 2.3 UN Global Compact principles

Human Rights
• Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and • Principle 2: make sure that they are not complicit in human rights abuses.
Labour
• Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining; • Principle 4: the elimination of all forms of forced and compulsory labour; • Principle 5: the effective abolition of child labour; and • Principle 6: the elimination of discrimination in respect of employment and occupation.
Environment
• Principle 7: Businesses should support a precautionary approach to environmental challenges; • Principle 8: undertake initiatives to promote greater environmental responsibility; and • Principle 9: encourage the development and diffusion of environmentally friendly technologies.
Anti-Corruption
• Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

Source: United Nations Global Compact[14]

Once in place the Global compact became the catalyst of all contemporary multinational and international instruments in matter of Corporate Social Responsibility. Table 2.4 presents the most relevant international instrumental frameworks dealing with the subject of CSR and a brief explanation of each framework.

[14] *See http://www.unglobalcompact.org/aboutthegc/thetenprinciples/index.html*

Table 2.4. Most relevant international CSR instrumental Frameworks

Global Compact (January 1999)	Initiative of voluntary adherence, in which organizations vow to follow ten universal accepted principles when formulating and operating their business strategies, the principles cover four main categories: Human Rights, Labour, Environment and Anti-Corruption.
Dow Jones Sustainability Indexes (1999, reviewed in 2010)	First global indexes that recorded the financial performance of sustainability leaders, in order to take part on the calculation of this index, corporations need to fulfill several social and environmental and economic requisites in the long term.
AA1000 Framework (November 1st 1999)	Developed by the Institute of social and Ethical Accountability, in order to help organizations build their accountability and social responsibility through quality social and ethical accounting, auditing and reporting. It addresses the need for organizations to integrate their stakeholder engagement process into their daily activities.
Global Reporting Initiative (June 2000)	Independent Institution that creates the first reporting framework for sustainability reports
International Standard on Assurance Engagements (June 2000)	Auditory framework for assurance reporting on non-financial reports, and service organizations, the framework deals with Social and Environmental reports, auditing compliance systems and corporate boards.
OECD Guidelines for MNEs (1976, reviewed in 1979, 1982, 1984, 1991, 2000, 2011)	Voluntary principles and standards for responsible business conduct in areas such as employment and industrial relations, human rights, environment, information disclosure, combating bribery, consumer interests, science and technology, competition, and taxation.
International Labour Organization Tripartite declaration of principles concerning MNEs and Social policy (1977, reviewed in 2000, and 2006)	The principles laid down in The MNE declaration offer guidelines to MNEs, governments, employers' and workers' organizations in such areas as employment, training, conditions of work and life, and industrial relations.
Commission of the European Communities Green Paper (18th July 2001)	This document states the compromise of the European Union to promote CSR and it constitutes a charter of basic rights, aiming to promote common values and objectives (environmental, Social and Cultural). The document contains guidelines for socially responsible practices and their disclosure.

ISO 26000 (16th September 2010)	This standard offers guidance on socially responsible behavior and possible actions, this standard is not certifiable, but encourages CSR disclosure and actions with relevant stakeholders.

Source: Own elaboration.

From the analysis of these instruments, we can appreciate that the globalization process became a main driver for the CSR movement. From the side of the corporation, globalization introduced MNEs to the "global operations stage". This typically implied that corporations arrived to the global stage with different rules of the game, creating the need for these kinds of international frameworks. Despite all these coordinated efforts CSR as a discipline has not reach full maturity, the business community and its claims of responsible and sustainable management have lost the public trust as the last decade has seen terrible cases where reported information has been used to misled investors and create economic breakdowns, these are cases such as The WorldCom or Enron and more recently Lehman brothers. But as we mention at the beginning of this chapter CSR is now not just a common practice, but a standard across all industries and it is now expected and demanded in corporations with multinational presence. Carroll (1999, p.292) summarizes what we should expect of the future of CSR in business behavior:

"CSR concept will remain as an essential part of the business language and practice because it is a vital underpinning to many of the theories and is continually consistent with what the public expects of the business community today."

The following chapters will deal with the concept and its elements, as well as the theories supporting the discipline.

2.3 THE EVER CHANGING NAME OF CSR

If there is one recurring cliché (of which the author of this paper is also guilty of) in academic works about CSR, it is the persistent mention that there is no consensus on the denomination and terminology of the discipline. An increasing number of professionals and academics haven't yet fully understood the concept of CSR and are already flagging new terms. On December 30, 2007, The Financial times published a column, in which they give 17 predictions about what they considered important topics for the future, in his article Stefan Stern[15] stated that *"In the inevitable life cycle of management fads CSR was then heading for the exit. Customers are generally unconvinced by the hype. And 'social responsibility' was always too flimsy a concept to gain serious traction with business leaders. That gives us a clue as to the identity of the next Big Thing in management: sustainability. Unlike CSR, this concept has some meat and commercial potential to it. Innovations that make money while helping to reduce carbon emissions are actually worth pursuing. So here's one further prediction for next year: the urgent rebranding to be carried out by all those CSR consultancies, which will be replacing the old acronym with the more contemporary 'sustainability' label."*

[15] *S. Stern," Goodbye to Corporate Social Responsibility?, Comment & Analysis", December 31, The Financial times; Retrieved from http://www.ft.com/intl/cms/s/0/eb14b4b2-b6fe-11dc-aa38-0000779fd2ac.html#axzz25ZLSzGcO, last accessed September 5, 2011.*

Several years have passed since that article and both terms coexist in the professional field, what stern did not realized or failed to show due to the shortness of the article, is that sustainability is not a term to substitute CSR, it is in fact an extension to the concept. Sustainability is defined as the practices that guarantee the rational exploitation and consumption of the limited resources of the planet, so that its exploitation doesn't limit their availability for future generations diminishing their quality of life. The guideline to the corporate behavior is "The Golden Rule". Do unto others, as you would have them do unto you, or to rephrase, use the resources of the organization and the planet as if you and your children were to live from them (Vives, 2011).

The recent strength gained by the term Sustainability comes from its concern for the environment. Even when it is understood by every CSR definition that the discipline is concerned with the responsible use of natural resources, the denomination has the word "social" instead of the word "environmental" and this gives the idea that it leaves the topic somewhat out of its scope.

The term sustainability gained traction in corporate vocabulary due to CSR discussions that coined the term "Environmental Sustainability". In addition Sustainability has gained popularity by rising concerns of climate change and its environmental impact. Sustainability has also become the preferred denomination used by heavy impact industries, like the Energy or Extractive Corporations that given the size of their operation consume a considerable amount of resources. The term has also gain adepts among non-profit organizations, which are somewhat reluctant to use the words 'corporate' or 'business'; many of this organizations call their responsible practices reports, 'Sustainability reports'.

Nevertheless, Sustainability is a concept that is suited for a group of corporations, rather individually. Only acting together or as a whole, we ensure the sustainability of society and the planet. For an individual corporation we can only talk about its 'contribution' to global sustainability. CSR's object of study is the aggregated practices that constitute this contribution.

The term CSR includes environmental concern, but with recent prominence in environmental topics having them toping over the concerns of corporations for human rights, corruption, labor practices and community development, is the reason that we have the term Sustainability gaining importance. In order to try to correct this some scholars try to add the word 'Environmental' renaming CSR as 'Social Environmental Responsibility', by doing so CSR seems to increase its reach. But this denomination leaves the corporate field out; the term fails to describe important topics that have acquired great relevance, topics such as "Corporate Governance". Corporate Governance is a topic that is understood as encompassing CSR and that considers as constituents the organization's shareholders and its creditors. Regretfully this concept has little to say to small companies and family enterprises, which despite this may have fully developed CSR programs.

Sustainability is far from being the only term trying to displace CSR, many academics believe that the term is generic and are trying to find a more suitable name, we will discuss some of this names and their suitability in this section as we just did with the term Sustainability.

The problems generated by the term CSR come from the use of the word 'social'. Milton Friedman (1970) had already raised the claim that the 'social responsibility' of the organization is to increase its profits. Friedman's claim is that businesses have no responsibility in solving the problems of society, arguing the meaning of social responsibility as creating jobs and producing more goods and services. What Friedman and his supporters did not understand is that CSR means responsibility to society, not for society.

Other concept that has come to be used as a synonym for CSR is the Triple Bottom Line, but as we could see in previous sections of this document, TBL's object is the practical aspects of reporting, it is concern about the 'what' rather than the 'how'.

Some others prefer the term "Corporate Citizenship", in order to attempt to encompass the idea that businesses, in the likeness of individuals, must be good citizens, by respecting the law, protecting their neighbors, and the environment. This term has also caused some unintended confusion since it can limit the action of CSR to the realm of good civility, and can fall in the aspects of what is legal; furthermore the noun citizenship can be link to a particular country, this is why the words 'Global Citizenship' have been more and more recurrent.

Grayson and Hodges (2004) coined the term Corporate 'Social Opportunity' to stress that corporate responsibility should be seen as an opportunity. According to the authors and all adepts to CSR, being responsible is not in detriment to the organization, but instead an opportunity to improve the competitive position of the Business. Another similar effort is the one made by Austin and Reficco (2009) that in a working paper for Harvard coined the term Corporate Social Entrepreneurship trying to express in this denomination that the implementation of CSR projects must also include alliances with social institutions to create more social and economic value. The authors argued that this new term includes and expands on CSR.

"Corporate Philanthropy" is yet another term that has been considered as a synonym of CSR, this term can fall under the scope of Public Relations (PR) or CSR, depending on the object of the charity. But CSR is not to be confused with philanthropy. As an example we shall consider the works of foundations such as Bill and Melinda Gates Foundation, this foundation is not a corporation, its resources come from the personal fortunes of the founders. There is legal separation between this foundation and Microsoft. The contributions of these foundations are determined by the tax legislation of the United States, which establishes that foundations, in order to maintain fiscal exemption over their contributions, must donate a minimum of 5% over its patrimony. A similar consideration must be taken for Carlos Slims multiple philanthropic foundations; one cannot deny their contribution, but the lack of product responsibility of his flagship corporation 'Telmex' is astounding[16], furthermore CSR concerns should not stride to far from the core business of the organization. In this regard these examples cannot be considered CSR, those are just examples of pure and mere Philanthropy, we cannot evaluate in the same manner a reforestation program by a member of the forest industry and a "plant a tree program" carried by employees of a credit company.

Another term that has gained intensity is "Social Investment", a term that reflects specific actions and investments that businesses carry for social benefit, which can be consider an activity ruled by CSR. In any case Social Investment is one of the few aspects of CSR that can be measured in economic terms, in many cases is limited to educational, cultural and sport supporting activities; concepts that are just a part of the spectrum of CSR.

Some corporations are reluctant of using the word 'responsibility' because it brings connotations of obligation, and by definition CSR must be voluntary. Once again the word Sustainability, that for many is synonym for the environment, is born from the discussions about the necessity to preserve the resources of the planet for future generations. Sustainability is a more general term; it is not concern by the immediate environment, as the terms "Citizenship", or CSR are. As for sustainability the environment is the planet, it is because of this that the term should refer to collective actions to the level of whole industries. Many business with global impact produce 'sustainability reports' instead of 'CSR

[16] *Currently the Mexican telecom enjoys a de-facto monopoly over Latin-America, furthermore in his country of origin Mexico, the Mexican private telecommunications company has thus far provided a service to consumers that is far below that of other Latin American countries and has imposed unreasonable costs to domestic businesses (Manzetti, 2010).*

Reports', in particular those with significant impact to the environment and human rights. For many Sustainability is a concept with a wider scope than CSR, not being particular to private organizations, but that can be used by other institutions such as NGOs and organizations by the public sector and at the same time having connotations of long term strategies.

Recently we have seen the term 'CSR 2.0' (Visser, 2011) being promoted, with the intention to revitalize the traditional term, and to reflect the evolution of recent years. According to Visser the traditional CSR or what he calls CSR 1.0 has failed due to it being plagued by three curses: being incremental, Peripheral and Uneconomic; all these resulting in a practice being overwhelmed by Glorified brochures, Green wash, half committed practitioners, Standardized CSR codes & guidelines, in general a lack of creativity and commitment. But in deeper analysis of Visser's proposal we can see that far from the revolution that he claims it to be, CSR 2.0 is not but an invitation for a better understanding of CSR, to realign the practice from peripheral activities that produce no value, to the core activities of the organization, or in the author's words: *"CSR can only be resilient if it is part of the DNA of an Organization, CSR will only survive the vagaries of fickle markets, fluctuating profits, financial crises and leadership whims if it is totally embedded in the corporate culture, strategy and governance systems"* (Visser, 2008).

Visser may as well be among both, the most respected academics and experts in the field (Vives, 2011), but attaching the "2.0" tag onto the CSR name does little to contribute to the survival of CSR, furthermore it homologizes the term with passing fads, comparing his proclaimed revolution with marginal and incremental improvements of those of a software; as if we were to compare different versions of "windows" operative system.

Competitive Advantage theorists Porter and Kramer also made their contribution to the CSR denomination discussion in a recent article of the Harvard Business Review. In their article they promoted sustainability under the term 'Creating Shared Value' (CSV).

CSV was born out of a series of articles in the Harvard Business Review, these articles by Porter and Kramer, originally dealt with the foundations of creating social value and how corporate philanthropy can create social and economic value, introducing their ideas of how social programs represent a strategy to enhance the competitiveness of a firm. The authors refined their concepts while working with the multinational giant Nestleé, finally crystalizing their concepts in a biannual reporting initiative and the cover article in the 2011 January/February edition of the Harvard Business Review (Crane, *et al.* ,2014).

Under the label "The Big Idea" the authors presented this concept as an idea to "reinvent capitalism" by reconnecting businesses with society. Companies can create economic and social value by: Reconceiving products and markets, Redefining productivity in the value chain and enabling local cluster development

CSV is possibly the most influential concept heralding social concerns to come out the academia and empirical field in recent years. Thanks to the unique ability of Porter and Kramer to gain substantial traction from practitioner audiences, reaching several influential publications and forums such as Davos, CSV has shown potential into evolving the understanding of CSR. Given their background in competitiveness, the authors are perhaps the utmost appropriate academics alive to elucidate the understanding of the opportunities for business in the most appealing managerial language.

Porter and Kramer have not met just positive reception to their concept (Crane, *et al.* 2014; Beschorner, 2013), criticism centers on the following shortcomings:

CSV is Unoriginal: Porter and Kramer heralded the concept as an important new contribution and directly attack CSR as an obsolete concept, yet it borrows heavily from concepts in the extant CSR literature, such as stakeholder theory, social stewardess and innovation.

Narrow focus of the concept: By separating themselves from the concepts of charity, responsibility, morality, the authors approach the concept with an overly narrow economic perspective (Beschorner, 2013) practitioners and academics are still working on methodologies to calculate the profitability of CSR programs, a discussion started more than a couple decades ago by utilitarian theories and the business case for CSR.

CSR as a Straw Man:

Porter and Kramer compare CSR and CSV. In this comparison CSR is labeled as philanthropic, alienated from profit maximization and the core business, actively ignoring several decades of rhetoric.[17] The authors also state that CSR is "discretionary or in response of external pressure" while recent literature on Strategic CSR suggest that "CSR is strategic when it yields substantial business – related benefits to the firm, in particular by supported core business activities" (Burke and Logsdon, 1996). In summary Porter and Kramer are making the impression that there has never been a debate on how to link CSR to profitability and or the core strategy of the firm a position that can be qualified as a "narrow interpretation of the literature and, at worst disingenuous" (Crane *et al.* 2014) considering In an earlier work Porter and Kramer themselves stated that "CSR can be much more than a cost, a constraint, or a charitable deed— it can be a source of opportunity, innovation, and competitive advantage."[18]

Having understood the definitions of the term, and the many names given to CSR we will proceed by explaining the theoretical frameworks that support CSR thinking, the above will aid the understanding of the motivations behind CSR activity.

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[17] *See McWilliams and Siegel, 2001*

[18] See Porter M.E., and Kramer M.R., "Strategy and Society: The Link between Competitive Advan- tage and Corporate Social Responsibility," Harvard Business Review, 84(12) (December 2006); 78-92

2.4 THEORIES UNDERPINNING CSR

2.4.1 THE CLASSICAL VIEW OF CSR

The classical view of CSR is sometimes also dubbed "Shareholder Theory" (Balza & Radojicic; Sweeney, 2009) or fundamentalist (Curran, 2005), because of its contrasting points with the more spread and well-known Stakeholder Theory. The core idea of the Classical approach is the argument put forward by Milton Friedman, as it is well known, he argued, that the only responsibility of a corporation to society is to maximize its profits, and operate within the legal framework of that society[19]:

"…there is one and only one social responsibility of business – to use its resources and to engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception and fraud" (Friedman, 1967, p.67).

Friedman was a fierce believer of Capitalism and the free market, he also was a supporter of the separation of Business and State, that the duties of CSR had no place on the corporation. Friedman believed on free market as a necessary condition for prosperity, but also understood that capitalism brings unintended problems with distribution of wealth. The stand point of Friedman made him arguably the most cited and criticized author of CSR Theory.

[19] *Friedman's is the most prominent theorist of the Classical approach of CSR and his beliefs regarding the obligations of corporations to society are summarized in 'Capitalism and Freedom' (1967) and the seminal New York Times Magazine article, 'The Social Responsibility of Business is to increase its Profits (1970).*

Some of Friedman's more Faithfull and extremist followers have put forward heavy critics to the Whole CSR movement:

1. The origins of the concept are suspect, as they derive primarily from the field of economics, and fail to include, among others, history, religion, and culture.
2. The different models of CSR all accept the terms of the debate as set forth by Milton's argument that sees corporations only as profit maximizers.
3. Corporate social responsibility accepts the prevailing business rhetoric of "capitalism: love it or leave it."
4. CSR is inherently conservative–it starts with the standard received wisdom and then attempts to "fix" its unintended consequences.
5. CSR promotes incompetence by leading managers to involve themselves in areas beyond their expertise: repairing society's ills.
6. CSR accepts a view of business and society as separable from each other, each with a distinct ethic, linked by a set of responsibilities.
7. The language of rights and responsibilities is, itself, both limiting and often irrelevant to the world of the practicing manager (Freeman and Liedtka 1991)

Most antagonists, and even supporters of the classical view of CSR have help to build the infamous and undeserved reputation of Milton Friedman by quoting Friedman's (1970) statement, but omitting that he also argued that the firm should abide by legal and societal expectations (Carroll, 1998). This common mistake has given place to three common misunderstandings or myths around shareholder theory of CSR (Smith, 2003). The first and most common misinterpretation of the opponents of this theory is that shareholders leadership encourages managers to do "anything" to maximize profits, secondly the Shareholder Theory has been criticized because it upholds short-term goals for business, but according to Levitt (1958) and Moore (1999) this theory approach enhances the long term survival and success of the firm since managers are agents for their stakeholder clients that are obliged to maximized the long-term value of the firm. Finally, the last misconception resides in that opponents of the Classical View argue that the theory states that managers are forbid to spend money in philanthropy or charitable projects, when in fact shareholder theory supports those efforts as long as those projects are in the best and Self-interest of the corporation (Friedman, 1970). Smith (2003) also explains that such projects constitute a good investment as they bring good publicity and encourage employees to do better.

In conclusion the shareholder or classical view of CSR may be one of the causes that originated the line of thinking that promotes the Business case of CSR and the Instrumental theory of CSR.

2.4.2 SOCIAL CONTRACT THEORY

The authors of the Social Contract Theory (SCT) propose a sociological model to explain Business ethics and corporate morality. This model was originally used in the seventeenth and eighteenth centuries to explain the origins and legality of political power (Wempe, 2005). Life in a society depends on ruling systems like morality, politics, law, all of these systems that allow us to have a society and harmonious life, these systems are agreed upon convention; this is what Hobbes (1651) called "commodious living". Before the institution of a Social contract there was what was called the "State of Nature" where there was a state of perpetual and unavoidable war, a state of utter distrust. But because men are reasonable, human nature decrees that men are willing to live in peace when others are willing to do the same. The social contract embodied a sovereign with the authority, a person who can coerce others to cooperate and keep their promises making society possible, before the institution of the social contract nothing was immoral or unjust.

The Social Contract in general is difficult to define since it is ever changing and can also be implicit or explicit (O'Donovan, 2002), but regarding organizations the terms of the Social Contract can be outlined as follows; *"Any social institution operates in society via a social contract, expressed or implied, whereby its survival or growth are based on: (1) the delivery of some socially desirable ends to society in general; and (2) the distribution of economic, social or political benefits to groups from which it derives its power"* (Guthrie et al. 2006).

Applying the central idea of this theory to the concept of CSR we can explain that business must act in a responsible way, not only in order to get commercial benefits, but because it is part of how society implicitly works (Moir, 2001), all interactions in society result in moral or political obligations, and these are implicitly or explicitly agreed upon contracts or arrangements and this is what makes the idea of society possible.

Businesses are engaged with other social structures such as families, governments, and individuals and the collective exchanges resulting of the contracts ruling those interactions produce individual and societal benefits. Business and society are partners engaged in the social contract at the same level as individual people, while corporations need constant inputs and support from society, the former expect corporations to behave responsibly and produce services and products to fulfill its needs in addition to other economic resources such as jobs, technology and financial wealth (Lantos, 2001).

The problem is that because of human behavior people and therefore the corporations they integrate may not always be able or willing to respect the rights of others. Therefore a political power or any other strong system of rules should take place.

The SCT offers a rational and empirical explanation of the philosophical and historical origins of CSR. Derivate from this theory Integrative Social Contract Social Theory (ISCT), has been developed to explain Business Ethics. It is called Integrative because it balance to types of contracts hypothetical and implicit or explicit contracts, this theory also explains that there are Macro-contracts (hypothetical), between societies, corporations or greater institutions that happen at the society level, and Micro-contracts (implicit or explicit), that happen at the community and individual level.

ISCT helps to explain the dilemmas that a manager can face during the decision process, where he has to make a rational decision balancing the obligations he has to several macro or micro contracts such as religion, nationality, the collective of his organization, his family, professional group among others. Criticism has been brought upon this theory particularly from minority or race conscious groups who state that, social contract theory is deficient and at best offers an incomplete picture of the moral and political life of society and in some ways legitimizing the misuse off the social contract, thrusting un-wanted obligations upon weaker societies or groups resulting in the subjugation of classes or persons.

2.4.3 INSTRUMENTAL THEORY

Instrumental Theories are also known as Utilitarian Theories and they offer reconciliation with the ideas of Milton Freidman, according to Instrumental Theories; organizations ultimate objective is to maximize its profits, and the shareholder value. According to this view, corporations are more likely to react to stakeholder pressure, when answering to the concerns of these stakeholders is consistent with other economic objectives of the organization, in other words shareholders will increase their financial interest by engaging CSR activities (Bitcha, 2003).

Instrumental theories can be divided in two big categories the first group consists on calculating the social cost, and the functionalist, approaching CSR as a form of Philanthropy to gather good corporate image. The social costs are equal to the sum of private and external cost. Each decision taken inside an organization corresponds to a social cost calculation. In other words every activity incurred by the organization has operational cost to the institution but also some impact to society and the environment, which are the external costs. The functionalist school of thought also sees the firm as a profit-making institution, but believes that corporate philanthropy is just a type of cause-related marketing.

Another popular view of CSR, which can be classified under the scope of instrumental theories, is the "Business case for CSR". Advocates of the business case strongly believe that companies implementing CSR have economic profit as a result of their CSR programs (i.e. market differentiation at a product level). It is undeniable that firms engaged in CSR investments, are making a serious effort to showcase their CSR programs through corporate communications[20], or designing products or services that signal consumers that the company is environmentally or socially concerned (Calderon, 2011), to the point that profitability over CSR activity has even spawned a whole disclosure certification industry. Schreck (2009) recognized that CSR actions can result, directly or indirectly, in positive profit maximizing outcomes for firms in a variety of ways:

- Managing risks to earn/maintain a license to operate;
- Enhanced corporate reputation and brand image;
- Improved relations with shareholders and other investors;
- Improved access to markets and customers;
- Increased employee morale and productivity;
- Enhanced relations with communities and regulations

[20] Cees B. M. Van Riel and Charles J. Fombrun (2007:22) define corporate communication as "the orchestration of all the instruments in the field of organizational identity (communication, symbols and behavior of organizational members) in such an attractive, realistic and truthful manner as to create or maintain a positive reputation for groups with which the organization has an interdependent relationship (often referred to as stakeholders)."

Profitability of a company is strongly related to the power and success of its brand. The reputation of a brand has impact on their sales and position globally, the realization of this effect has prompted studies analyzing the relationship between CSR Activities (mainly environmental and Social) and Corporate image (O'Brady 2005).

The strengths of the instrumental theory, rely in that their core idea of the economic objective is also central to the idea of the functioning of organizations, and therefore also critical to the Business Case theory of CSR. Instrumentality is a concept that characterizes many corporate disciplines. For CSR this is a quality, that explains its existence in terms of their strategic usefulness for the Management, nevertheless if we interpret this under Stakeholder views, CSR is also has the instrumental objective of allowing the corporation to address the claims of stakeholders. Instrumental theory helps us to understand one of the aspects of the discipline.

2.4.4 LEGITIMACY THEORY

The concept of legitimacy is central to the CSR discipline, but it is a concept that is intrinsically related to Social Contract theory, and relies on the notion that the contract exists and the compliance to the contract is the source of legitimacy itself. Dowling and Pfeiffer (1975) defined the concept of organizational legitimacy as *"…a condition or status, which exists when an entity's value system is congruent with the value system of the larger social system of which the entity is a part. When a disparity, actual or potential, exists between the two value systems, there is a threat to the entity's legitimacy".*

Businesses as corporations to the service of society have to follow the norms that the former establish as legal or desired behaviors. Organizations can have the luxury of no-compliance, but only in the short run; if corporations fail to satisfy the expectations of society in the long term, society can revoke the contract and therefore the corporation would find itself playing the role of an outcast without power or ability to reach its clients. Davis enunciated this as the Iron Law of Social Responsibility: "The emphasis of social responsibility in a business correlates to the size of the business…Society gives power and legitimacy to the organization. In the long term, those who use this power in a way that society considers irresponsible will lose it."[21]

[21] *Davis, K. "The case for and against business assumption of social responsibilities" in A.B. Carroll (1999),*
(ed.), Corporate social responsibility, pp. 37.

The development of Legitimacy theory has also been tied to many other theories, such as Political Economic theory, the Theory of Resource Dependence, New Institutionalism, and Stakeholder Theory.

Political Economy, considers that disclosure of the information is a valuable instrument to accomplish, legitimize and maintain the political and economic accords, institutions and ideologies, which favors the interests of the organization (Benson, 1975). The theory of Resource Dependence, considers that legitimacy is an essential resource for the survival of the organization (Dowling and Pfeiffer, 1975). Managers of the organization develop strategies to ensure the availability of this resource. With respect to the new institutionalism, theorists (Meyer and Rowan, 1977; DiMaggio and Powel, 1983) assume that organizations developed practices and policies according to the prevalent rationale in society, in order to increase their legitimacy, and in that sense guaranteeing their survival and independency. Finally Stakeholder theory specifies that the concept of society used in Legitimacy Theory imply that different groups compose society, each group with different degrees of power and also different opinions regarding the activities developed by the organization. These groups have different aptitude to affect and influence the decisions of organizations and even other groups of society (Freeman and Reed, 1983).

Legitimacy Theory has been highly influential in modern accountability research; since the concept of legitimacy is consider being the source of Financial and non-financial reporting. (Richardson, 1987; Mellemvick *et al.*, 1988). Scholars have also realized that accounting information is like to be manipulated in order to attain external legitimacy and hide subjacent realities of the organization. (Hopper and Powell, 1985).

According to the Theory, there are three types of Legitimacy: pragmatic, that is generated by the influences or the positive exchanges that are congruent with the interest of constituents of the organization; moral legitimacy that has its source in the positive evaluation of the organization and its activities, and cognitively, based in the understanding and pre-conceptions of the corporations (Suchman, 1995). Organizations use different strategies to attain legitimacy, which is one of the main reasons of why organizations participate in voluntary CSR disclosure.

2.4.5 STAKEHOLDER THEORY

From the midst of the 1980's Stakeholder theory has gained a lot of traction between CSR theorist and practitioners. It is a theory that advocates for a plural and dynamic model of the organization. From its early representations the Stakeholder approach has been used not only to describe the relationships among Businesses and Society, but also to generate strategies or guidelines to the behavior of modern corporations.

The origin of Stakeholder Theory can be located around the 50's and 60's and it is originated in societal concerns, and was an attempt to redefine organizations from the profit maximizing entity into a concept that included the social performance. In a mature market where the protagonists have learned to soften or even eliminate some of the uncertainties of free commerce, society has generated claims that create obligations that overcome the objective of profits.

The term stakeholder was firstly coined in 1963 in the Stanford Research institute, who defined Stakeholders as "those groups whose continuous support allows the existence of the organization" (Freeman, 1984). The Global Reporting Initiative[22] (GRI) defines stakeholders as those entities or individuals, that can affect the activities, products or services of the organization in a significant way, and whose actions can also affect the ability of the organization to develop and execute successful strategies to obtain its objectives. This definition also includes the entities or individuals whose claims to the organization are supported by law or multilateral accords. Freeman's (1984) definition of stakeholder, which is arguably the most popular definition of the term, expands the concept by stating that Stakeholder is *"any group or individual who can affect, or is affected by the achievement of a corporation's purpose"*

Depending which scholars we choose to follow there is a different typology for stakeholders, but the most basic one, is the one, which draw the line in the wall of the organization, distinguishing between Internal and external Stakeholders (Mitroff, 1983). Among the internal stakeholders we can find the managers, workers, shareholders, while the external stakeholders may include the government, clients, local community, environment and international community.

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[22] *See http//www.globalreporting.org*

The second typology of stakeholders comes from the idea that it is necessary to consider the relationships between the corporation and society as an interactive system, whereas Freeman[23] propose we have to distinguish the power and ability that different groups of stakeholders hold when affecting the decisions and operations of the organizations, in this sense we can differentiate between primary and secondary stakeholders. The Primary stakeholder group includes all direct relationships necessary for the survival of the corporation, and to accomplish its most important mission of producing services and products for society and profit (workers, shareholders, suppliers, clients, investors, vendors and competitors). Secondary stakeholders are the ones that influence, or are affected by the impacts of byproducts of the mission or primary function of the organization (local communities, local governments, foreign or host governments, social movements, mass media, general public and or supporting groups among others).

Table 2.5 Typology of Stakeholders

Type of Stakeholders	Denomination	Characteristics
Internal	Owners and Stockholders	They have an economic stake in the organization, this include institutional or individual stakeholders, ownership programs for employees. Stockholders that are looking for profitability in the short term can be considered as external stakeholders.
	Employees	They work for the corporation and they are bind and protected by labor contracts. This include upper management and blue collar and employees represented by union agreements

[23] In his article *"The Stakeholder Theory of the Modern Corporation"*, or in his book *"Strategic Management: A stakeholder approach"*. Boston; Pitman, 1984.

External	Clients	Consumers and or users of products and services. This group is the main object of the economic activity of the organization
	Suppliers	They provide labor, products and services, without pertaining to the organization, occasionally it includes workers or professionals that charge their services to the organization but they are not bound by the same labor contract as employees.
	Competitors	Corporations of the same sector that offer products and services similar to the products and services offer by the organization.
	Social Agents	Interest groups and audiences that can influence the management of the corporation. It includes consumer unions, industry organizations, Opinion groups, NGO's, mass media etc.
	Public Administrations	Autonomous governments and their agents, Local administrations, with the authority to dictate the legal framework in which organizations work
	Local Community	Group of entities, public or private from the local community: religious groups, neighbor association, political parties, etc.
	Society and General Public	Individuals, organizations and consumers in general that despite not having a direct relationship to the organization still can influence it.
	Environment and Future generations	Physical and natural environments and resources including all natural resources and cultural and artistic heritage.

Source: Own elaboration

Although Freeman's seminal work (1984), recognizes the importance of stakeholders, and was central to the theory, Donaldson and Preston (1995), have the distinction, of having ground this theory by formulating a three part classification of stakeholders theories: descriptive, instrumental and normative.

Descriptive Stakeholder theory defines corporations as a network of cooperative and competitive interests ruled by the intrinsic values of the organization. Instrumental Stakeholder theory implies that it makes a connection between the organizational objectives (*i.e.* profitability), and the stakeholder's interests.

Instrumental theory tries to simulate the outcomes of different courses of action and their impacts on stakeholder behavior. Lastly Normative theory generates guidelines for corporations based on moral appropriateness or empirical experience.

Agle and Mitchell (1997) propose that managers deal with stakeholders, based on a hierarchy or evaluation of what they defined as the three main characteristics of stakeholders: urgency, legitimacy and power. Agle and Mitchell argued that the combination of this three elements determine the amount of attention that managers will allocate to a specific group of stakeholders. The power of stakeholder comes from their ability to mobilize social or political action, as well as their ability to withhold resources to the firm. We have already discussed the element of legitimacy in previous sections of this chapter, but the element of urgency depends on the time sensibility and importance of the stakeholder claims.

These three characteristic of stakeholders (Urgency, legitimacy and power), can be present at different levels, if a group or individual possess at least one of the three, then it becomes a latent stakeholder to the organization, if the stakeholder has two of the attributes then it becomes an expectant stakeholder, and a definitive stakeholder if possesses all of the attributes. This hierarchy would determine the stakeholder's prominence or salience (Agle and Mitchell, 1999).

The central benefit of stakeholder theory is that it values the importance of stakeholders and tries to asses and addresses the importance of these interest groups in the everyday decisions of the organization, furthermore gives a context to explain CSR theory and the rationale for disclosing sustainable information and other non-financial reporting. The stakeholder approach not only describes the existence of situations or cause-effect relations, it also recommends procedures, behaviors, structures and practices that conform "Strategic Stakeholder Management". Developments in Stakeholder Theory have enriched the discourse of management theory in many fields such as codes of ethics, decision-making, corporate governance, auditing, etc. What should be clear is that the analysis and knowledge of stakeholder groups is essential for the future of the organization. The environment of the organization changes and it is necessary to maintain equilibrium, for that it is important to know the claims of the different publics and how can they react to the decision taken by the organization.

2.4.6. TYPOLOGY OF SOCIAL RESPONSIBILITIES

Based on the previously exposed typology of Stakeholders, we can classify Social Responsibilities and their importance to the organization. This classification is independent to that exposed by Carroll and his pyramid model, and will help in the evaluation of a particular CSR program or activity and its importance to value creation, both for the organization and stakeholders.

1. **Primary Internal Responsibilities:** Responsibilities that are intrinsic to the specific activity of the organization. To not give appropriate responses to these responsibilities that are inherent to the core business of the organization, could pose great danger to the survival of the organization

(i.e. environmental responsibilities for corporations in the extractive industries, or product and quality responsibilities in the food or pharmaceutical industries).

2. **Secondary internal Responsibilities:** The activities related to these responsibilities consist in an improvement of the effects, resulting of the impacts of the specific activity of the organization to those interests groups that are interdependent to the organization; these measures should exceed those dictated by the current legislation (*i.e.* providing access to suppliers run by minorities).
3. **External Tertiary Responsibilities:** These responsibilities extend to activities of the organization, which have the objective to improve aspects of the social and environmental spheres that go beyond the business specific activities (i.e. cultural and sports supporting activities for the energy industry).

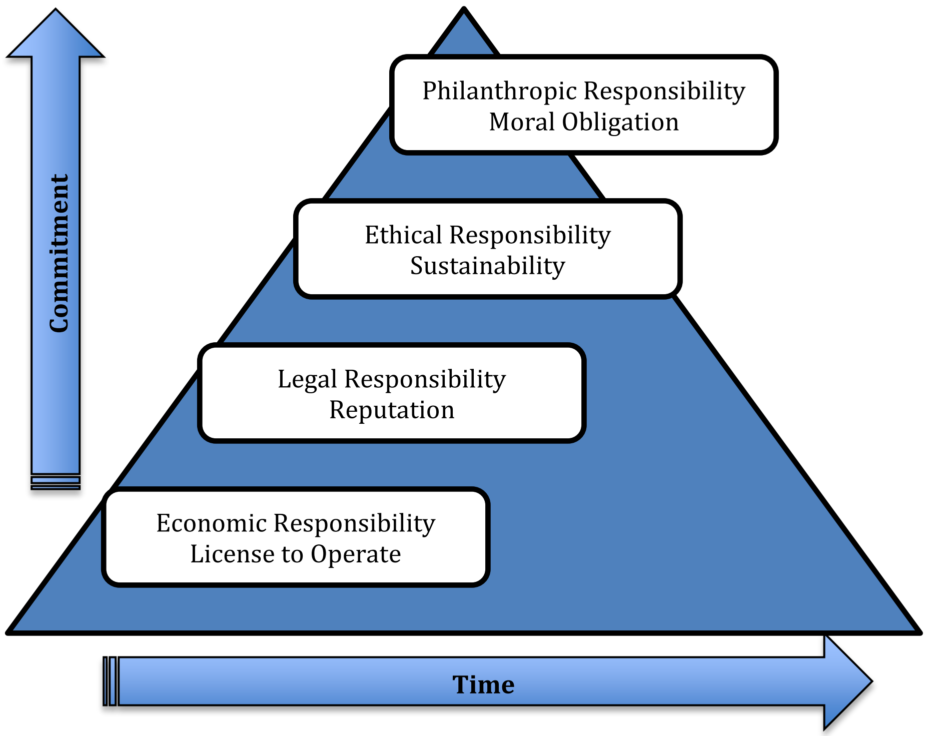
Sometimes the limits between those responsibilities is not easy to established, when the prominence of social responsibility claims is not clear, the best way to adequately asses the saliency, is to analyze every situation independently and debate it with the relevant stakeholders.

2.5 LEVELS OF COMMITMENT TO CSR

To explain the deepness of commitment in which an organization can engage in CSR, we are going to bring back into this discussion Carroll's pyramid model (figure 2.1), as we mentioned before at the beginning of this chapter, this retooled Maslow's hierarchy of needs has been used to explained the rationale behind CSR activity.

As we know Carroll's model (1999), presents a hierarchy of four levels of responsibilities: economic, legal, ethic, and discretionary[24]. We can look at this model also as a picture of the evolution of the CSR philosophy of an organization, as it becomes more and more entangled to the corporation's core philosophies, each level of Carroll's pyramid corresponds to an objective or a need that the organization needs to fulfill (Figure 2.2).

Figure 2.2 Level of Commitment to CSR



Source: own elaboration

[24] *See "the pyramid of Corporate Social Responsibility: Toward Moral Management of the Organizational Stakeholders" (1991), and "Business & Society. Ethics and Stakeholder Management" (1989).*

The first level of the pyramid is represented by the *Economic Responsibilities*; economic claims are the first kind of claims that the organization needs to respond to, the primordial obligation of the organization is to produce goods and services and profit from the commerce activity. This first level of commitment corresponds to the business case of CSR or the need of a "license to operate". It is arguable how first practitioners of CSR are attracted to the practice, because of benchmarking, or even because it becomes a sensible issue to a salient stakeholder group, and therefore critical to the organization, in other words the first motivation that an organization has to commit to CSR is because it makes business sense.

The second level is occupied by the *legal responsibilities*. The moment the corporation has obtained the license to operate by assuming a roll in the economic system, the corporation must also fulfill its obligation as part of the contractual parties of the social contract. The corporation must follow the behavioral and pragmatic rules dictated by the law. Legal responsibilities reflect a vision of corporate conduct based on "Ethic Codes". Is the way the organization abides to the claims of society's morality expressed by legal codes; If the organization does not abide to the rules dictated by society the corporation would lose its standing in society, in other words, the organization would see its "reputation" tarnished.

According to Carroll's description (1999), *Ethical responsibilities* correspond to all those activities and practices that are expected or prohibit by members of society, but are behaviors that are not regulated by the law. It comprises norms, standards or expectations from clients, workers, stockholders and the community. It is the need of the organization to uphold the rights of the Stakeholders.

Ethic or moral values pre-date the establishment of the law (i.e. civil rights, environmental regulation, and consumer movements, have been reflected in changes in posterior legislation). These responsibilities can be considered as a projection of society's expectations, always considering that they lead to a higher level of performance, than that which is required by law. In this sense ethic responsibilities, are commonly under the public eye, but not always being explicit, which pose a challenge to the organization. When an organization evolves pass the point of profit making or being bound by law, the corporation starts to reveal its real values and concerns for the improvement of the quality of life of its members and society in general; in other words the search for sustainability.

According to Carroll, voluntary or discretionary responsibilities, may not be the most appropriate denomination for this group of responsibilities, but the important issue is that these responsibilities are guided completely by the own values and discretionary collective thinking of the organization. These activities are not pushed onto the organization by the expectation of stakeholders or the law, as its denomination states they depend completely of the desire or choices of the government of the organization. These activities are guided by the values of the organization and their owners' concern on social activities, and generally are not expected of the organization because of their voluntary nature.

According to Carroll the main distinction between discretionary and ethic responsibilities, is that the former are not expected or demanded in any moral or ethical context. Communities want businesses to contribute with their money and work in humanitarian or environmental programs, but they don't consider businesses that don't participate in this activities as unethical.

In Carroll's CSR pyramid, Economic Responsibilities have a prominent position, when compared to the other responsibilities in the hierarchy, the author states that corporations are before all the basic economic entities of society. In this respect businesses have the responsibility of producing goods and services that society want or needs, and to gain some benefit from the exchange of this assets. Every other roll or interaction of businesses is based or derived of this basic idea, in other words, of the economic activity and the Economic Responsibilities derived from it (Carroll, 1999).

Business benefiting and prospering from the economic gain of their main activity is also something that society expects from organizations, as part of their efficient management; but society also expects that the organization follow the law. The Law represents the *'rules of the game'*, and this is why these expectations are reflected in the second level of responsibility that must be observed by the organization.

The highest levels of Carroll's Pyramid represent an effort to define the nature of the responsibilities that extend 'above' the behaviors and norms that society expects from businesses. Those responsibilities or efforts by the organization are the true object of CSR.

Figure 2.2 represents a ladder within the pyramid, as time passes and conviction and commitment in the organization grows, corporations increase CSR efforts. With increased commitment to CSR businesses also refined the strategic use of philanthropic or sustainable activities, pursuing higher results or objectives, from the lower levels where corporations satisfied objectives that promote their economic activity, to the higher discretionary level where organization contribute to the future of society by being sustainable.

The four level of the responsibility hierarchy model proposed by Carroll also consider corporate action. In other words the second face of Carroll's model is *corporate social responsiveness*. In order to analyze the responses of organizations when facing these responsibilities, Carroll makes use of the system proposed by Wilson[25], according to him corporate responsiveness to social responsibility can be categorized in four ways: reaction, defense, accommodation and pro-action. These four categories allow us to understand corporate responses to the issues presented in their environment.

Figure 2.3 shows the typology of corporate responsiveness, and the level of preparedness and engagement of the organization. Several writers provided a

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[25] *C.f. Regarding the definition of the four types of responses of an organization to their social responsabilities: reaction, defense, Accommodation and Proaction, J. Wilson. "What One Company is Doing About Today's Demands Business" in G.A. Steiner (ed.), "Changing business society interrelationships. Los Angeles, Graduate School of Management, UCLA, 1975.*

conceptual idea to describe corporate responsiveness (Wilson, 1974; McAdams, 1973; Davis & Blomstrom 1975).

Corporate social responsiveness in the past was considered and discussed as an alternative to CSR, but in is been accepted that it is "the action phase of management responding in the social sphere" (Carroll, 1979); social responsiveness allows the organization to face the social responsibilities. While CSR has moral and ethical undertones, social responsiveness is only concerned with the managerial process of responding to the environmental pressures.

Figure 2.3 Social Responsiveness Categories

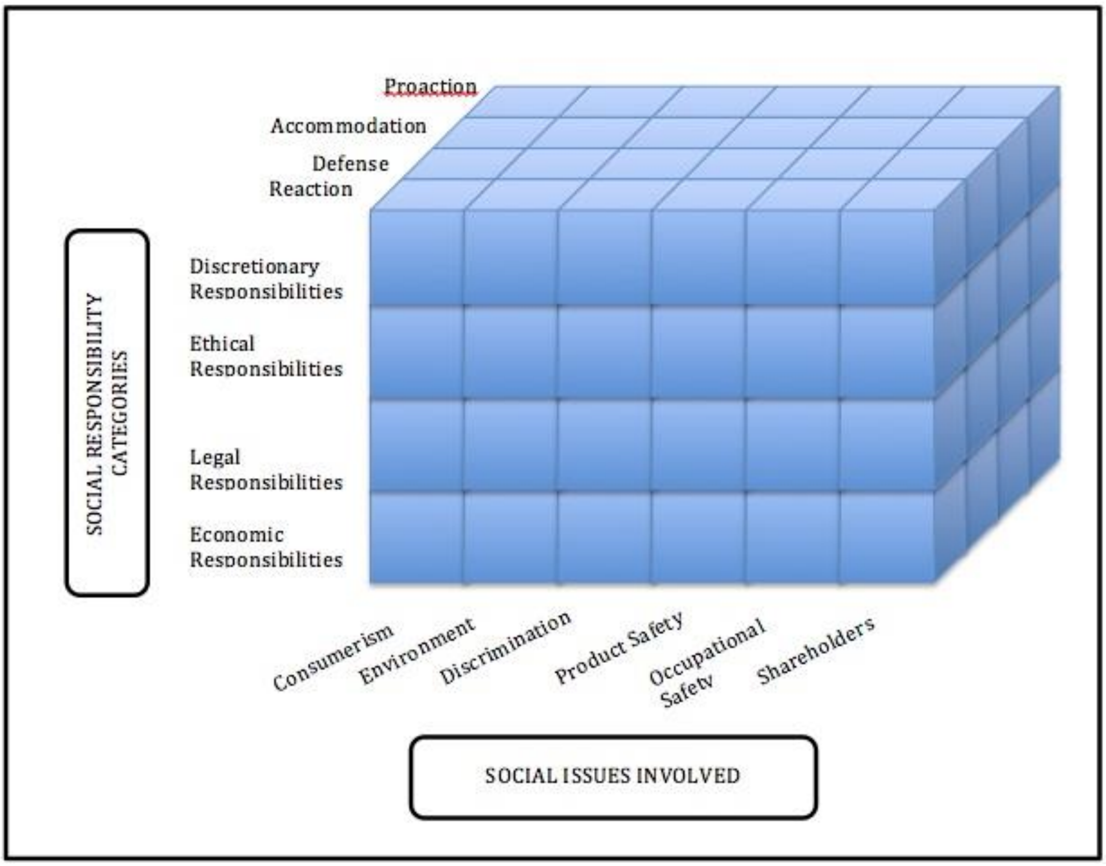
I. Wilson	Reaction	Defense	Accommodation		Pro-action
T. McAdam	Fight all the way	Do only what is required	Be Progressive		Lead the Industry
Davis & Blomstrom	Withdrawal	Public Relations Approach	Legal Approach	Bargaining	Problem Solving
Do Nothing					**Do Much**

Source: Carroll (1979).

The third element of the model is the externalities or issues that the organization has to face, and give a social response to. This side of the model must be carefully assessed by the organization; every business should identify its stakeholders and the important issues that are relevant for its plans of corporate social performance (CSP).

Before his model was simplified as a pyramid, Carroll developed a complete three-dimensional model that conceptualized the philosophy of Social Responsiveness. The social responsibility issues of Consumerism, Environment, Discrimination, Product Safety, Occupational Safety and Shareholders, presented in figure 2.4, are not common for every organization, but are used just as illustrative examples.

Figure 2.4 Social Responsiveness Model



Source: A.B Carroll. "A Three-dimensional Conceptual Model of corporate Social Performance", Academy of Management Review, Vol. 4, 1979 p.503.

As we can appreciate the *social issues involved* are those claims that society impose to the organization and require a response from the corporation's management (*corporate social responsiveness)*. The use of this model is intended for both academics and practitioners, what this model suggests is that when one contemplates CSR, social responsiveness is one aspect to be consider when evaluating CSP.

This model is useful from the academic side, because it assist theorist in a conceptual analysis of both CSR and Corporate Social Responsiveness. From the practitioners or managerial standpoint this tool is beneficial for situations in which a diagnosis of the CSR policies and plans are required. As stated by previous definitions of the concept CSR is the commitment and effort of an organization to the solution of social or environmental problems, assuming responsibilities beyond those dictated by the law, the present model proposed by Carroll can help locate the current CSR strategy in the matrix and evaluate also the position of companies in the same industry determining the commitment to CSR as a global strategy. Figure 2.2 “Carroll’s pyramid” is a representation of the natural progression of business that decide to follow the path of CSR, it is arguable that corporations that are new practitioners of CSR will lack the commitment and the experience to be in the top of Carroll’s pyramid, consider this with the exception of corporations which social reason or operation is a sustainable activity such as environmental organizations or NGOs that deal with social issues as their main core activity. We suggest that as time passes and organizations gain experience and reach the benefits of being sustainable, managers and owners will integrate CSR strategies in their normal operation gradually increasing their commitment to social responsibility.

2.5.1 ARGUMENTS AGAINST CSR

We have presented the argument of the Classical and Neoclassical view of CSR, where it is considered that the responsibility of the organization is to make profits. From this point of view the organization is conceived as a group of material and human resources, organized in an efficient manner to produce and distribute goods and services that are demanded by society. When we are discussing strategy and objectives of the corporation, the objectives of the organization are the maximization of value for the owners. Agent theory identifies managers as agents of the owners and therefore with the obligation to do their bidding and increase profits. Many adepts and defenders of CSR have denounced this position, but if we have learned something from recent financial crisis is that this is not actually wrong, when considering Carroll's pyramid, we placed economic responsibilities in the base of the pyramid, in order for an organization to be socially responsible, first an organization has to survive. And surviving in an open market means above all being profitable. In addition adepts of this school of thinking, oppose the immersion of the organization into social grounds, based on Jean-Baptiste Colbert's premise '*laissez-faire*', and Adam Smith's idea of the invisible hand. The proponents of this idea considered that, as free market requires the non-interventionism of the State, private businesses should not intervene in social and environmental issues that were the subject of political power and Public Administration, church and other social organizations that already have that social function (Lipschutz and Rowe, 2005).

In this sense Classical and Instrumental Theory affirm that the moral considerations are foreign to the organization, based on the following principles:

1. Businesses are not people, but entities with an artificial legal personality. And moral can only be expected in individuals.
2. Legal codes dictate and define the roll of "agent" of the members of management, and gives responsibility to the directors of the business over administration of the assets and patrimony entrusted by the shareholders. In this sense the Organization should not follow moral interests, in detriment of profitability.
3. We cannot expect that the organization increase its responsibility to the extreme. The profitability and the good financial health of the organization are and should continue to be the categorical objective of organizations.
4. The Leaders of an organization are not democratically elected representatives of society, nor have they been given the authority of being guardians of morality. Therefore lack the power or the ability to dictate social or ethical directives. By enclosing the activities of the corporation to the economic field, the power of the managers are also kept in the right context
5. The power, size and scale of activities of modern MNEs are a force to consider, it would be socially dangerous to free this power, from the demarcation of the market, in which moral protagonists are almost absent[26].

[26] C.f. K. Davis,(1973), "The case for and against Business Assumption of Social Responsibilities", *Academy of Management Journal*, pp.320-322.

6. There is no need to have moral responsibility at a corporate level, outlining the responsibility and ethical behavior of individuals is more than enough. Ultimately business ethics depend on the honesty and integrity of each person.
7. The concept of moral responsibility for the corporation seems to overlap with the economic ideas of the “invisible hand” of the market and the “visible hand of the government”[27]. Businesses have always had in mind the interests of society, by considering their relationships with clients and general public as part of their decision process.
8. Private corporations lack the knowledge and the skills necessary to take charge of social problems. Businesses interests and structures are designed for economic profit and production of goods and services, not to take social decisions.

This group of critics has been one of the most difficult to counter argument, because promotion of socially responsible practices must adapt to reality. Is undeniable that the movement of CSR is being affected by the recurrent Crisis. It is impossible to continue with the traditional idea of the early CSR models, which argue that corporations should engage in CSR just because it is the right thing to do. In other words society, managers and scholars may have reach the understanding that CSR serves a higher humanitarian purpose, but it is also necessary to understand the realities of business and markets, the realities of the competitive pressures. It is necessary to promote the CSR benefits for practitioners, without financial viability we don't have businesses, and without

[27] Davis, K. (1973). *Op. cit.*,

businesses society will suffer (Vives, 2011). Nevertheless it is clear that responsibilities such as product responsibility, customer service, fair traits with providers, create employment, fair salaries and train and promote employees, reduce waste among others, constitute measures that improve productivity in the long term representing sources of profit.

Regarding the claims that private corporations should not have responsibility over society's problems, we mention before that organizations are responsible to society, not for it. Among these claims we can also find the fear of overreaching power and influence of organizations, and that it is better and safer to limit the influence of the organization to their economic fields; but recent economic events have also teach us, that it is too late to limit the influence of MNEs and Financial institutions, which individual actions can de-stabilize whole economies such as in the cases of Enron or Lehman Bros (Calderon, 2011b). In our days it is unhealthier to free organization from the moral or ethical responsibility. Moral rationale is not particular of individuals, it is a social convention, further more as such, it is a collective construct; in this sense codes of ethics, organizational principles and corporate philosophies are similar, and they do and should dictate the corporate behavior.

We can argue that business have 'moral conscience' in the sense that they have a collective personality, business have intentionality and the ability to make rational decisions, which is evident by the presence of structures and rules for the decision making process. Therefore the corporation and its management as a whole are responsible of the decisions taken and the resulting developments.

These characteristics make the responsibility of the organization unavoidable, for its decisions and their consequences of their operations, and therefore of the social consequences resulting of these activities even when they are not expressed by the current legislation. Law is an imperfect system because society is always evolving, and current morality is not always the valid morality.

Friedman is right when saying that the leaders of the organization have not been elected by political or democratic means, what cannot be denied, is that there is a distinction between the public (which affect everyone as citizens), and the political (which rest in the structure of the State). But it is also true that there is a social and moral context that the business must respect, and that cannot be replaced by jurisdiction when dictating the moral judgment of the organization. We cannot separate the economic, social and moral concerns when we analyze the decisions of corporations. The intentional decision or the inaction, when exercising the influence of businesses over social, environmental, or economic issues is in itself a moral decision.

It is debatable that the second most raised claim against CSR, as a discipline is the lack of a consensus on the definitions of Corporate Social Responsibility. But we have analyzed this at length in the present Chapter, and learn that the lack of a common definition or even a common denomination is due to a lack of understanding of current definitions or academic protagonism. If we analyze the elements of several definitions we, end up with a repetition of common elements

(Stakeholders, Social, Voluntariness, Environment and Economic dimension)[28]. We consider that we have already exhausted this topic; nevertheless Sustainability may be the term that an increasing number of managers and academics are choosing to replace CSR, and it may be a correct choice, as it reflect permanent concern over society and the environment, but we consider that the merits of CSR lay in its ability to include the management theories that aid the birth of the discussions on corporate ethics and morality, concepts and theories such as, Corporate governance, Codes of Ethics, Stakeholder theory, among others. I may close this section by reminding that the concept is a clear one, and the importance of its message is also clear for academics and practitioners, and it is not without merit that the discipline has gained the following and relevance that it has today.

2.5.2 ARGUMENTS IN FAVOR TO CSR

The arguments in favor of CSR activity are based in the Social Contract and Legitimacy Theories, according to these theories; the principle of legitimacy is based on the idea that Society determines the nature and reach of the moral and responsibility of its constituents. As we mention before the terms of the social contract are also changing, and it is society who revokes the power of organizations if it considers that the business' performance is inadequate. Therefore we have a counter argument to instrumental theory and Friedman's principle coming from different theoretical fronts. The common idea among the theorists that defend this model of businesses is that they believe that corporate

[28] Dahlsrud, A. (2008); How Corporate Social Responsibility is Defined an Analysis of 37 Definition.

behavior is only legit if it serves the aspirations and purposes of society (Uyl, 1984).

The principal argumentation in favor of Social Responsibility has come from the instrumental approach. Based in rational reasoning, it is affirmed that CSR practices have clear benefits for business, in the long term as in the case of any other investment. Adding to the benefits proposed by Schreck (2009) that were previously exposed in the section referring to the Instrumental theory in point 2.4.3, we could list the following benefits to organizations at the internal and external level:

At the internal Level:

- Cost reduction opportunities from efficiencies resulting from practices which promote cultural, environmental and social concerns (So called eco-efficiency[29]).
- Protection and efficient use of the human and environmental resources, which represent the sustenance of the organization.
- Anticipate, and minimize the risks and associated costs, such as loss of reputation and economic impacts associated.
- Anticipation of the demands of clients, expectative of market participants and future legislation.
- Obtain license to operate in new markets.

[29] "Eco-efficiency involves finding ways to increase energy and materials efficiency of operations and product creation activities so that output per unit of energy or materials increases. Generally this term is understood to include energy efficiency, materials use efficiency, recycling, waste reduction, pollution reduction, and the development of by-products industries (Madden *et al.* 2006).

- Product differentiation of social and environmentally responsible products from those of companies that have not adopted such philosophies.
- Attracting and maintain a motivated workforce.
- Protection and improvement of the reputation in relation to stakeholders.
- Promote innovation, and quality improvements via the creation of eco-efficient products and processes.
- Improve relations with stakeholder groups

At the external level:

- For Investors: Allow investors to allocate resources in ventures that match their own values, with the expectation that more responsible companies will constitute better investments.
- For Consumers: consumers and other components of the value chain, allow them to choose products, services or corporations, based on the evaluation of social and environmental credentials.
- Public Authorities: CSR practices make possible the fiscal incentives to socially responsible corporations. Alleviates some of the pressures caused by the social issues it attends.
- Other businesses, in the value chain: Promotes cooperation through benchmarking, and the exchange of experiences in industry relations.

Other theoretical arguments in favor of CSR and Corporate Ethics are derived from philosophical tools, social norms and religious principles. The CSR principles of any organization are also a result of the social context.

Organizations and the individuals that integrate them must behave in a socially responsible way because that is the morally correct thing to do, even when it may incur in inefficient costs.

2.5.3 REASONS WHY AN ORGANIZATION ENGAGE IN CSR

To respond to the critics and concerns of late adopters of CSR, and better argument the reasons as to why an organization should engage in CSR, we may just need to examine our own individual private life, as members of a family, and in professional and public life. Why shall we as individuals be ethic? Why shall we limit personal gains with critical thinking from our own behavior? Organizations don't operate in closed environments, they operate in an open system context, in which they have interactions with different groups of Society or stakeholder groups (Katz and Kahn, 1966) that have some expectations and requirements, in the same way as family, friends and other members of society have from the individual.

In sum we consider there are three main arguments for an organization to be socially responsible: the profitability argument, peer pressure, and the argument of excellence. We have already analyzed the profitability reason, which states that CSR creates value for shareholders, creating economic benefits in the long term. CSR as a competitive advantage and strategic nature, have been widely discussed (Visser 2008; Schreck, 2009; Lantos, 2001). The problem of this thesis is that even when most academics support the positive relation between CSR and Financial performance (Carroll and Shabana, 2010), a direct relationship between Corporate Social Performance (CSP) and Corporate Financial Performance (CFP) is yet to be generally accepted[30].

Nowadays profitability of a company is strongly related to the power and success of its brand. The reputation of a brand has impact on sales and market position. There are some studies analyzing the relationship between CSR Activities (mainly environmental and Social) and Corporate image (O'Brady 2005). Nevertheless previous studies have failed at finding a positive relationship between social responsibility and financial performance see (Schreck, 2009). This was mostly due to the complexity of the problematic. The nature of the relationship between CSR and financial performance is more complex than simply a correlation between a set of variables. A more recent methodology emphasizes the use of the concept of strategic CSR, which is useful because it provides opportunities to measure the outcomes of CSR in a broader context than simple correlations between philanthropic contributions and profits (Rowe and Lipschutz, 2005).

The second argument is 'peer pressure', with the evolution of CSR, coming from an innovative practice to the mainstream and a whole reporting industry as a derivate, there is a hidden side to CSR, it is arguable that for many publicly traded companies CSR is a required practice, some academics like Valor (2008),

[30] Griffin and Mahon (1999) presented a meta-analysis of studies exploring the relationship between Corporate Social Performance (CSP) and Corporate Financial Performance (CFP); they concluded that the CSP- CFP relationship was a positive one, and that inconsistencies of results in previous empirical studies may be the result of methodological differences. Roman *et al.* (1999) made a similar study with inconclusive results. A recent study by Calderon (2011) also found inconclusive results between CSR information disclosure and Financial Performance.

also argue that CSR reporting should be obligatory[31]. CSR cannot only be required by legislation or social pressure in the form of negative incentives, such as boycotts or bad press; positive incentives are commonly used in the shape of awards, and recognitions. Perrault and Clark (2010), consider that financial institutions have played a big part in disseminating standard CSR practices, as social and environmental performance is recognized as a real business management risk. But the authors also identified the problem of this approach; more disclosure does not necessarily mean better disclosure or better CSR programs. The problem with compulsory CSR practice is that it creates a result-oriented philosophy, which also creates an incentive to ignore values in favor of results.

This view implies that CSR is an imposition to the organization, a cost, that has to be minimized, and that would be avoided, whenever the burden presents to heavy (i.e. in times of financial crisis). If CSR becomes law, organizations should comply, but then it wouldn't be Social responsibility anymore, it would become legal responsibility, and then there would be no incentive to do more than what it is dictated by the law (Argadoña, 2009). Nevertheless, we agree that some basic social and environmental responsibilities should be of mandatory compliance, obligations such as human and civil rights.

The final argument for an organization should be the argument of excellence; a director or Leader of an organization, should choose to be socially responsible,

[31] Valor (2008) considers that "policy makers empower consumers by providing them with more information through mandatory reporting on social and environmental performance and the development of CSR label".

because it is his moral duty, or in other words, because it is the right thing to do. A manager must give fair trait to his employees, must be responsible to his clients, and must protect the environment, because it is his duty. The option of not being socially responsible as a business owner or a manager is also the option of being a bad manager or businessman. In this sense there is no particular answer as to what are the limits of the duties derived from social responsibility. The leaders of the organization should ask themselves in every particular case, and pondering the variables of their social contexts: What is it expected from them, and from the organization? The answer to this question would define their particular social response and the judgment of society and stakeholder would determine if it can be considered responsible or not.

The leaders and policy makers must embrace the nature of the motivations that lead them to the path of CSR:

- Profitability: The organization should carefully evaluate the costs-benefit relationship of being socially responsible, CSR activities may not always have a positive balance
- Social Results: if policy makers want to ensure social results, the best approach is to generate legislation or policies, but they must do their best to foresee the unintended consequences, including the incentives for those who may choose not to follow it.
- Improvement of persons and organizations: When profits and laws are not the answer, we should educate people so they strive for excellence, and then we will have socially responsible companies and individuals.

A good corporation, an excellent corporation, exercises his ethical responsibilities; we cannot consider a corporation as a good company, based only on elevated profit, good stock price or reputation (Argadoña, 2008). A socially responsible organization has other vision of the world and its problems; a responsible organization will always pay attention to the consequences of its decisions and over the people (directors, clients, suppliers, members of the local community, society and future generations) and the environmental dimension. A socially responsible organization will consider consequences that will not be evident to others, consider things that would reduce profitability in the short term, but improve the consistency of its policies and actions, the implication and trust of stakeholders. This mindset of the organization will set the organization apart as it opens a new set of opportunities and decisions that strictly profit oriented organizations ignore and close other as immoral decisions setting a completely new strategic path for the business.

This is not but a simple explanation of what makes a socially responsible corporation different, but the consequences are plenty and very relevant. For example, if an organization is ethic, it will not choose courses of action that are not ethic, and therefore evaluate things in a different manner while non-ethical corporations will choose differently and mistakenly, may just consider immediate profit, choosing strategies that may be negative in the long term.

If when evaluating a decision it comes as immoral, it is evidently a wrong decision, the key point of ethical values is their power to solve the dilemmas between self-interest, and the interests of others, between egoism and altruism, being ethical and having values is the best option, not only for others, but as the altruistic economic theories state also for the individual (Zamagni, 2006).

CHAPTER 3: CORPORATE SOCIAL RESPONSIBILITY AND FINANCIAL CRISIS

3.1 GLOBAL FINANCIAL CRISIS 2008-2012

The current financial crisis is the result of a chronic chain of imbalances that are affecting the economy at a global scale, imbalances that where originated in the U.S. financial system and that have constitute proof of the interdependency of financial markets, affecting the socio-economic climate of different countries during the past decade.

Experts compare the 2008 crisis to the Great Depression as a reference to the actual situation, but we must remember that in the first years of the last decade Asian Economies had already experience an economic debacle that impacted the global financial system. The Asian Crisis is also analog to the recent crisis in its origins, as the Japanese housing market played an important role at the time[32]. Terms such as real state bubble, rescue plans deflation where concepts associated with the Asian Crisis that seem unfamiliar to U.S. and European economies. Credited scholars, such as Nobel Prize winner Robert Lucas, went so far as to state that 2003 signified the end of these economic cycles, representing the time of long term economic growth (Krugman, 2009).

[32] バブル景気, baburu keiki, literally "buble economy". Charachterized by an economic instability caused by increasingly high valuations of real state property, until housing and other assets reached unsustainable levels, and therefore an inevitable sudden decline. Which also prompted the default of financial instrument tied to these assets.

The 2008 GFC, in a similar way, was the result of a combination of factors, the increasing globalization and interdependency of financial markets, escalating interest rates, excessive liberalization of financial markets, and low liquidity of the banking system as a result of the U.S. subprime mortgages meltdown (FCIC, 2011). Fernandez Feijoo (2009) also cites the following factors as conducive to the 2008 GFC: An uncontrolled growth period (2000-2007)[33], the price changes in the oil markets, the developments in some currency exchange rates and global reserves, while the main economies of the world, namely U.S. and the European Nations tightened their monetary policies.

March 2007 marked the beginning of the crisis, when in United States, the subprime mortgages showed the first signs of failure due to the reduction of sales in the housing market[34]. In April of the same year New Century Financial Corporation filed for bankruptcy protection, raising red flags and speculation in the housing market, from this point forward, a chain of events that culminated in the GFC had begun. By May it was clear that market deceleration would affect the growth estimates of the then strongest economy, the U.S. economy.

By the end of the year several important players of the global financial market announced important losses or filed for bankruptcy; but the crisis reached full status when the investment bank Lehman Brothers itself failed for bankruptcy

[33] According to Feijoo, and based on data of the World Bank the accumulated growth of the 2000-2007 period was comparatively greater than that of the 90's.

[34] The largest homebuilder in the U.S., D.R. Horton, announces a $128.8 million loss due to the Subprime mortgage meltdown. Sales of new homes fell 28% during the first period of the fiscal year of 2007. (Op. Cit. D.R. Horton Narrows Loss; American Banker;2/4/2009, Vol. 174 Issue 23, p6.).

due to losses suffered in the mortgage market. The U.S. reserve announced a rescue package to save American international Group (AIG) while the assets of the biggest savings bank of the U.S., the Washington Mutual where sold. [35]

Faced with this situation, the government of the United States started a 700, billion dollars bailout package, to prevent complete financial meltdown. This initiative was opposed and highly questioned in the in the U.S. Congress, opening the political debate on the neo-liberal ideology, in which the State's intervention represents a problem rather the solution, while at the same time making the failure of the system completely evident.

Nowadays, it is practically impossible to isolate local economies from the global context; in reality we now experience the highest grade of interdependency in the economic activity. This is a symptom of the Globalization effect that has generated synchronic economic cycles. This makes it difficult to restart a local economy, with the financing from economies in a different state of the cycle, as traditional economic models suggested.

States and economists know that when facing an economic collapse such the one we are discussing, they must act by fighting economic recession by increasing liquidity with money injections (Krugman, 2009). Empirical experiences drawn from the Great Depression, demonstrate that Central Banks injecting liquidity into the economic system, are necessary actions to reduce the effects and

[35] Annex I presents a detailed timeline of the events of that originated the GFC.

duration of economic recessions. But the 2008 GFC has been characterized by an unprecedented lack of transparency, which has prevented the correct valuation of the default assets.

Economic theory indicates that due to elevated uncertainty when evaluating market risks and asymmetric information, it is evident that all markets have failures that can be translated in deficiencies and excesses. The only entity that can put a limit to such excesses is the state; the state must dictate the rules of the game and enforce such rules. Because once again it has been proved that markets do not conduct auto regulation in an efficient way, and in the long run, do not evaluate costs of not having auto regulation. This is what Rodrik (2009) denominates as the paradox of globalization: *"The more perfect Globalization gets, the greater the political and economic imperfections in the real world",* because of that we need a globalization model that recognizes this limitations and at the same time promotes policies to solve the concrete problems that exist in a particular territory.

The lack of transparency, the mechanics of the subprime mortgage market and the excessive liberalization of the financial market opens the questions: Could social responsibility have prevented the GFC? Could ethical and moral corporate behavior in the financial market make a difference?

3.2 COULD CSR HAVE PREVENTED THE GLOBAL FINANCIAL CRISIS?

The 2008 GFC had left us with many lessons for CSR. We can start by the fact that journalists, academics and experts coincide that the 2008 crisis was caused by a lack of responsibility, specifically in the cases where corporate greed ran unchecked due to failures in the governance sphere. To understand how the subprime mortgages collapse was an ethical issue, we need to have a look into the mechanics of these instruments to see how the financial operators in an attempt to maximize profits re-packed these high risk mortgages into financial instruments that offered disproportionate profitability with regards of the apparent risk.

Following the 2002 stock market decline, the U.S. Federal Reserve Bank lowered the interest rates form 6.5% to a 1% in 2003, in order to prevent a recession. With interest rates on a historic low not seen since 1961[36], financial institutions and borrowers alike felt compelled to find something to do with this cheap surge of credit. From the financial institution's perspective the market was shrinking, giving credits at lower rates. Being weary of the recent stock market bubble banks turned to real state that was enjoying a ten-year boom. Therefore banks manufacture a two-step solution:

1. Create instruments bearing higher risk, and charge higher rates for such credits.

[36] Smith R.J.; Why Does the Fed Lower Interest Rates?, available online at http://www.inflationomics.com/article.php?article=Why%20Does%20the%20Fed%20Lower%20Interest%20Rates; last accessed September 22, 2012

2. Compensate for lower profit margins by increasing the number of transactions.

As for solution number one, the answer was to offer mortgages to families that had considerably lower payment capabilities, what Abadia (2009) soundly defined as the "NINJA Crisis", Abadia explains that banks offered mortgages to clients with "no income, no job, no assets (NINJA), in other words clients with no fixed income, no formal employment and no collateral properties to back up these mortgages. Because financial institutions understood the risk inherent in these operations they decided to assign them a higher interest rate, in order to make the best of the real estate boom. In addition to the above, motivated by the trends in the housing market they decided to give this credits at values comparatively higher to the market value, since the logic then dictated that houses would increase in value in the short term.

These mortgages were also called 'subprime' to differentiate them from the prime mortgages that had lower risk, these instruments were rated in a scale of 300-850 points, good mortgages received an 850 points rate and the lower rated received 620 points. In comparison high rated 'subprime' mortgages typically received a 620-point rating while the lower rated ones received a 300-point rating. The system worked well for several years and the NINJA followed through with their payments, but at the same time, while experiencing this surplus of cash some of them made some irresponsible financial decisions.

These new financial products were highly successful and soon banks faced a lack of liquidity. In order to increase the number of operations, the simple solution was to turn to the Interbank Credit Market (ICM), which spread the financing of the subprime mortgages to the Global Financial System. There are Minimum Capital Requirements for financial institutions, this principle means that banks are required to have a minimum capital in proportion to the bank's assets to serve as a buffer in case the value of such bank decrease as a result of losses. Therefore if a bank is borrowing money from other banks, and giving to many credits, the percentage of Capital over assets drops and the bank's smooth operation is at risk.

In order to face this issue banks in the U.S. used a financial technique known as securitization, which consist in transferring financial assets to an investor, transforming these financial rights into instruments in the Capital Market. Banks packaged prime and subprime mortgages in packages called Mortgage Backed Securities (MBS).

MBS consisted of packages grouping a big number of mortgages of all conditions, which were sold to financial institutions all over the world, from the point of view of the recipients of these instruments they were buying instruments from the biggest banks in North America, not perceiving the reality of the NINJAs behind those assets. In some cases American Banks created trusts or funds to buy these assets, these entities are known as conduits, these institutions were legally independent and have no obligation to consolidate their balances with those of their Parent Bank. By these mechanism parent banks sold their risky credits (Financial Assets) for Capital, cleaning their balance sheets in one swift move and at the same time complying with Minimum Capital Requirements (Abadia, 2009).

In order to be marketable MBS had to get better ratings from agencies, at the time these instruments where receiving the following grades ‘investment grade’, ‘Mezzanine’ and ‘Equity’, the latter being the highest risk subprime instruments. In order to sell the Equity instruments some investment banks lobbied rating agencies to create a revised rating system. The revised system consisted in organized MBS into three trenches according to the probability of default, in other words making a two out of three bet instrument. These new instruments received the name of Collateralized Debt Obligations or CDOs. To complicate the situation the minds behind the market also created a product named Credit Default Swaps (CDS) and the Synthetic CDO, in summary the owner of a CDO was assuming the risk of not receiving payment in exchange of receiving higher interest rates.

Finally the Real state Bubble burst when families across the board realized that they were paying mortgages that surpassed the market values of their homes, and decided they should or could not pay those credits, after this the afore mentioned bankruptcies of real estate market giants like D.R. Horton and New Century financial corporation followed. Consequentially, it did not matter the name, the market for MBS, CDOs, CDS, and Synthetic CDO, as they all literally crumpled.

Going back full circle to the question, which opened this chapter: Could CSR had prevented the Global Financial Crisis? In retrospective and without entering in more details we can say that, the GFC is originated in the lack of responsibility and lax ethics in the procedure of conceiving and providing the subprime mortgages credits, situation that got overly complicated when financial institutions aggregated these instruments in packages. Furthermore we can suspect that there was intentionality in the evolving design of the securitization process. The above added to the lack of supervision in the system and the “mistakes” committed by rating institutions, revealed a system with corrupt incentives (Vives, 2011).

The problems are in the values embedded in the system. The way people were behaving during the real estate boom was rational in the context of the incentive system and the lack of regulation. There is evidence that key players had knowledge of the quality of the financial products they were selling. Players like Angelo Mozilo CEO of “Countrywide” who earlier in the game recognized in private e-mails, that in his long years of experience *“he had never seen something more toxic”*, Countrywide’s story ended up in a rescue sale to Bank of America (BofA), a sale which, translated in \$8.7 billion lending charges that BofA had to settle[37]. Another example of unethical and irresponsible behavior was the one given by Goldman Sachs, Deutche Bank and Morgan Stanley who created complex securities like the CDOs or the synthetic CDOs and sold them to unsophisticated clients, while at the same time placing bets against those said

[37] 25 people to blame for the Financial Crisis, time magazine, available online at http://www.time.com/time/specials/packages/completelist/0,29569,1877351,00.html, last accessed September 25, 2012.

clients by shorting assets through hedge techniques, the most infamous of these schemes was the Goldman's Abacus deals, In the settlement with the U.S. Securities and Exchange commission, paid a record $550 million[38], and in an outstanding move 2 days after being charged with fraud declared $5 billion in benefits for their executives. We should also remember that the bank was part of the multibillion-dollar bailout that took place earlier that year.

While Goldman Sachs and other Wall Street firms maintain that there was nothing wrong with CDOs, and that it is a common practice by prudent investors to use trading techniques to hedge investments and protect against losses; we know now that the creation of CDOs deepened the crisis, increasing losses by providing more securities to bet against, and that Abacus deals enabled those betting against them, to multiply their gains up to seven times the face value (FCIC, 2011). Product responsibility is maybe one of the most basic shapes of CSR, when we buy a product that bears a brand, we expect them to be good products, and we expect the people selling them to stand behind them. Selling securities to customers and shorting them later is a cynical game, *"When you buy protection against an event that you have a hand in causing, you are buying fire insurance on someone else's house and then committing arson."*[39]

Furthermore the bailout and recovery process was tainted with suspicious actions, for instance BofA was accused of using bailout funds to acquire a 9% stake in China Construction Bank Corporation, half of which had to sell later in

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[38] Morgenson, G. and Story L.; "Banks Bundled Bad Debt, Bet Against It and Won", The NewYork Times, December 23,2009.
[39] Morgenson, G. and Story L.; *Op. Cit.*

2011 in preparation for changes in the new Basel regulation (SEIU, 2009). A Bloomberg investigation revealed that banks took advantage of the $7.77 trillion in trouble assets bailout to cover massive losses, but some other banks made massive profits as well. A Bloomberg report revealed, that around 97 different financial institutions around the world turned the discount window given by governments into profits during the two peak years of the crisis; among the biggest winners we can count Barclays ($26.7 billion), Banco Santander ($29.2 billion), BNP Paribas ($17.1 billion), JP Morgan ($13.8 billion), and Goldman Sachs (12.7 billion)[40].

The level of irresponsibility was such that CEOs did not even comply with the levels required by Friedman or the agency theories, as they were actively deceiving their shareholders. One such example is ken Lewis, the then CEO of BofA. On November 26, 2008 he stated that BofA was, *"one of the strongest and most stable major banks in the world."* While as of that date had an outstanding debt with the U.S. government of $86 billion. Another example is CEO Jamie Dimon of JP Morgan who on march 26, 2010, reassured his shareholder that JP Morgan did not need a bailout, that the bank only participated in the trouble assets relief program "at the request of the Federal Reserve to help motivate others to use the system" when in reality the bank was fully using the program owing $48 billion dollars[41].

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[40] B. Ivry, B. Keoun, and P. Kuntz, "Secret Fed Loans Gave $13 Billion Undisclosed to Congress, Bloomberg Markets Magazine, November 28, 2011. Retrieved from http://www.bloomberg.com/news/2011-11-28/secret-fed-loans-undisclosed-to-congress-gave-banks-13-billion-in-income.html, last accessed September 26, 2012.

[41] B. Ivry, B. Keoun, and P. Kuntz, *Ibid.*

In conclusion if we have to answer the question, that gave title to this section of the present chapter, could CSR have prevented the Global Financial Crisis? In summary we can say that the GFC was the result of a group of companies and individuals trying to maximize benefits, inside a system with corrupt incentives (there were rewards to players for taking greater risks, and little consequences for negative results). Those incentives motivated them to be creative, cut and package risks in financial products, to the extreme that the risk in the final product was very difficult to evaluate.

In retrospect most individuals and institutions in the system, acted following the law and regulations that where relevant at the time. We may even claim that short selling was, and still is a legal practice. Depending on the regulations of the country insider trading may or not be penalized. But were these transactions responsible? Was it irresponsible to sell financial products to clients that did not understand what they were buying?

We know that one of the central dimensions of the concept of CSR is the idea of voluntariness, of undertaking responsibilities going beyond what is dictated in the law. And this point was heavily important in the 2008 GFC, law and regulations, particularly in the United States, were to light or almost inexistent, in order to promote financial creativity. The principle that in 1776 Adam Smith denominated as the invisible hand, by which, an individual looking out for his own best interest improves on the efficiency of his craft and by consequence the market itself bringing benefits to society in general. Financial agents manage resources that are not actually theirs, and because of that, and the interconnection of markets, they have a greater capacity of cause harm and expand its effects. We have discovered that financial intermediation has many externalities and some of them are really negative.

The argument that harsh regulation would suffocate the financial system, elevating the transaction costs was wrong. Market fundamentalism argues that by giving more freedom the market will auto regulate itself, but as we have learned from the GFC, pursuing individual interests, inside the financial system, can also conduct to other outcomes in direct opposition to the greater good.

The evidence point that there is a correlation to the lack of responsibility and unethical behavior and how deeply bad the situation got. Seems evident that we could have experience a different situation for the better if financial banks had acted more responsibly when they decided to sell toxic instruments to inexperienced investors. But even when individual responsibility played a big role in the problem, institutional and governmental irresponsibility was more crucial; there were no controls to prevent what happened, there were no regulators to oversee the market. Now that markets are generating new rules to prevent the next crisis, a similar one may just be developing. Many believe that another GFC is bound to happen; some scholars have found evidence, that there is a real estate bubble in the making currently in China (Dreger and Zhang, 2010). Therefore we believe it is necessary to stress the importance and impact of promoting CSR and Corporate ethical Behavior. If financial institutions had acted under the guidance of CSR, the effects of the crisis could have been mitigated in two fronts: firstly, irresponsible performance, excessive leverage, and conflict of interests evidenced a lack of responsibility, not only to stakeholders in general, but also to shareholders. In sum conducts that can be qualified as a lack of professionalism and prudence necessary for the good management of financial corporations, and secondly a responsible corporation has to understand the consequences of its action, intended and unintended, and assume full responsibility. The spillover from the commercialization of toxic assets should have been contained, but these high-risk assets were sold to unsophisticated investors, providing inadequate or insufficient information.

Despite of the above CSR is not a substitute of a good or competent management, the origins of the problems in the financial institutions that caused the GFC of 2008 are of technical nature; in addition CSR object is the proper and ethical management of an organization and not that of ‘economic systems’ (Argadoña, 2009b).

According to CSR dogma a responsible organization is a properly managed organization, but this doesn't denies the possibility that an organization can make mistakes, therefore it is also possible that a responsible organization fails. In the same way, if we can’t guarantee the success of a responsible company, we cannot ensure macroeconomic stability. As said before a financial crisis is not prevented just by ensuring the well behavior of the market agents, but also by the quality and efficiency of the regulation and control mechanisms in place.

3.3 SHOULD CSR BE MANDATORY?

As we all know one of the core elements of the definition of CSR, is the concept of voluntariness, but based on the empirical lessons of the GFC, and whenever we are in presence of a clear case where businesses fail or avoid their responsibilities, we open the debate of whether regulators and policy makers should enforce CSR or if it should remain a discretionary activity.

Proponents and practitioners of CSR are committed to the discipline, because they are looking for results, because they want to change the world and reshape businesses. It is never enough to remain in the fields of academic discussion. As mentioned before most academic definitions of CSR insist that it must be voluntary. This creates a practical problem: Is a concept of CSR that depends on coercion viable?

Experts, policy makers and NGOs have supported the idea of CSR being reflected in norms and regulation, arguing that without this kind of push, organizations won't assume the duties of their social responsibility. The GRI (2010) last report, calculate that there is over 142 reporting initiatives in over 30 countries, with mandatory reporting in place in over 16 countries including Hungary, India, South Africa, Spain, Sweden and Denmark. Nevertheless, the issue of mandatory CSR is debatable in two fronts.

The first issue is of practical nature: it is a question of evaluating between opportunity and convenience. Some of the social responsibilities of business are already incorporated in the law (i.e. regulation prohibiting child labor, or labor hours) because those responsibilities are considered important for society and because they are considered as the minim accepted standards of social and political ethical behavior. But in modern markets it makes little sense to extend some of those social responsibilities such as the responsibility to offer goods at affordable prices to groups in poverty, or to donate part of their benefits to charity.

From the legal stand point, there are some complexities in defining CSR and its relationships with the law, in particular as to form consensus on the role that the law should play in the future of the discipline. As mentioned above, it is argued that excessive regulation is counterproductive and will damage national competitiveness, industries corporations should be able to create their own competitive standards, scholars in the 'voluntarism camp' argue that laws enforcing CSR are unnecessary, as companies are increasingly aware of the so-called 'business case' of CSR, an argument that has been widely supported by reports, articles and research, that conclude that companies with social responsible practices are better run, and more attractive to stakeholders such as employees, consumers and investors (Zerk, 2006).

The law should not extend to some aspects of life that are object of Ethics and social responsibility, because it will limit several aspects of free will and liberty. The law can be too restrictive: many mishaps in environmental management have been committed by companies, that acted following the law, but that knew or suspected, that they were causing damage to the environment or society. In some other instances the law can be qualified as immoral by standards of different societies and companies have to obey these laws (i.e. laws that promote discrimination in matters of sex, age, political or religious ideologies).

The law is reactive, and cannot easily adapt to circumstances and new problems, while social responsibility should be proactive and flexible. The understanding and the comprehension of the responsibilities of a corporation vary widely according to the country, sectors, and time and it would be pointless to convert them into norms for all society to follow. Most of the times this views of the world are conflicting and corporation's actions may appear normal by the standards of one society and heavily criticized by other society. One such example is the recent case of IKEA's catalogue for the Saudi Arabian market, where all women images had been removed, facing heavy criticism in its home country forcing the company to apologize: *"We should have reacted and realized that excluding women from the Saudi Arabian version of the catalog is in conflict with the IKEA Group values,"*[42].

Despite of all the arguments against CSR activities being regulated by law, many scholars and NGOs, have also expressed their distrust in auto-regulation. The main concern is that when left to their own devices, corporations may lack enough incentives to be socially responsible, in other words, the argument of the 'business case', or CSR's profitability may be insufficient in itself to ensure responsible corporate behavior (Zerk, 2006).

The discussion over the voluntary aspects versus mandatory regulation of CSR is based on a simplistic view of the concept of the law and its rule over human behavior. CSR at the least means compliance to legal standards, but in some

[42] Khazan O., "Ikea regrets deletion of women from Saudi version of furniture catalog", The Washington Post, 10/01/2012. Retrieved from http://www.washingtonpost.com/business/ikea-regrets-deletion-of-women-from-saudi-version-of-furniture-catalogue/2012/10/01/a67644e8-0bc1-11e2-97a7-45c05ef136b2_story.html, last accessed October 2, 2012.

cases this is a grey area, particularly in cases such as, multinationals investing in countries where regulations are unclear or their enforcement lacks consistency. In addition, not even the most advanced legal systems are fail-proof, and when loopholes or other ambiguities exist, the sociably responsible conduct would be to comply with the spirit of the law, but in some instances pursuing legal rights may not be a responsible action.

The second level of analysis of the problem, is the economic idea of incentives, if CSR must get results, those results will be more likely to be attained, when using incentives, or punishment schemes such as sanctions, awards or tax incentives; nevertheless, scholars also advice of the possible adverse effects of these schemes. These adverse effects are in some instances unintended, but in many cases organizations actively look for loopholes evaluating the costs of following and not following the law, (*i.e.* taxation law; Christensen, 2004). In the presence of this dilemma there are two possible solutions. The first is to change the law to make this kind of practices impossible or more costly. The second and more sensible solution, consists in understand how incentives work for organizations, and therefore, not coerce some social responsibilities that are directed to transform business management into a more human and sustainable activity. In other words, if the responsibility is of ethical kind its compliance should be of similar free nature, not minding if there is a norm that regulates such activity.

One common misconception by those who support greater regulation standards for CSR is that the requirements expressed in legal codes, lead to better practices and improve corporate behavior and transparency. In fact, changes in corporate behavior depend equally or even in greater weight on many other factors, including corporate philosophy, or stakeholder pressure, specially consumer groups, in other words if something is required by legislation, it does not necessary mean it will be done right.

In any case, the objectives of CSR are in most cases above results affecting positively the decision making process of the business management. In CSR not everything that is quantifiable counts and not everything that counts is quantifiable (Vives, 2011). When good actions become mandatory, philanthropy becomes confiscation, freedom becomes servitude, and the values and concepts in which CSR is based lose their meaning.

However, for the last couple of decades concerns on social and environmental impacts are increasingly important issues for corporate governance, governments, financial institutions and stock exchanges all over the world. The concerns have been reflected in regulatory frameworks and laws. For some countries CSR laws are a reality, companies in Denmark, England and japan have been leading the social reporting trends, due to their mandatory CSR rules. For instance publicly traded companies in Japan listed under the Tokyo Exchange have to conform to the Law of Promotion of Environmentally Conscious Business Activities of 2001. The following table presents some of the most prominent international regulations:

Table 3.1 Prominent International CSR regulations

Country	Regulation
Australia	Corporations Act 2001
Brazil	Electricity Sector Regulations of 2007
Canada	Canadian Environmental Protection Act of 1992
China	Green Securities Policy of 2008 (and Shanghai Stock Exchange Guidelines)
Denmark	Financial Statements Act of 2008
France	Article 225 of the Grenelle II Act of 2012 (updated)
India	Companies Act of 2011 (updated)
Ireland	Credit Institutions Act of 2008
Japan	Law of Promotions of Environmentally Conscious Business Activities of 2001
Norway	Accounting Act of 1990
Spain	Sustainable Economy Law of 2011
Sweden	Annual Accounts Act of 1998
US	Reporting of Greenhouse Gas Rule of 2009

The depth in which regulations affect the CSR policies of corporations can vary, regulations can affect the structure of organization by requiring companies to set up a structure to supervise and audit CSR programs. Regarding CSR reporting regulations center around three strategies:

- Mandatory sustainability reporting (*i.e.* Denmark's Financial Statements act[43] and the guidelines for external reporting by state-owned companies in Sweden)
- Mandatory integrated reporting (Grenelle II Act in France[44] and the King Code III in South Africa[45]).
- No Uniform Standard (Green Securities Policy and The Asia Water Project[46])

[43] Danish Business Authority FAQ, http://csrgov.dk/faq
[44] See Legifrance, Decret n. 2012-557, www.legifrance.gouv.fr/affichTexte.do?cidTexte=JORFTEXT000025746900
[45] Corporate Sustainability Reporting, African Initiative, www.reportingcsr.org/_south_africa-p-183.html

Kent and Greenfield (2006) claim that since corporations that engage in CSR are in their vast majority large public corporations, available to be publicly traded by individuals. Corporate law should be equally more "public" and serve more social purposes, as other laws that govern other aspects of the company, such as labor law, taxation and property. Ultimately the central proposition of Greenfield is that most societies would want universal values such as equality and human rights to be factored into corporate regulation as they do with all public law.

3.4 BUSINESS ETHICS AND FINANCIAL CRISIS

Business ethics is a relatively new discipline; in 1943 Johnson & Johnson published the company credo, one of the earliest business codes, but, worldwide interest raised in the 80s, particularly in Europe and the US, among the first corporations to adopt codes of conduct were General Electric, General Dynamics, Martin Marietta (now Lockheed Martin) and several other defense contractors who saw business ethics programs as a way to self-regulate rather than submitting themselves to government regulation[47].

Concerns for the ethic dimension of the economic activity, date since the era of the great thinker Aristotle and his critic to making profits from moneylending in his most famous work "The Nichomachean Ethics", in this manuscript, the great philosopher describes virtue ethics, as a behavior or habit, something that is practiced constantly. According to Book II of the Nichomachean Ethics, when

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[46] Regulations and enforcement through the Asia Water Project http://chinawaterrisk.org/regulations/water-policy/water-policy-intiatives/

[47] See International Labour Organization, "Corporate Codes of Conduct," at www.itcilo.it/english/actrav/telearn/global/ilo/code/main.htm.

analyzing the constitution of good and bad character, Aristotle argued that it is a matter of habit, of enjoying doing it, so Aristotle ideal is not a person who overcomes temptations and does the right thing, but a person to whom doing the right thing is just natural (Hartman, 1998).

The great thinkers of the Middle Age, but mainly western theologists committed to catholic philosophy also condemned business greed and profiting through money lending. This group of thinkers heavily promoted the idea of amoral businesses (Solomon, 1993). This way of thinking did not change even when in the XVIII century, economists separated ethics from the business discipline, this is the time that promotes ideas such as market fundamentalism, and the idea of the economic rational thinking, and the role of incentives.

But in the midst of the 20th Century the realization of corporate abuse, brought the discussion back on the concerns on the divorce of ethics and businesses. Nevertheless the recent developments in ethical discussion do not come as a response to the bad corporate behavior that characterized the 2008 GFC. The renewed consciousness in business ethics is based on the thesis that the lack of ethics is causing loses to corporations and markets. It is said that a dishonest performance can affect negatively the financial results of publicly traded corporations, furthermore it is also stated that corruption hinders the investment in a country resulting in lower growth (Lopez, 2007). Some extreme version of this thesis propose that business cannot be successful without ethics, but the evidence from recent events seem to stand against this premise, as the lack of ethics and frauds to consumers have proven to be profitable.

A second thesis states that business ethic is arguably some of the most rentable businesses for the organization. For the managers that defend this thesis, business ethics increase sales and improve the corporate image, and loyalty from employees and clients, and prevents over regulation of the market, gain market licenses, among other advantages, all that we can say is true, but it is also true that business ethics can be a costly business. An example quoted by Murray (2002), is the case of the corporations that adhered to the Corrupt Practices act of the United States, that according to the U.S. Department of Commerce, lost $15 billion USD in 1997, the calculated losses referred to business cancelled with companies with bad reputation or located in countries that are considered in violation of this act.

Lastly, one alternative thesis justifies business ethics in normative terms, with the argument that businesses are not inside a bubble alienated from the values of society in which they act. For the people supporting this thesis, business ethics is just another simple application of ethics to human activity and therefore the justification of business ethics does not rely in its utilitarian ability to make money, as not being ethic can result in a loss or profit either way. What really justifies ethics is its contribution to social order and regulation. Ethics is a practical field of knowledge that gives coherence to human behavior, adjusting individual conduct to values that are accepted by the majority, which result in a decision process characterized by more prudent and conscious decisions.

The decisions made by a CEO of a corporation influence the environment, the income distribution, technological development and social and political conditions, as evidence form the last decade occurrences (Lindbaek, 2003). This thesis is in any case a liberal concept by which a free and autonomous individual assume the consequences of his actions and, as a result any harm to the life or property of thirds should be repaired. This thesis relates directly to the concept of responsibility applied not only to the individuals but also to the organization.

Social Responsibility of the organization is understood as synonym of the commitment of the organization to those individuals and groups that have a direct interest in its operation: stockholders, employees, clients, suppliers – in short his stakeholders-. Therefore the responsibility of the organization is narrowed; the organization is not obligated to the society in general, but to the community in which it operates.

The stakeholder model has influenced businessmen and opinion leaders that are looking to establish a trust worthy relationship between consumers and corporations. One of the best examples is 'The Caux Round Table' (CRT), an international group of business and industry leaders, that promotes their 'Principles of Business' the first of which establish the responsibility of the organization to stakeholders:

> "Principle 1. The Responsibilities of Businesses: Beyond Shareholders toward Stakeholders
>
> The value of a business to society is the wealth and employment it creates and the marketable products and services it provides to consumers at a reasonable price commensurate with quality. To create such value, a business must maintain its own economic health and viability, but survival is not a sufficient goal.

> Businesses have a role to play in improving the lives of all their customers, employees, and shareholders by sharing with them the wealth they have created. Suppliers and competitors as well should expect businesses to honor their obligations in a spirit of honesty and fairness. As responsible citizens of the local, national, regional and global communities in which they operate, businesses share a part in shaping the future of those communities."[48]

The CRT principles are an effort to promote moral capitalism; the organization strongly believes that the business community should play an important role in improving economic and social conditions. The global tendency is to establish a minimum accepted standard of commitment with the principles agreed by the international organizations that have the most moral capital; the written expression to this goal is the denominated global codes. Between the most important ones is the above mentioned The Caux Round Table's Principles for business, The United Nations Global Compact with business, The Human Rights Principles for Companies of Amnesty International, The Business Charter for Sustainable Development and the Coalition for Environmentally Sustainable Development Principles.

Global codes have served as inspirational tools for global corporations to elaborate their own codes. Canon for example has a code of conduct based on the CRT's principles for business.

Gereffi *et al.* (2001) categorized corporate codes of conduct in four different groups depending on the author of the code and who supervises compliance. The most common group is the one that encompass the codes, rules, compliance and

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[48] The Caux Round Table (CRT) is an international network of principled business leaders working to promote a moral capitalism. The CRT advocates implementation of the CRT Principles for Business through which principled capitalism can flourish and sustainable and socially responsible prosperity can become the foundation for a fair, free and transparent global society. The principles are Available at http://www.cauxroundtable.org/index.cfm?&menuid=8, last accessed on October 10, 2012.

disclosure mechanisms, independently made by a corporation like Johnson & Johnson's 1943 companywide credo.

The second category involves a commercial or industrial association that creates a code of ethics and at the same time supervises its compliance. The program Responsible Care of the chemical industry of the U.S. is a prime example of this kind of initiative, During the years it was at work the Chemical Manufacturers Association (now renamed American Chemistry Council) developed codes and principles for the protection to the environment, to the welfare and security of the employees; This association demanded that affiliated members disclose the efforts on these issues, while at the same time published an industry report on the matter.

The third category implies an external party, regularly an NGO, which proposes its norms and supervising methods to an industry or corporation in particular. The Center for Responsibility in Business (CRB) is an excellent example, since its foundation in 1969; this NGO records data of corporate activities publishing reports on the behavior. It also designed auditable standards and certification process like its norm Accountability 8000 (SA 8000).

The fourth and last category proposed by Gereffi includes governments and international organizations. An example is the code of conduct for multinational organizations proposed by the United Nations, the 'Global Compact' that list a series of principles on environmental, labor and human rights for corporations to follow. Compliance to the Global Compact is voluntary, but corporations that participate in this initiative must disclose their efforts, to be scrutinized by NGO's dedicated to the defense of human and environmental rights. In this same category we can find the agreements by the International Labor Organization (ILO). The difficulty that this category poses is the difficulty to define international accepted standards. Even when ILO initiatives show the best example of international support by private organization and NGOs it is still difficult to define an entity that could or should oversee the compliance to these international standards.

Academics propose that, consumers, who react accordingly to corporate behavior, should play the supervising role. The problem with this idea is that information through disclosure is key. Most of the time consumer has no idea of the conditions in which the products they buy are made (Burnet 2001). It has also been proposed to let States to ensure the fulfillment of agreements such as ILO and Global Compact agreements, by elevating them to law status. But many times when the later happens, disparities between trading states are created.

Business ethics is now a global movement based on corporate auto-regulation; this is the central and normative concept of the CSR movement. In general responsible corporations follow a code of conduct, generally written. Nevertheless, the effectiveness of such instruments depends on the entity that emits the code, and who audits the fulfillment of those rules. In conclusion, even when the movements on Ethics and CSR declare themselves as voluntary. The late emphasis on certification and obligatory reporting has transformed a non-confrontational model of regulation into a confrontational movement. When speaking of global corporations, the most skeptic positions point out, that voluntary actions, even when important, are insufficient compared to the magnitude of the problems that corporations face in less developed countries where the state is weak, or the laws are deficient or inexistent (Aaronson, 2005).

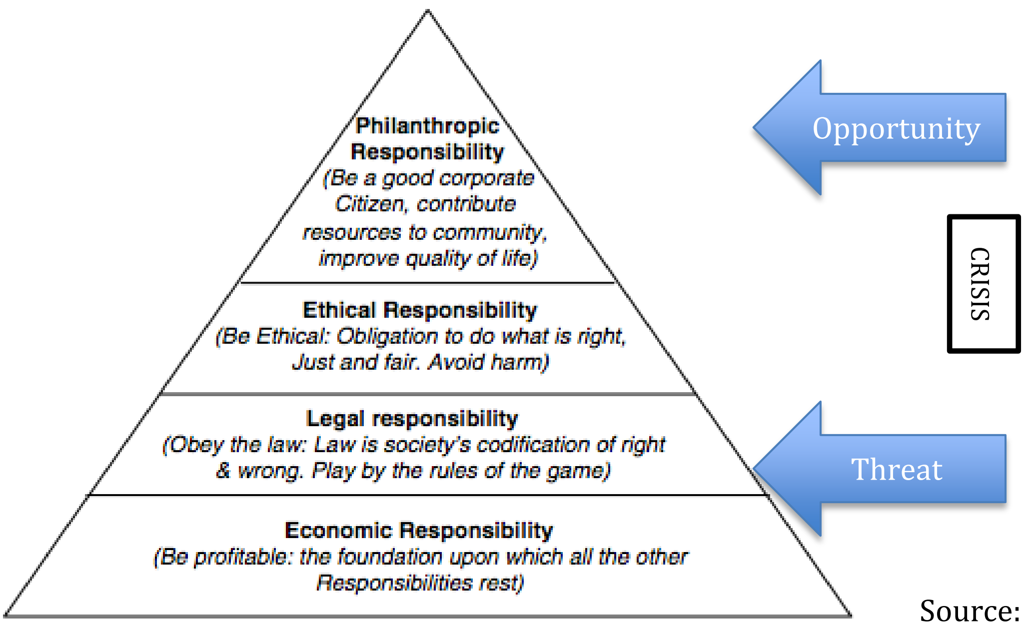
3.5 CSR AS A TOOL TO GET OVER THE CRISIS

Theorists argue that a period of financial crisis can both post a threat or an opportunity to CSR practitioners and corporations. There is no general consensus over the effects and therefore the best strategy to approach the financial crisis through CSR. On the one hand we have researchers that advocate the idea that companies do better against the crisis if they focus on their CSR efforts. For instance, Fernandez and Souto (2009) work on crisis and CSR found that managers and stakeholders are equally affected during difficult times; in addition they couldn't found a correlation between CSR and financial performance. Despite these uncertain findings Fernandez and Souto found that in periods of crisis corporations committed to CSR should highlight the following topics: innovation, comfortable atmosphere, stakeholders' role, business strategy, market attitude, investor confidence and deep internal reflection.

In a research focusing on the impact of financial crisis over CSR, researchers Arevalo and Aravind (2010) found that companies complying with UNGC principles were less affected by the financial crisis, and that a proactive CSR policy is a starting point to get over the crisis. Arevalo and Aravind also found that successful CEO paid attention on the following strategies: build strong leadership, Innovation, forming partnerships with NGO's, commitment with global citizenship, engaging in global issues such as climate change and human rights.

Another perspective about how companies respond to the pressures of financial crisis, is the one offered by Yelkikalan and Kose (2013), the authors used Carroll's pyramid model to explain that depending on the nature and size of the external pressure in a crisis period, it can represent an opportunity or a threat (Figure 3.1).

Figure 3.1 CSR affected by financial crisis



Source: Yelkikalan and Kose, 2013

At any rate, one of the main functions of CSR as a market tool in the prevention of a financial crisis is the creation and maintenance of trust, which has been one of the main casualties of the latest crisis. Legislation and similar levels of normativity cannot create trust; in fact, if legislation is efficient in fulfilling its role, trust is not necessary. In cases such as the 2008 GFC, in where legislation turned out to be inadequate or inefficient there is a lack of trust; this situation was also worsening by the lack of auto-control. Wanting to fill that void left in the aftermath of the Financial Crisis is a powerful reason to develop a CSR culture.

CSR is a corporate philosophy, which means, it requires a long term commitment, but in times of Financial crisis there are three main reasons why corporations turn to responsible practices; the first reason is to improve the corporate image, this motivations translate into social marketing or strategic philanthropy, but when corporations use these initiatives to put out reputation fires without showing a real commitment to improve the social balance of their core activities, it is difficult to differentiate them from what is been called "greenwash", promoting environmental activities to increase sales; some of these activities can be consider responsible, others are simply a gimmick. The second motivation for corporations to rely on CSR in difficult times, is using CSR as an Strategic tool for immediate profit, the problem is that it is extremely difficult to determine a relationship between CSP and CFP, results tend to show that responsibility conduce to profitability even when evidence is not definite. The third basic motivation behind CSR activity is to approach CSR as a business opportunity, as it is believed that consumers prefer responsible products, but this is currently being contested by the situation in markets where credit crunches are limiting the available income of consumers.

CSR activities that provide measurable and tangible benefits in the short run are fairly rare, and it is because of this that retractors of CSR argue that those activities are just 'good management'. And in a sense this is true; the quality of management will determine both the profitability and responsible practices of a corporation. In general we can say that if management is good, the corporation will be profitable and display competitive advantages in its industry or sector. In contrast it would be difficult to argue that a corporation with irresponsible practices is a corporation with good management. It is possible for a corporation to have a strategy based in the exploitation of the lack of knowledge, or slow reaction of markets. But practices based on legislation loopholes, fooling consumers or competitors cannot be considered either as good management or sustainable practices, sooner or later markets will react. Nevertheless CSR is just a small component of a corporation's strategy, for a CSR strategy to be successful, particularly in times of financial crisis; it must complement a good business strategy. A bad-implemented CSR can derail the efforts of a corporation.

CHAPTER 4: INTERNATIONAL FRAMEWORKS FOR CSR

Parallel to the development, and increasing reach of globalization, the concept of human rights has received increasing attention. In the new age of intellectual assets, where the business model has shifted from tangible assets to human talent, it is necessary to regulate and determinate the impact and challenge that multinational corporations pose to individual states and the international legal system.

As we learned in the previous chapter regulation over the socially responsible activities is in some cases inevitable due to the nature and impact of such activities to the environment and human rights. MNC's have evolved from being considered to as 'objects' of international law, to being subjects of direct obligations under international human rights law (Zerk, 2006).

The aim of the present chapter is to explore the efforts in international law, in order to regulate the activities of multinational corporations in matters of CSR, this efforts come mainly as initiatives from states or policy makers, in a collaborative effort to guide or align the corporate behavior to universal values as a reaction to globally shared problems such as, acute poverty in the developing world, the deterioration of the environment, unjust commercial regulations, racial and gender discrimination. These global problems require also global actions from individuals and corporations, not only as an ethical obligation, but also as a requirement in order to develop human capital. In response to these needs multinational organizations have respond with initiatives, whose purpose is to guide the collective efforts in creating a sustainable market, we will discuss some of the most relevant initiatives to this day.

4.1 THE UNIVERSAL DECLARATION OF HUMAN RIGHTS

The Universal Declaration of Human Rights (UDHR) was adopted and proclaimed UN General Assembly in its resolution 217 A (III), on December 10, 1948, as a direct response to the horrors and abuses committed during WWII. It represents the first global support and recognition of rights to which all human beings "are inherently entitled"; at the same time the UDHR was the first attempt to create the basis for a new international order after the armistice. The UDHR reflects the UN General Assembly's spirit to recognize the fight and pledge of past generations of human society in favor of civil and political rights, which came to fruition since the French revolution, as the result of the fight of classes.

The importance of such effort resides in that, this norm tries to ensure and spread an acceptable quality of life, recognizing, but not being limited by considerations of cultural or geographical diversity. The article 25 of the UDHR states that *"Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of* *unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control."*[49]

This declaration was later followed by the "International Covenant on Civil and Political Rights" and the "international Covenant on Economic, Social and Cultural Rights", drafted by the UN Commission on Human rights; together this two documents and the UDHR (with the inclusion of the Optional Protocols to the International Covenant on Civil and Political Rights), form what has been denominated the "International Bill of Human Rights. The UDHR is composed of a preamble and thirty articles that collect rights of civil, politic, social, economic and cultural nature.

Even when in origin it was not a binding document or an instrument of obligatory compliance to states, the UDHR serve as the basis of international law when in 1976 got ratified by a number of individual nations. According to the U.N. Human Rights Commission and the Guinness Books of Records, it is the "most translated document"[50] in the world, and the declaration has influenced national constitutions and served as the foundation for treaties, local and international law, and in general it is a cornerstone for institutions promoting and protecting human rights. The declaration's legal strength comes from its origins, as it was specifically adopted in order to define and provide meaning to the words 'fundamental freedoms' and 'human rights' that appear in the original

[49] See the UDHR available online at: http://www.un.org/en/documents/udhr/index.shtml#a25
[50] http://www.ohchr.org/EN/UDHR/pages/WorldRecord.aspx

United Nations Charter, a document which in fact is binding to all member states.

4.2 ILO DECLARATION ON FUNDAMENTAL PRINCIPLES AND RIGHTS AT WORK

The ILO Declaration on Fundamental Principles and Rights at Work purpose is to equalize economic and social progress, on the basis that economic development is crucial but not sufficient to ensure equity, social progress and achieve the goals such as the eradication of poverty and a higher quality of life.

This is an instrument to promote the philosophy and fundamental principles articulated in the International Labour Organization constitution, and it was adopted in 1998[51], this mechanism binds member states, even when they may have ratified the relevant agreements or not, to respect and promote the principles and rights. These principles are gathered in four main categories and eight core conventions, which cover collective bargaining, forced labor, child labor and discrimination:

Freedom to join a union, bargain collectively and take action

- Freedom of Association and Protection of the Right to Organize Conventions
- Right to Organize and Collective Bargaining Convention

Abolition of forced labor

- Forced Labor Convention

[51] Original text of ILO's Declaration on Fundamental Principles and Rights at work and its follow-up available from URL: http://www.ilo.org/declaration/thedeclaration/textdeclaration/lang--en/index.htm

- Abolition of Forced Labor Convention

Abolition labor by children before the end of compulsory school

- Minimum Age Convention (minimum of 15 years old)
- Worst Forms of Child Labor Convention

No discrimination at work

- Equal Remuneration Convention
- Discrimination (Employment and Occupation) Convention

The ILO declaration explicitly establishes that these rights are universal and apply to all individuals, regardless of nationality, or local economic development situation. It recognizes and addresses groups at risk, such as immigrant and illegal workers, and the unemployed. The ratification of this rights and their dissemination is still increasing among states, NGO's, and corporations. These principles establish a benchmark criterion for a responsible corporate behavior and are also integrated in the tripartite declaration of principles concerning multinational enterprises and social policy. The OECD guidelines for multinational enterprises also highlight the importance of this declaration. In the same fashion the rights included in this document are promoted by the UN Global compact as universal values that must be ensured in any commercial transaction in the local or international stage. An increasing number of codes of ethics and similar private initiatives use them as a reference.

As of 31 December 2011, the ratification rate of the fundamental conventions expressed in these principles stands at over 90 percent, receiving a total of 1,326 ratifications of the eight fundamental conventions, out of a potential total of

1,464 ratifications by ILO's 183 member states. The Director General projects a universal ratification goal by the year 2015 (ILO, 2012). The following table presents the status of fundamental conventions in respect of non-metropolitan territories.

Table 4.1 Status of fundamental Conventions in respect of non-metropolitan territories

Member concerned	Non-metropolitan territory	Ratified Conventions not yet extended
Australia	Norfolk Island	112, 182
China	Hong Kong SAR	100, 111
Denmark	Faeroe Islands Greenland	100, 111, 138, 182 98,100,111,138,182
France	French Polynesia, New Caledonia French Southern and Antarctic Territories	138, 182 29, 100, 105, 138, 182
Netherlands	Aruba Curaçao, Sint Maarten	98, 100, 111 98, 100, 111, 138, 182
New Zealand	Tokelau	98, 182
United Kingdom	Anguilla, Bermuda, British Virgin Islands, Isle of Man, Jersey, Montserrat Falkland Islands (Malvinas), Guernsey, St Helena Gibraltar	100, 111, 138, 182 100, 111, 138 111, 138, 182
United States	American Samoa, Guam, Northern Mariana Islands, Puerto Rico, United States Virgin Islands	105, 182

Source: ILO, 2012

ILO's fundamental conventions constitute a step forward since, states parties are required to submit reports on their implementation every two years to a Committee of Experts, who will "provide an impartial technical evaluation of the state of application of international labour standards", all this in accordance to the directions expressed in ILO's Constitution[52]. This instrument established important standards and mechanisms of compliance; however, enforcement is still not strong as it normally relies in recommendations to parties to take legislative actions or promote existing laws and provide economic compensation when necessary.

4.3 TRIPARTITE DECLARATION OF PRINCIPLES CONCERNING MULTINATIONAL ENTERPRISES AND SOCIAL POLICY

The tripartite declaration of principles concerning multinational enterprises and social policy is the first successful multinational instrument concerning MNEs. The Governing Body of the ILO adopted this declaration in 1977. Historically, the impact of multinationals on employment conditions has been an outstanding concern of the institution, which started to research this relationship in the early 70's. The spirit of the Tripartite Declaration aims to the promotion MNEs co-operation and to minimize and resolve the negative influences that their operations have over economic and social progress. The declaration is also reinforced by other Conventions and recommendations by the ILO that define labor rights and obligations in a more specific way.

The Tripartite Declaration was amended in March 2001 with the purpose to acknowledge the 1998 Declaration on Fundamental Principles and Rights at

[52] States obligation to this stipulation commences one year after the State's ratification of the Conventions; ILO 'Labour Standards: Supervisory bodies and procedures': http://www.ilo.org/global/standards/lang--en/index.htm

Work (ILO, 2001). The Declaration has five main sections. The first section is concerned about general policies and defends the respect to national sovereignty, state laws and political objectives of the host country. This section also pleads for equal treatment from governments to MNEs, national corporations and tripartite consultation. The second section calls for MNEs to play a more important role in the generation and dissemination of stable and dignified employment, to use proper technology and to pay attention to employment policies. The third section is concerned about the training, development and promotion of employees in all occupational categories. The fourth section recommends the provision of adequate salary indexes, benefits and working conditions that maintain high-level standards of health and work place safety. Finally the last section requires businesses and governments to respect the rights to freedom of association and the right to organize and collective Bargaining, as principles to guide their actions in all industrial relations. In summary ILO's Tripartite Declaration identifies four fundamental rights arising from principles embodied in the ILO constitution, and some supporting conventions, namely:

- Freedom of association and the effective recognition of the right to collective bargaining.
- The elimination of all forms of forced or compulsory labor.
- The effective abolition of child labor.
- The elimination of discrimination in respect of employment and occupation.

This declaration is "commended" to the governments, the employers' and workers' organizations of home and host countries and to the MNEs themselves.[53] Explicitly under paragraph 8, the document asks multinationals to contribute to the realization of the fundamental principles and rights of work; in addition the document requires them to 'respect the Universal Declaration of Human Rights and the corresponding International Covenants adopted by the General Assembly of the United Nations'. Originally the right to a safe and healthy workplace environment was not identified as a 'fundamental' right in the 1998 Declaration on Fundamental Principles and Rights at Work, but the Tripartite Declaration later addressed this issue:

"Multinational enterprises should maintain the highest standards of safety and health, in conformity with national requirements, bearing in mind their relevant experience within the enterprise as a whole, including any knowledge of special hazards. They should also make available to the representatives of workers in the enterprise, and upon request, to the competent authorities and the workers' and employers' organizations in all countries in which they operate, information on the safety and health standards relevant to their local operations, which they observed in other countries. In particular, they should make known to those concerned any special hazards and related protective measures associated with new products and processes. They, like comparable domestic enterprises, should be expected to play a leading role in the examination of causes of industrial safety and health hazards and in the application of resulting improvements within the enterprise as a whole. "[54]

The above quoted section of the Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy effectively prohibits multinationals from lowering labor standards in countries where regulatory requirements are inferior or non-existent. In addition it also requires them to aid organizations

[53] ILO Tripartite Declaration. (ILO, 2001)
[54] *Ibid*.

and authorities, concerned with the evaluation and creation of health and safety standards and regulation.

Like the Declaration on Fundamental Principles and Rights at Work Tripartite Declaration was intended to be a non-binding set of standards, nevertheless there are specific procedures for the interpretation of its recommendations in cases of disputes resulting of their application. In addition ILO carries a follow-up system in the form of a periodic survey. In the survey, interested parties comment on their experiences implementing the standards proposed by the declaration.

Violations to the provisions of the Tripartite Declaration can be brought to the attention of the ILO through a 'dispute procedure' established by ILO's Governing body in 1980.[55] Under this procedure, governments, national or international employers' or workers' organization can request an 'interpretation' of the provisions of the Tripartite Declaration in regards to 'an actual situation'. Officially NGO's don't have access to this procedure; nevertheless they have presented communications and requests to ILO's governing body for assistance relating to the wrongdoings of MNEs that have been handled outside the interpretation procedure of the MNE Declaration.[56]

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[55] A detailed description of the dispute procedure is included in the actual body of the Tripartite Declaration, see page 19, (ILO, 2001).

[56] For more information on the dispute and interpretation procedure see http://www.ilo.org/empent/units/multinational-enterprises/lang--en/index.htm

4.4 THE OECD GUIDELINES FOR MULTINATIONAL ENTERPRISES

The OECD is an international and common forum where states can discuss and collectively look for answer to shared problems, shared experiences, coordinate domestic and international policies and create accords and agreements as a result of these debates. The OECD mission "is to promote policies that will improve the economic and social well-being of people around the world".

The OECD Guidelines for Multinational Enterprises are not an isolated group of far-reaching recommendations from governments to corporations in order to promote a responsible corporate culture. These guidelines are annex to the OECD Declaration on International Investment and Multinational Enterprises (DIIM), with the purpose of creating a favorable environment for direct investment. The OECD recognizes foreign direct investment as a catalyst for growth and sustainable development. In this spirit the member countries of the OECD adopted this declaration in 1976, through the work of the OECD Investment Committee who emitted the DIIM as an expression of a full politic commitment to promote international cooperation in issues such as employment and industrial relations, human rights, environment, information disclosure, combating bribery, consumer interests, science and technology, competition, and taxation[57].

Through this instrument the member countries adopted measures to reduce or eliminate discrimination to MNEs that operate in their territories, measures to

[57] http://www.oecd.org/daf/internationalinvestment/guidelinesformultinationalenterprises/

minimize complex impositions or requirements, to promote the transparency and measures that promote or deter international investment. The purpose is to motivate responsible corporate behavior to increase levels of trust among corporations and the societies in which they operate, creating a better climate for investment.

In this context the OECD guidelines for Multinational Enterprises were created and later revised in 1979, 1982, 1984, 1991, 2000 and 2011[58]. The 1991 revision is of particular importance as it included a full chapter on Environmental Protection; while the last revision on May 2011 widen the reach of the guidelines to cover the activities of multinationals and their subsidiaries, and workers. The chapter on Human Rights describes MNEs obligation to consult with communities over the possible impacts in particular in the cases referring to indigenous communities, national, ethnic, religious or linguistic minorities, in addition to the work of migrant workers, child, women and handicap employees.

In relation to the topic of Environmental protection, the new edition of the guidelines requires corporations to reduce their CO^2 emissions and those who influence the global warming effect while also highlighting their obligations to avoid, eliminate or minimize when inevitable any negative impact over the environment. New in these guidelines is the attention given to taxation issues.

The countries that subscribed to the OECD Guidelines must establish National Points of Contact (NPC) in order to promote the principles of the guidelines, to

[58] *Ibid*.

answer consultations and carry discussions with the interested parties on the topics covered by the guidelines. NPC's coordinate solutions to the problems that may arise to the implementation of the guidelines, the business community and employee's organizations must be informed of the location and existence of the NPC through the Guidelines procedure manual. The 2011 edition of the Guidelines introduced modifications to the coordination procedures between NPC's in home and host countries, and deadlines for transparency reports[59].

The three elements that define the OECD Guidelines for MNEs are:

- They are recommendations that the governments of member countries, and those who have adhere direct towards MNEs. They do not only cover MNEs, but also all the subsidiaries wherever they operate -including countries that haven't subscribed to the Guidelines- and extending their reach to all levels of the supply chain.
- The main objective of the Guidelines lays in guaranteeing that the activities of MNEs are developed in harmony with public policy, to strengthen the bases of mutual trust among societies and corporations, create a better climate for foreign investment, and overall to increase the contributions of MNEs to sustainable development.
- Provide principles and voluntary norms that promote good practices and corporate behavior, dealing with issues of transparency, employment, environmental protection, human rights, consumer rights, taxation, bribery and the fight against corruption.

[59] Ibid.

As with other ‘soft law’ initiatives the OECD guidelines for MNEs were never intended to be binding, non-compliance to the guidelines would not lead to the imposition of sanctions by the OECD or any of its member states. However to provide the guidelines of credibility a periodical follow-up system was contemplated. This feedback mechanism is carried supervised by the OECD’s Committee on International Investment and Multinational Enterprises, and results are reported to the Council[60]. Information is collected through an annual NCP meeting.

The Guidelines where originally limited to OECD member states territories. This limitation was legal and political in nature. According to Vogelaar (1980), there were concerns about the correctness of extending the standards included in the Guidelines to countries outside the OECD with different socio-economic and political circumstances. However the year 2000 revision removed the territorial limitation by stating that governments should encourage enterprises to follow the guidelines *‘wherever they operate’.* Corporations are vulnerable to negative publicity when they are suspected of violation to the Guidelines *i.e.* in cases of labor exploitation abuses or environmental pollution.

The latest revision to the Guidelines intends to reduce the lack of clarity that was present in the procedure to handle complains, despite this there is still some ambiguity in cases of violations to the guidelines in non-adhered states. Currently NCPs only aid in negotiation with the parties in conflict and only act

[60] Ibid

when 'relevant and practicable'.[61] On one hand there are still some transparency issues with the confidentiality of information in the resolution procedures, making the access of information difficult to the general public, on the other side there is the possibility to understand the type of cases that have been dealt by NCPs through information available in the OECD's web-site, information available in annual meetings reports by NCPs and OECD annual reports.

4.5 AGENDA 21

The concept of the program Agenda 21 was developed at the United Nations Conference on Environment and Development held at Rio de Janeiro (Brazil) in June 1992, also known as the Earth Summit. The goal was to cultivate initiatives to support a sustainable model for development to the XXI century.

Agenda 21 was signed by states of more than 178 member states of the United Nations. These countries are committed to apply and develop environmental, economic and social policies at the local stage, directed to create sustainable development. The spirits of Agenda 21's provisions reflect 'a global consensus and political commitment at the highest level on development and environmental cooperation.'[62] The instrument is also considered to be highly influential in the development international environmental policy.[63]

[61] See OECD procedural guidance Part 1 section C, paragraph 5, Retrieved from URL: http://www.oecd.org
[62] see http://www.un.org/esa/dsd/agenda21/
[63] Birnie and Boyle. International Law and Environment, pp. 69-70.

We could define Agenda 21 as a global strategy that is practiced locally, at all community fronts: social, cultural, economic and environmental. As a commitment to the protection of the environment, it also represents an opportunity to improve the quality of life of local community members. In principle Agenda 21 contemplates three aspects: environmental sustainability, social justice, and economic development. Agenda 21 considers these goals under an inclusive philosophy trying to ensure local participation through the promotion and support public and private institutions.

The topics covered by Agenda 21 are broad, but the more relevant topics are environmental, mainly atmospheric protection, planning and changing natural resources consumption patterns, fighting deforestation, protecting fragile environments, conservation of biological diversity (biodiversity), control of pollution and the management of biotechnology, and radioactive wastes; other important topics include promoting health, achieving a more sustainable population, and sustainable settlement in decision making. While concerned by wider topics, this UN initiative also includes some provisions directed to businesses recognizing the important role they play in the social and economic development of a country. Agenda 21 sets some principles regarding the responsibilities of multinationals:

“Business and industry, including transnational corporations, should ensure responsible ethical management of products and processes from the point of view of health, safety and environmental aspects. Towards this end, business and industry should increase self-regulation, guided by appropriate codes, charters and initiatives integrated into all elements of business planning and decision-making and fostering openness and dialogue with employees and the public".[64]

The UN Commission on Sustainable Development was set up in 1992 to oversee the follow-up to the Earth Summit, despite this; it does not supervise compliance by MNEs, but focus more on environmental policy making. Agenda 21 is referenced in the OECD Guidelines as a source of environmental principles (Zerk, 2006).

4.6 ISO NORMS

The International Organization for Standardization (ISO), was created in 1947 in the aftermaths of WWII, and since then it has published more than 19,000 international standards, it is the considered the largest developer of voluntary international standards,[65] in all areas of management and technology, including manufacturing, commerce and communication. ISO norms aim to accomplish higher level of effectiveness and efficiency across all industries and reduce barriers to international trade by global consensus on measurement and procedures. Similar to soft laws the ISO norms are voluntary and not binding under the understanding that the ISO is not a government body of any kind and has no authority to impose its norms in any particular country. The International Organization for Standardization chose the acronym ISO from the Greek word

[64] Agenda 21, Retrieved from URL: http://www.un.org/esa/dsd/agenda21/
[65] http://www.iso.org/iso/home/about.htm

'Issus' meaning *'equal'* to convey meaning across the world and prevent an ever-changing name from country to country.[66]

International Standardization started in the electro technical field with the creation of the International Electro-technical Commission (IEC) in 1906, while the International Standardization Associates (ISA) –founded in 1926- carried standardization research in other fields; however ISA's focus was that of mechanical engineering, and it was later disbanded in 1942 because of the imminent war in Europe. On 14 October 1948, representatives of 25 countries met in London with the purpose of creating a new organization of international reach to fill the void left by ISA, creating the International Organization for Standardization.

ISO is a network of national standard bodies of 160 countries, with a non-governmental character. This federation of representatives acts as delegates of ISO and appoints national delegations and standards committees. ISO norms are developed by the technical committees that are formed by interdisciplinary groups of experts from the industry sectors and management areas that required the development of the norms, and that would be the main users and target of the developed standards, in all there are approximately 50,000 experts contributing directly to the development of standards each year, and about 300,000 that provide feedback in the 'mirror' committees.[67]

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[66] *Ibid.*

[67] ISO in brief; Retrieved from http://www.iso.org/iso/home/store/publications_and_e-products/publication_item.htm?pid=PUB100007

4.6.1 ISO 9000 SERIES

The ISO 9000 family of standards on management systems and Quality assurance were developed to help organizations to effectively document and implement processes to maintain an efficient Quality Management System. The standards are not specific to any industry, product or service and can be applied to any type of organization (*i.e.* manufacturing, service industry, public administration, etc.). The norm describes the fundamentals of quality management systems and the specific terminology involved.

4.6.2 BASIC NORMS OF THE ISO 9000 FAMILY

ISO 9000:2005: This norm presents the Fundamentals of the Management System and the Vocabulary involved.

ISO 9001:2008: This norm sets out the Requirements for establishing a quality management system, and is the only standard on the ISO 9000 family that can be certified. The standard is based on 8 Management Principles: Customer focus, Leadership, Involvement of People, Process approach, System approach to management, continual improvement, Factual approach to decision making and Mutual beneficial supplier relationships.[68] ISO is adamant of the voluntary status of the norm:

"Checking that the system works is a vital part of ISO 9001:2008. An organization must perform internal audits to check how its quality management system is working. An organization may decide to invite an independent certification body to verify that it is in conformity to the standard, but there is no requirement for this. Alternatively, it might invite its clients to audit the quality system for themselves. Read more about certification to management system standards."[69]

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[68] For a detailed description of the ISO 9000 Quality Management Principles see URL: http://www.iso.org/iso/qmp_2012.pdf

[69] http://www.iso.org/iso/home/standards/management-standards/iso_9000.htm

ISO 9004:2009: Quality Management, guidelines for sustainable success, this standards explains the criteria of how to achieve corporate sustainable success by using the ISO 9000's principles and quality management system.

ISO 1901:2011: In its new edition of the year 2011, the norm specifies the requirements to carry an auditory of an ISO 9001 Quality Management System and the Environmental Management System identified in the ISO 14000 series.

4.6.3 ISO 14000 SERIES

As a result of the UN Environmental Conference, the Earth Summit of Rio de Janeiro of 1992, the International Organization for Standardization, started to work in the development of environmental norms that could be applied to an international level, as a result the ISO published in 1996 the ISO 14000 norms for environmental management. The objective of this norm is to provide corporations with an adequate methodology for an environmental management system, analog to the ISO 9000 series for quality management.

This norm is of voluntary compliance and is characterized by three core pillars: a) minimize how their operations negatively affect the environment (*i.e.* adverse changes or impacts to air, water, or land); b) Comply with applicable laws, regulations, and other environmentally oriented requirements, and c) continually improve on the above. The ISO 14000 family of standards is the result of the work of the ISO technical committee (ISO/TC 207) on environmental management; currently the committee has a portfolio of 21 published International Standards.[70] As mentioned above the committee was established in 1993 as an answer to the challenge of 'sustainable development' posed by the Earth Summit in 1992, stemming from an intensive consultation process carried within the framework of the ISO Strategic Advisory Group on Environment (SAGE). This norm accentuates the need to:

- Demonstrate constant improvement.
- Provide transparency, over the evidence in controlled documents of the Environmental Management System.
- Demonstrate the transparency of the organization of the processes of the system.
- Identify the significant environmental aspects of the organization.
- Give importance to legal compliance.

The ISO 14000 standard defines the Environmental Management System as the part of the "Management System of a corporation, used to develop and implement its environmental policy and to manage its environmental aspects".[71] For this norm the Environmental Management System is supported by the environmental policy, in other words the guidelines defined for the operation and direction of the system. While a Quality Management System thrives for the customer satisfaction, an environmental management system is directed towards the satisfaction of the needs of stakeholders such as, society, ecosystems,

[70] See Environmental management, The ISO 14000 family of International Standards available from URL: http://www.iso.org/iso/theiso14000family_2009.pdf
[71] http://www.iso.org/iso/iso14000

government, employees, stockholders, including clients that use the products and services of the organization.

Because of the increasing use and reputation of this standard, is important to highlight the concepts defined by this standard series:

The environment: "surroundings in which an organization operates, including air, water, land, natural resources, flora, fauna, humans, and their interrelation."

Environmental aspect: "Element of an organization's activities or products or services that can interact with the environment. A significant environmental aspect has or can have a significant environmental impact."

Environmental impact: "Any change to the environment, whether adverse or beneficial, wholly or partially resulting from an organization's environmental aspects."[72]

The philosophy of the ISO 14000 standards is to provide a common language and a certification framework for the certification of environmental management systems by third parties and to help corporations to satisfy the demands of consumers and governments for a greater environmental responsibility. The ISO 14000 series standard is composed of:

[72] *Ibid.*

- **ISO 14001:** Environmental management systems—Requirements with guidance for use
- **ISO 14004:** Environmental management systems—General guidelines on principles, systems and support techniques
- **ISO 14015:** Environmental assessment of sites and organizations
- **ISO 14020:** Series (14020 to 14025) Environmental labels and declarations
- **ISO 14030:** Discusses post production environmental assessment
- **ISO 14031:** Environmental performance evaluation—Guidelines
- **ISO 14040:** Series (14040 to 14049), Life Cycle Assessment, LCA, discusses pre-production planning and environment goal setting.
- **ISO 14050:** Terms and definitions.
- **ISO 14062:** Discusses making improvements to environmental impact goals.
- **ISO 14063:** Environmental communication—Guidelines and examples
- **ISO 14064:** Measuring, quantifying, and reducing Greenhouse Gas emissions.
- **ISO 19011:** which specifies one audit protocol for both 14000 and 9000 series standards together?[73]

In summary the ISO 14000 family is a group of international standards that specify the requirements to prepare and evaluate an environmental management system and the prevention of pollution in equilibrium with the socio-economic needs of modern corporations.

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[73] http://www.iso.org/iso/iso14000

Similarly the ISO 14000 is not a law, in the sense that it does not oblige corporations to adhere or buy other related ISO products and services, nevertheless corporations may require this and other ISO certifications in order to do business with other corporations whose stakeholders are concerned with issues like the environment or quality management. This is a legal trade barrier recognized under international treaties. As this certification popularity increases there is probably that it will receive similar treatment as the ISO 9000 series, influencing the creation of environmental regulations, and commercial practices as insurance and investment policies. It is also interesting to note that the certification and green seal received is becoming prominent in the eco-label field.

4.6.4 ISO 26000 SERIES

Since January 2005, the ISO has been working in the development of a new norm that provides guidelines for Social Responsibility. Representatives from different stakeholder groups have been working in the development and revisions to this norm: consumers, governments, industry, workers, and NGOs, among others. Leading ISO's Social Responsibility technical group was the Swedish Standards Institute (SIS) and the Brazilian Association of Technical Standards who drafted the standard for CSR that was finally published in November 2010, after five years of negotiations with the relevant stakeholders.[74]

In contrast with other Standards of the ISO family, the ISO 26000:2010 provides guidance rather than norms or requirements, for this reason this standard is not

[74] See http://www.iso.org/iso/home/standards/iso26000.htm

yet certifiable. This characteristic also places these standards in the same light as other soft laws, in other words it is non-binding and has no regulatory or contractual weight.

The standard identifies and defines key terms of Social Responsibility, identify and articulate communication to stakeholders, increase credibility of reports and the statements made in Social Responsibility, it also assists corporations in Social Responsibility in the social, environmental and legal aspects.

The ISO 26000 as other standards in the ISO family is consider to be a generic management system standard, or in other words a standard useful to any organization, regardless of the size or industry or any other consideration, nevertheless some concern has been raised as it can become a discriminatory instrument for small farmers and producers in international trade, an element that can hinder their entrance to new markets and to innovation.[75]

4.7 OTHER INTERNATIONAL STANDARDS

4.7.1 AA 1000

AccountAbility 1000 (AA1000) is a norm published by the British institution of the same name in 1999, it consists of a responsibility method intended to guarantee the quality of social accounting, auditing and disclosure of social and ethic aspects of the corporate management. AA1000 is a procedure norm, it specifies the processes that an organization must carry to provide proper

[75] Oshani (2008) How Material is ISO 26000 Social Responsibility to Small and Medium-Sized Enterprises (SMEs)?

disclosure of its operations, but it does not provide guides on the level of performance that an organization must reach regarding social, environmental and economic indicators.

This norm offers a free and open access standard that covers aspects related to Sustainability and annual reports of an organization. It offers a process of general application to evaluate, release information, increased credibility and quality of the sustainable report of an organization, its principal process and competencies. This norm is one of the first widely used standards concerned with organization and their social responsibility that consider its proper management as part of a corporations financial and quality assurance (Accountability, 2007).

4.7.2 SA 8000

Social Accountability 8000 (SA8000) is an international standard for Social Responsibility started by the Council of Economic Priority, and applied by Social Accountability International (SAI), the standard was created in 1997 and is one of the world's first auditable standards for improving and creating a decent workplace ensuring the ethical manufacturing and commercialization of goods and services. The SA8000 is also a generic management standard intended to be applicable to any type of company in any industry or field.

This norm is also of voluntary compliance and it establishes basic norms for preventing labor abuses and protecting labor rights in areas such as child labor, forced labor, health and security, freedom of association and Right to Collective Bargaining, discrimination, disciplinary practices, working hours, remuneration and certification for management systems (SAI, 2008).

4.7.3 OHSAS 18000

Occupational Health and Safety Assessment Series (OHSAS) was a combined effort from several national leading standards bodies, certification agencies and specialist consultants. This standard was created in 1999 by the British Standards Institution, as a response to the confusion prevalent due to the existence of multiple national standards and certification schemes. During the elaboration process, of the OHSAS, it was determined that the next three standards would be necessary:

- **OHSAS 18001:** Occupational Health and Safety Assessment Series: Specifications for an Occupational Health and Safety (OH&S) Management System. This standard determines the requirements for establishment, implementation and operation of an effective OH&S management system, requirements that later will be auditable for certification purposes.
- **OHSAS 18002:** Guidance for Occupational Health and Safety Management System. This norm consists of operational guidelines with references and typical examples for the implementation of the OH&S management System.
- **OHSAS 18003:** Criteria for auditors of Occupational Health and Safety Management Systems.

The publication of the technical standard OHSAS 18003 related to auditory criteria where delayed until the publication of the ISO 19011 Norm related to environmental and quality management system auditory. The OHSAS 18001 norm highlights as responsibilities of the Management of the corporation:

- Establish and explain an OH&S policy
- Identify the Risks and legal norms related
- Set goals, objectives and programs ensure continuous improvement
- Verify the performance of the system
- Revision, evaluation and improvement of the System

The standards in the OHSAS 18000 series do not intent to take precedent over relevant OH&S legislation or to be binding either for corporation or auditors, but as a voluntary management standard, that helps to establish goals and methodologies to aid compliance to OH&S rules and legislation an integral part of the corporate philosophy.[76]

This norm does not require a certification. Nevertheless, if the corporation decides to certify its OH&S management system, the corporation must be able to demonstrate that has complied with the requirements written in the standard. In this way these norms provide credibility and acknowledgement in the international field by providing an auditable system and documentation that can be evaluated by independent parties.

[76] http://www.ohsas-18001-occupational-health-and-safety.com/

4.8 U. N. INITIATIVES

4.8.1 MILLENNIUM DEVELOPMENT GOALS (MDG)

In September 2000 in the stage of the Millennium Summit summoned by the UN in the city of New York, the leaders of 189 countries gave their support to establish eight development objectives for the next millennium, the United Nations intent to nurture a commitment attitude, between countries in order to work for, and to achieve sustainable development. And by gaining consensus at the highest level it is also possible to articulate these goals from every country, city and community.

In order to give solutions to the deepest problems that affect the planet, every member country was asked to align their national development plans' objectives with their respective activities and goals that are projected for a completion deadline on the year 2015. These objectives are:

1. Eradicating extreme poverty and hunger.[77]
2. Achieving universal primary education,
3. Promoting gender equality and empowering women,
4. Reducing child mortality rates
5. Improving maternal health,
6. Combating HIV/AIDS, malaria, and other diseases..[78]
7. Ensuring environmental sustainability.
8. Developing a global partnership for development.[79]

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[77] http://www.un.org/millenniumgoals/poverty.shtml, last accessed on December 6, 2012
[78] *Ibid.* p. 40.

It is important to note that the millennium goals were negotiated under an anti-globalization climate and in response to those voices that demanded a change in the global market and financial organizations to reflect social concerns. The object of "Developing a global partnership for development" serves as a directive principle for the Official development assistance (ODA) of the OECD to in time help attain these objectives, Objective number eight is the only objective without a designated deadline.

4.8.2 UN GLOBAL COMPACT (UNGC)

The Global Compact is a strategic initiative designed as a result of a personal proposal of the then UN Secretary-General Kofi Annan and presented in an address to the World Economic Forum on January 31, 1999. It was later officially launched in July 26, 2000.

According to the Global Compact the CSR effort must come from a global collective contribution, as these are global and not local problems and the necessary elements to solve them are collective consciousness and action. The UNGC is an effort to create consensus in society, and to form a network of corporations that incorporates in their management policies that reflect respect for the environment, and human and labor rights. Through this initiative the UN fosters sustainable practices in business, and the collaboration with organizations like the own UN, governments, stakeholder groups and society in

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[79] See: http://www.un.org/millenniumgoals/global.shtml. Last accessed December 6, 2012.

general, actively inviting businesses to become part of the solution to the challenges of globalization.

"Businesses make a vital contribution to society and development: creating employment and income, providing technical skills, strengthening management and bringing market-based solutions to pressing social and environmental problems. Responsible businesses are a positive force in spurring development and improving human conditions."[80]

The UNGC does not pretend that CSR would be the panacea that will solve the world problems, but as the quote above evidences it recognizes the capabilities and the roles of corporations into solving some of the key issues, and therefore extends this request to corporations to address them. For the Global Compact the social responsibility of businesses is the voluntary imposition of ethical behavior. The UNGC request corporations to aid in this difficult task by embracing and endorsing within their sphere of influence, the following ten regulatory principles in four different areas of human rights, labor standards, environment and anti-corruption:

Human Rights

Businesses should:

Principle 1: Support and respect the protection of internationally proclaimed human rights; and

Principle 2: Make sure that they are not complicit in human rights abuses.

Labor Standards

Businesses should uphold:

[80] UN Global Compact Office (2012), United Nations Global Compact, "After the signature, A Guide to Engagement in the United Nations Global compact" p.31.

Principle 3: the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4: the elimination of all forms of forced and compulsory labor;

Principle 5: the effective abolition of child labor; and

Principle 6: the elimination of discrimination in employment and occupation.

Environment

Businesses should:

Principle 7: support a precautionary approach to environmental challenges;

Principle 8: undertake initiatives to promote environmental responsibility; and

Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption[81]

Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.[82]

With the purpose to guarantee that corporations are undertaking the obligations inherent to this principles, the UNGC ask corporations to emit an annual Communication on Progress (COP), that consists in a report elaborated by the signatory entities of the UNGC, informing to their stakeholders and society in general, about the progress made in the implementation of the Global Compact principles and supporting broad UN developing goals. The UNGC is inclusive to

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[81] In a first instance there where only 9 principles, but in mid 2004 a last principle was added, addressing the importance of fighting corruption and its impact on the global economy.

[82] UNGC, 2011; United Nations global compact Brochure cited on December 7, 2012, available from http://www.unglobalcompact.org/docs/news_events/8.1/GC_brochure_FINAL.pdf

all types of organization, providing different levels of voluntary disclosure that adapt all levels of sustainability performance and transparency, by presenting a platform called ‘The Global Compact Differentiation Program” which gives recognition to organizations in the context of their type, size, industry and geography.[83]

In synthesis the UNGC propose a group of indicators that reflect the global concerns in the three core pillars that compose CSR, the economic, social and environmental impacts of corporations. The UNGC purpose is to identify the common issues that concern humanity and mobilize collectively to achieve solutions and agreements to create a new ethical economy for new generations.

In general the principles stated in the UNGC are a useful guide to organizations, especially multinationals that are vulnerable to the media, opposition by NGO’s and other prominent stakeholders. Nevertheless the principles of the Global Compact are too general in nature to be real guidelines for the everyday activity of the organization as they are really intended. A business addition to the Pact becomes then little more than a political declaration of good intentions. Despite the critics, there is precedent of corporation being taken out of the list of signatory parties of the UNGC for not being able or willing to present the annual COP report.

[83] http://www.unglobalcompact.org/cop/index.html

4.8.3 UNITED NATIONS GUIDING PRINCIPLES ON BUSINESS AND HUMAN RIGHTS

The UN Guiding Principles on Business and Human Rights (UNGP) is a conceptual and a global standard concerning negative impacts on human rights caused by business activity, with the intention to influence in public policy at the international and local stage. The United Nations Human Rights Council unanimously endorsed the UNGP on June 16, 2011, effectively becoming the first corporate human rights responsibility initiative to be endorsed by the UN (Deva, 2012). This framework determines the role of businesses and Governments, while also clarifying some concepts and specific terms of the subject matter.

This framework is based on the following central ideas:

1. **Protect:** State duty to protect against abuses on human rights by entities including businesses. It not only reaffirms the state's obligation under international law, to take proper steps to prevent or punish abuses by the private sector, but also notes that states should monitor and prevent human rights abuses by businesses and organizations owned, controlled, or supported by the state.
2. **Respect:** The obligation of private corporations to respect human rights. The UNGP recognizes that organization have the ability to impact practically all international recognized rights, therefore is the obligation of corporations and governments evaluate potential and actual impacts to human rights, and on the part of corporations, to also integrate those concerns in every day processes and functions.

3. **Remedy:** The need to improve access to remedy mechanisms. States should provide remedy mechanisms through judicial, administrative and legislative means. On the corporate side organizations have the obligation to prevent and remediate any violation to human right resulting of their operations; in addition the UNGP dictates that non-judicial mechanisms should be legitimate, accessible, equitable and transparent.[84]

Formally this framework is known as the 'UN Protect, Respect, Remedy' Framework, or in some circles as the Ruggie Framework, named after the author of the report 'Guiding Principles for Businesses and Human Rights', professor John Ruggie[85], who started his work in human rights in 2005. Ruggie's 2005 draft titled "Protect, Respect and Remedy"[86] was unanimously accepted by the UN Human Rights council, becoming one of the most influential documents on the subject of CSR.[87]

The UNGP framework and the above principles are the most significant development on International regulation on corporate behavior in 30 years. The 2008 ratification of the Ruggie framework is significant, as it was the first time an organism of the UN designated to work on human rights adopted a significant policy addressing both corporation and human rights. Several instruments and initiatives concerning CSR have been or are being updated to address these

[84] UNHRC, (2010), p. 3 Cited on December 11, 2012, available from URL: http://www.reports-and-materials.org/Ruggie-protect-respect-remedy-framework.pdf
[85] Ruggie J., 2011. Guiding Principles on Business and Human Rights: Implementing the United Nations "Protect, Respect and Remedy" Framework, p.27.
[86] UNHRC, (2010); "The UN 'Protect, Remedy' Framework for business and Human Rights" also known as the Ruggie Framework.
[87] See Annex 4

principles; *i.e.* the OECD Guidelines for Multinational Enterprises, in the revision of May 2011, include a new chapter for human rights based on these guiding principles.

One important implication of this instrument is that expands and clarifies the extent of the responsibilities of corporations by stating that the responsibility of corporations is not limited to their ‘sphere of influence’ or its ‘supply chain’, but it extends to al ‘commercial relations’ including all indirect working relationships (*i.e.* including the job of outsource personal or independent contractors), that may have any adverse impact over communities and workers and their capacity to collectively bargain or organize. The concepts of due diligence and non-legislative remedy mechanism are also important inclusions to this instrument and to the overall UN discussion on businesses and humans rights as they address that preventive and remedy measures should be equitable to the risk and the severity of the possible damages.

4.9 OTHER INTERNATIONAL INITIATIVES

4.9.1 THE EUROPEAN UNION GREEN PAPER ON CSR

Since the 1990's The European Union has been actively interested in the Social Responsibility of corporations, and how it can positively contribute sustainable development. In July 2001 the EU Council of Ministers' concern in regards to social exclusion was materialized in the form of a green paper (EU consultation document) titled 'Promoting a European framework for Corporate Social Responsibility'.[88]

The green paper had as its core purpose to originate a wide debate on the ways that the European Union can do at the European and international level to support Social Responsibility in private corporations. In particular about how to efficiently use the intellectual capital and currently accumulated experiences, promote innovative practices, increase transparency and the credibility of valuations and certifications.

The two main objectives of the paper consisted in:

- Establish a European Legal framework to promote the quality and coherency of CSR practices through the elaboration of principles, and tools, in addition to promoting the best practices and innovative ideas on the topic.

[88] Commission of the European Communities (2001), Green Paper: 'Promoting a European framework for Corporate Social Responsibility', Cited on December 9, 2012, available from URL: http://eur-lex.europa.eu/LexUriServ/site/en/com/2001/com2001_0366en01.pdf

- Support the promotion of best practice approaches to evaluation and independent verification of Corporate Social Responsibility practices, guarantying their efficiency and credibility.

In their effort to promote a unified approach the green paper recognized the value of previous multinational instruments:

"While voluntary codes of conduct can contribute to promote international labor standards, their effectiveness however depends on proper implementation and verification. Codes of conduct may for instance face sub-contractors producing for a number of different multinational companies with the need to fulfill many different criteria regarding wages, working hours and other social conditions. Codes of conduct should therefore be based on the ILO fundamental Conventions, as identified in the 1998 ILO Declaration on Fundamental Principles and Rights at Work and the OECD guidelines for multinational enterprises, involving the social partners and those in developing countries covered by them."[89]

This discussion paper became a wide initiative with the Commission of the European Communities communication concerning 'Corporate Social Responsibility: A business contribution to sustainable development, '[90] followed by two communications one back in 2006, that was directed to the European Parliament, the council and the European Economic and Social committee, titled "Implementing the partnership for Growth and Jobs: Making Europe a Pole of Excellence on Corporate Social Responsibility,"[91] and the publication of a new policy on CSR in October 2011.

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[89] *Ibid.* p. 14

[90] COEC, 2002; Commission of the European Communities; "Communication from the Commission concerning Corporate Social Responsibility: A business contribution to Sustainable Development" Brussels 2002, Cited December 10, 2012, available from URL: http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2002:0347:FIN:EN:PDF

[91] COEC, (2006); Cited on December 10, 2012, Available from URL: http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2006:0136:FIN:EN:PDF

The aim of the new policy is to enhance the positive impacts of corporations through their interactions with society and the environment, (*i.e.* through the creation of products, services and jobs that are beneficial to society), and prevent or eliminate negative impacts, the new policy states that "to fully meet their social responsibility, enterprises "should have in place a process to integrate social, environmental, ethical and human rights concerns into their business operations and core strategy in close collaboration with their stakeholders".[92]

The new policy simplifies the previous definition now defining CSR as "the responsibility of enterprises for their impacts on society", it also recognizes that there is no universal solution when it comes to CSR and that the complexity identifying, preventing and mitigating impacts to society, depends on factors such as the size of corporations and the nature of their operations, in these sense the actions of SME's are likely to remain informal, and therefore difficult to address by policymakers.[93] This new definition is consistent with internationally recognized principles, such as the OECD guidelines for MNE's, the ISO 26000 standard and the UNGC.

The document also acknowledges that CSR should be led by corporations, but also highlights the role of the public sector and the need of solid regulatory instruments, announcing the intention to create a legislative proposal, which object will be CSR and non-financial reports. One of the most important characteristics of this political document is that it proposes a new agenda for the

[92] COEC, (2011); Arenewed EU strategy 2011-14 for Corporate Social Responsibility, Cited on December 10, 2012, Available from URL: http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2011:0681:FIN:EN:PDF
[93] COEC, (2011); p. 6.

2011 to the 2014 period, which is already half underway and that should be reflected in a new communication, that has been announced for 2014 regarding the application of the UN Guiding Principles on Business and Human Rights.

The 2011-2014 agenda is organized around the following concepts:[94]

1. Enhancing the visibility of CSR and disseminating good practices.
2. Improving self- and co-regulation processes.
3. Enhancing market reward for CSR.
4. Improving company disclosure of social and environmental information.
5. Further integrating CSR into education, training and research.
6. Emphasizing the importance of national and sub-national CSR policies.
7. Better aligning European and global approaches to CSR.

This program intent is to reverse the actual situation, where despite all the progress made, only 15 of the 27 EU member states have a framework for CSR. Currently the European law requires that companies*: "To the extent necessary for an understanding of the company's development, performance or position, the analysis [in the annual review] shall include both financial and, where appropriate, non-financial key performance indicators relevant to the particular business, including information relating to environmental and employee matters"*.[95]

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[94] *Ibid.* p.8.
[95] EU Directive 2003/51/EC Of the European Parliament and the Council of 18 June 2003: Cited December 11, 2012, available from URL: http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2003:178:0016:0022:EN:PDF

4.9.2 GLOBALGAP

The GLOBALGAP is a European certification framework for Good Agricultural Practices (GAP); the GLOBALGAP has its origins in 1997, as a renewed version of its predecessor framework the EUREPGAP. The Euro-retailer Produce Working Group (EUREP) is a private voluntary certification program that was created by a group of 24 Supermarket chains and British retailers.

The purpose of EUREP was to increase the trust among consumers in regards of the quality standards of products such as fruits, vegetables and ornamental plants, in addition to the good agricultural practices that should be followed by producers, addressing the concerns of consumers about the healthiness and safety of food products, the welfare of workers and the impacts to the environment. This is an important differentiating characteristic of this framework as GLOBALGAP and EUREPGAP focus on the quality of food products, tracking the processes to their place of origin, nevertheless the framework also addresses requirements on the use of pesticides, the use of natural resources, the use and treatment of containers and packages, and the compliance to labor laws.

The EUREGAP framework was a successful market solution that created a European Community wide accepted criteria for food safety, sustainable production methods, worker and animal welfare, and responsible use of water, compound feed and plant propagation materials.[96] Besides it being a gate keeping instrument, in the sense that obtaining this certification is a requirement

[96] See GLOBALGAP History, cited December 13, 2012, http://www.globalgap.org/uk_en/who-we-are/history/

to enter the European market, the GLOBALGAP organized certification system meant savings to producers by unifying the criteria and audits they may undergo every year to commercialize their products in said market.

EUREGAP change its name to GLOBALGAP to reflect its increasing global reach and goal of becoming the leading international standard for good agricultural practices, as a result of the impacts of globalization and the increasing number of retailers that have joined globally, the GLOBALGAP has effectively become the "world's leading farm assurance program"[97] having a presence in more than 100 countries all over the world.

4.9.3 FAIR TRADE

The process of globalization that has taken place since the second half of the twentieth century has worsen some of the exploitative conditions that are suffered by small agriculture producers in Asia, Africa and Latin America. The increase of competition in the international agricultural market, that is the main target of exports from developing countries, has meant a drastic reduction of the prices in detriment of producers.

In Europe and in the United states the civil society responded to these phenomena by developing a series of initiatives to create fairer and just market commerce conditions among consumers from developed industrialized countries and the producers in developing countries. The main idea is to generate a

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[97] *Ibid.*

business climate that rejects exploitative conditions and eliminates poverty, and in which all agents are recognized as partners.

Many countries joined this effort in the shape of National initiatives, composed by NGOs networks, environmental groups, religious groups, labor unions and other organizations representing civil society; promoting a framework of social labeling that allows consumers to identify Fair Trade products in conventional market places. The more known and widely available were recognized labels like Stichting Max Havelaar (or the Max Havelaar Foundation in English) and Fair Trade USA (Formerly Transfair USA).[98] Social labeling organizations created standards that dictated rules and requirements that producers and wholesale buyers should follow. Free trade organizations also monitor transactions to ensure that they follow the standards; they also connect producers and exporters eliminating intermediaries.

Fair Trade represents an alternative to conventional approaches to commerce; it is based on the co-operation between producers and consumers. Fair trade offers better and fair conditions to producers in developing countries to create better trading conditions and promote sustainability. The U.N. and social and political NGOs support fair trade, by promoting voluntary and just commercial relationships among consumers and producers. Fair trade seal certification is beneficial to export products from developing countries, particularly handicrafts, clothing, coffee, cocoa, sugar, tea, bananas, honey, cotton wine (Moseley, 2008).

[98] See http://www.wfto.com/

The World Fair Trade Organization (WFTO) is the global representative body with a presence in over 75 countries across five regions: Africa, Asia, Europe, Latin America, North American and the Pacific Rim. Elected global and regional boards govern the WFTO, and they represent artisans and farmers that operate in vulnerable conditions, in family-based production units or as hired workers, providing them with more advantageous conditions and commercial opportunities in the global market. The WFTO states its mission as follows: *"…to enable producers to improve their livelihoods and communities through Fair Trade, ensuring producer voices are heard. The interests of producers, especially small farmers and artisans, should be the main focus in all the policies, governance, structures and decision making within the WFTO."*[99] Fair trade members and local representative organizations that adhere to this program are guided by the following principles:[100]

1. Creating Opportunities for Economically Disadvantaged Producers.
2. Transparency and Accountability.
3. Fair Trading Practices: Organizations must consider the social, economic and environmental aspects, and not only pursue the maximization of profits at the expenses of producers.
4. Payment of a Fair Price: Fair prices are mutually agreed by all parties through dialogue and participation.
5. Ensuring no Child Labor and Forced Labor.

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[99] WFO mission, cited on December 17, 2012, available from URL: http://www.wfto.com/index.php?option=com_content&task=view&id=889&Itemid=290
[100] 10 Principles of Fair Trade, Cited on December 16, 2012, available from URL: http://www.wfto.com/index.php?option=com_content&task=view&id=2&Itemid=14

6. Commitment to Non Discrimination, Gender Equity and Freedom of Association.
7. Ensuring Good Working Conditions among producers.
8. Providing Capacity Building.
9. Promoting Fair Trade: The organizations that buy products from fair trade intermediaries communicate the need to create greater justice through Fair Trade.
10. Respect for the Environment.

The minimum price that Fair Trade products receive is determined by the Fair trade criteria and principles; the great majority of Fair Trade certified products have a minimum determined price. This price intends to ensure that producers can cover the costs of a sustainable production process. This protected price acts as a safety net for the producers in the moments in which global market prices plunge under the sustainable level. When the market price is superior to that established by Fair Trade commerce, members buy the products at the higher price; nevertheless there is also the possibility to negotiate prices based on the quality of products and other attributes.

In addition to the Fair Trade price, there is an additional Fair Trade Prime. The money collected through this instrument, is converted into a community fund for workers and producers with the purpose to improve social, economic and environmental issues that affect the local community. The use of this fund is decided democratically by producers inside small product organizations, or by workers in plantations. The prime is typically invested in education projects, sanitary projects, improvements to the agriculture processes and quality improvements.

4.9.4 GLOBAL REPORTING INITIATIVE (GRI)

In an effort to create a tool to foster and impulse sustainable corporations and transparency through the elaboration of sustainability reports the Coalition for Environmentally Responsible Economies (CERES) launched the GRI project in 1997. During the 90's several attempts to create standards and evaluation systems of corporate performance were made, especially in the field of information disclosure (annual reports), The GRI project was later incorporated to the United Nations Environment Program (UNEP) in 1999, which gave it great impulse, to the point that it is considered to be one of the most widely used standards to generate annual reports allowing corporations to disclose activities and programs that impact their environmental, social and economic dimension, and that fall under the umbrella of the CSR concept (Arroyo & Suarez, 2006).

According to the GRI the main drivers behind the need for Sustainability reports and the CSR efforts of corporations are:

- The expansion of globalization: According to the GRI, corporate activity promotes globalization, at the same time adverse effects of this process have been documented by scholars and the media, as a result, corporations are looking for new responsible practices and ways to reliably document the impact of corporate activities, in any condition they are carried; is in this way that in recent years CSR reports have become more relevant.

- The Corporate Governance reform: Increasing pressure on corporations to establish and maintain internal quality controls in all their operations. The influence of corporations in economic, environmental and social changes: Corporation's influence has increase virtually in all fields of human behavior, and therefore investors and other stakeholders expect that directors and managers of this corporations exercise a high level of transparency, and ethics, in a sensible way that incorporates the diverse interests of stakeholders and not only the interests of investors. Likewise independence of board members, and participation of directors in external societies, compensation plans, economic incentives formulas and the integrity of auditors are being scrutinized.

In this context the GRI assures that effective Corporate Governance is a function of relevant and quality information access that allows the interested parties to do a follow-up of the actual performance of the organization promoting a new set of commitments with stakeholders. Furthermore according to the GRI there is a special interest from financial market operators on CSR and Sustainability reports, due to the relationship between sustainable activities and stockholder value, brand equity, reputation, etc.

The GRI as an institution was also created in 1997; the organization became independent in 2002, and is a non-profit organization, which mission is "to make sustainability reporting a standard practice to all organizations."[101] In the context of the increasing interest and availability of the information related to

[101] https://www.globalreporting.org/

the social responsibilities of corporations and their impacts to society and the environment, the GRI owes its creation to stakeholder's pressure to have better standards that allow an objective comparison among corporations (Moneva, 2007).

According to the GRI the principles to ensure quality of Sustainability Reports are:[102]

a) **MATERIALITY:** The information in a report should cover topics and Indicators that reflect the organization's significant economic, environmental, and social impacts or that would substantively influence the assessments and decisions of stakeholders.
b) **STAKEHOLDER INCLUSIVENESS:** The reporting organization should identify its stakeholders and explain in the report how it has responded to their reasonable expectations and interests.
c) **SUSTAINABILITY CONTEXT:** The report should present the organization's performance in the wider context of sustainability:

- **Completeness:** Coverage of the material topics and Indicators and definition of the report boundary should be sufficient to reflect significant economic, environmental, and social impacts and enable stakeholders to assess the reporting organization's performance in the reporting period.

[102] https://www.globalreporting.org/resourcelibrary/G3.1-Comparison-Sheet.pdf, cited on December 21, 2012.

- **Balance:** The report should reflect positive and negative aspects of the organization's performance to enable a reasoned assessment of overall performance.

- **Comparability:** Issues and information should be selected compiled and reported consistently. Reported information should be presented in a manner that enables stakeholders to analyze changes in the organization's performance over time, and could support analysis relative to other organizations.

- **Accuracy:** The reported information should be sufficiently accurate and detailed for stakeholders to assess the reporting organization's performance.

- **Timeliness:** Reporting occurs on a regular schedule and information is available in time for stakeholders to make informed decisions.

- **Clarity:** Information should be made available in a manner that is understandable and accessible to stakeholders using the report.

- **Reliability:** Information and processes used in the preparation of a report should be gathered, recorded, compiled, analyzed, and disclosed in a way that could be subject to examination and that establishes the quality and materiality of the information.

To accomplish its mission the GRI creates and publish the Guidelines for the elaboration of sustainability reports, these guidelines are of voluntary compliance for the organizations that want to inform about economic, environmental and social aspects. The objective of these guidelines is to help corporations and their stakeholders to describe and articulate their contributions to sustainable development.

The first publication of Guidelines made by the GRI was draft and published in June 2000, which after a revision was officially presented in September 2002 (G2) and 2006 (G3). Currently the guidelines are under revision for the G4 version, and a draft denominated G3.1 has been publish and is under the consultation process.

With respect to conceptual definitions, the GRI has a pragmatic and operative approach, and even when it does not explicitly defines CSR related concepts, it is participant in their execution and expression, through the establishment of specific indicators over many of CSR's aspects. One particular example of this approach, is the position the GRI takes on the permanent discussion on CSR's definition; the GRI guidelines state that they use the term "Sustainability Report" as a synonym for "Corporate Citizenship Reports", "Social Reports", "Triple Balance Report" and other terms that cover the disclosure on the social environmental and economic dimensions of an organization.

The Guidelines for sustainability reports are composed by the principles that define the content that must be included in the sustainability report to standardize and ensure the quality of the information included in the reports. In this section an index of the basic contents that must be contained in the report is provided, information in relation to:

- **Strategy and Profile:** Information that establishes the general context of the organization, and that is necessary to understand the nature of its performance, information such as its strategy, profile and governance.
- **Management Approach:** Information on how the organization addresses specific topics to give context and aid the comprehension of the performance of the organization in different areas.
- **Performance Indicators:** indicators that aid in the comparability of performance information in the triple balance (economic, environmental and social aspects) of the organization. The performance indicators on the social category are subdivided in labor, human rights, society, and product responsibility.

The GRI does not force corporations to present a full disclosure in all the concepts referenced by the GRI index, but even when the content referenced by reports is in many cases incomplete, the GRI criteria is inclined to potentiate transparency. In this sense the GRI is open to the possibility of presenting sustainability reports in an incremental process.

As mentioned above in 2012 the Global Reporting Initiative started a consultation process to obtain feedback on the G3.1 framework that is to become the G4 framework, the objectives of the current revision is to solve issues on application, such as improving the technical standards, simplify the application of the guidelines, offer guidelines on the integration of sustainability reports and integrated reports, and overall to center reports on the materiality principle.

The new draft of the GRI Guidelines presents a profound revision of the G3 content in four aspects:

Governance and Remuneration: the G4 framework propose several changes on Corporate Governance and compensation policies incorporating new concepts of sustainability specially in the Profile section of the report, inserting indicators on the proportional remuneration to executives, the proportion of remuneration to lower level executives and the proportional increases on remuneration.

Managerial Approach: The information provided on the section of the managerial approach purpose is to give corporations the opportunity to explain how they manage the information on economic material, environmental and social impacts. The G4 framework project draws a generic approach for all topics and proposes that the managerial approach must be the reflection of the managerial practices of the organization.

Supply Chain: The modified aspects include a new definition of supply chain and of supplier, as well as new disclosures on supply chain, including procurement, selection and evaluation, as well as remediation practices. Guidance on application of the new reporting requirements on this topic is also provided.[103]

Application Levels: Application Levels were introduced with the G3 Guidelines to help organizations to communicate the level of transparency reached by their sustainability reports in relation to the GRI framework. This system has motivated corporations to adopt the framework. Nevertheless in later years concerns have been raised regarding users' miss-interpretation of the levels. Current G3 and G3.1 frameworks contemplate three different application levels (A, B and C), and under these frameworks reporters are required to assess their own application levels commonly resulting in users of the guidelines emitting this grading as a mere opinion on the quality of the report or the performance of the organization. The application Level system as it exist in the G3 and G3.1 Guidelines is to be discarded and replaced by G4 guidelines in May 2013, the G4 is destined to be applied for all organizations and a period of two years for transition period is contemplated.[104] Currently critics to the G4 framework have been presented regarding on the draft treatment, or rather the lack of discussion and reforms on issues such as, human rights, and freedom of expression and privacy of information.[105]

[103] See G4 Esposure draft, overview iii, p. 141. (GRI 2012).
[104] *Ibid.* Overview section ii.
[105] D.A. Hope, The GRI Misses Some of the Most important Human Rights issues of Our Age, Cited on December 27, 2012, available from URL: http://www.bsr.org/en/our-insights/blog-view/the-gri-misses-some-of-the-most-important-human-rights-issues-of-our-age

4.9.5 IBASE FRAMEWORK

Since its foundation the Brazilian Institute of Social and Economic Analysis (IBASE)[106] has been one of the leading institutions in Latin America promoting active citizenship and pursuing the goal of consolidating democracy. In 1981 the Sociologist Herbert de Souza, founded the IBASE with the goals of pursuing active citizenship and the consolidation of democracy.

The IBASE model or framework was launched in 1997, with the objective of raising awareness among corporations and society on the importance of having a social audit of corporations based on a unique and simple model. The IBASE framework was inspired in the format of an everyday Balance Sheet or a State of financial position, used by virtually all businesses. In the same way that a Financial Balance sheet's objective is to provide a 'snapshot of a company's financial condition' the goal of the 'Social Balance' is to provide a complete expose of the numbers and figures associated with the execution of the Social Responsibility of the Corporation providing a quantitative picture of the Sustainability efforts of the organization. The Social Balance is also known as 'Social Audit' and it consolidates information on social charges from governments, expenses, profit sharing, environmental control related expenses, and social external investments in areas such as, education, health and culture.

In Brazil, home of the IBASE, the idea of Corporate Social Responsibility was first discussed in the 70's, but it was well into the 80's when the first Social or

[106] The Brazilian Institute of Social and Economic Analysis, IBASE for its acronym in Portuguese (Instituto Brasileiro de Análises Sociais e Econômicas), it is a social civil organization promoting democracy and sustainability processes since 1981. http://www.ibase.br/pt/

Sustainability reports started circulating. The IBASE gained national attention in June 1997 when in a joint effort with representatives of public corporations, published a framework for social audits. This framework was a result of consultations and debates within several sectors of society resulting in a campaign inviting corporations to publish their own social balances in a voluntary basis. After gaining the acceptance and collaboration of important players in the Brazilian economy, the standard took off, and currently many corporations in Latin America present their Social Balance in addition to GRI reports[107]. Based on the idea that a simplified system will guarantee the participation of corporations, in the elaboration of social audits. This framework consists of a minimum standard or pattern that the corporation needs to follow to evaluate the social function of the corporation.

The annual Social Balance is a periodical disclosure communication model, the main difference between this model and the GRI Framework, resides in that the IBASE model provides a disclosure of qualitative and quantitative elements of the social actions of enterprises. With the disclosure of accounting information on the social performance of the corporation and their relationship with workers and families and the communities where they reside or work. Corporations show the results of concrete actions resulting on their Corporate Social Responsibility and corporate philanthropy.

[107]Corporations such as Petrobras, the national oil extraction and energy industry giant publish its last Social Balance in its latest report of 2011; Retrieved from URL: http://www.petrobras.com/lumis/portal/file/fileDownload.jsp?fileId=8A3CC77B38455EB7013903333E36475A

The Social Balance is a planning and evaluation strategic management tool that helps to identify improvement opportunities for social, environmental and financial performance. It was created through a multi-stakeholder approach; the model is available in Portuguese, English and Spanish.[108] In order to carry the Social Audit the IBASE institute developed 45 social indicators grouped in five categories: Social internal Indicators, Social External Indicators, Environmental Indicators, Employee composition indicators, and Information relating to the exercise of corporate citizenship. By integrating information relating to the execution of corporate citizenship, corporations showcase the results of concrete actions that are a direct consequence of the application and integration of Social Responsibility into its management policies. The following is an explanation of the main sections that compose the IBASE Social Balance:

Social Internal Indicators: This section on the social balance is composed by concepts and benefits that impact the labor force of the organization, benefits represented by concepts such as, food, mandatory payroll taxes and benefits, private pension plans, health plans, safety and health at the workplace, education, culture, Training and Professional development, day care or stipends for day care services, profit-sharing, among other benefits that impact directly the quality of life of the members of the organization.

External social Indicators: activities, contributions and philanthropic donations to society, creating positive social impacts in the communities they

[108] Information on the IBASE framework and statistics on the corporations using the framework can be found at URL: http://www.balancosocial.org.br, cited on December 31, 2012.

operate in areas such as education, culture health and sanitation, sports, hunger relief and food security, Guarantee of Rights of Children and Adolescents etc. This concept includes all programs that intend to raise the quality of life of a particular community by aiming to reduce poverty, raise literacy or improving community services.

Environmental Indicators: This category includes data and figures resulting from activities and programs that target the elimination or reduction of the impacts to the environment, this type of investments include all investments related to the company's operation or production system, and external investments or campaigns. This section also includes information considering the establishment of annual targets to minimize toxic waste and resources consumption during operation process and to improve their efficient use, and their respective accomplishments.

Employee composition indicators: Indicators on the materialization of the corporation policies in regards to human resource management, this section of the social balance is composed by concept such as number of employees at the end of the term, hires during the term, number of outsourced employees, interns, employees over 45 years old, women employed, percentage of management position occupied by women, number of employees from minority racial groups and percentage of management positions occupied by them, and the number of employees with disabilities.

Information relating to the exercise of corporate citizenship: This section of the social audit statement includes information regarding the execution and creation of the CSR policies concepts under this section include concept such as the ratio of the highest to lowest compensation at the company, number of accidents at the company, total number of consumer complaints and criticism, percentage of answered complaints, coverage of pension and profit-sharing plans, compliance with labor norms, how environmental responsibility impacts the selection of suppliers, and distribution of added value, in addition this section also includes information regarding the decision making process of the corporation, indicating the originating point of policies distinguishing from top executive level, top and mid-level executives, and all employees in areas such as Social and environmental projects development, and the company's standards for safety and health in the workplace.

An in detailed exposition and format presentation of the Social Audit or Social balance sheet can be found in the IBASE institute website or at the Social Balance website.[109] In order to provide objective and quantitative information that allows the comparability among corporations, the IBASE model includes financial indicators such as net revenues, earnings before interest and taxes (EBIT), and gross payroll; furthermore the three main sections of the balance: Internal Social Indicators, External social Indicators and Environmental indicators are expressed in monetary terms, as a percentage in relation to Gross Profit and Net Revenue. The improvements from the current fiscal year and

[109] Definition on the concepts and format that compose the IBASE social Audit model can be found at URL: http://www.balancosocial.org.br/cgi/cgilua.exe/sys/start.htm, cited on December 31, 2012.

previous period are also compared in the social balance sheet, providing an objective comparison point with previous observed performance figures in the same organization. Organizations that comply with the requirements of the IBASE model of Social Audit, receive the right to bear the Social balance seal named the "Betinho seal", after the founder of the IBASE institute.

The IBASE model is based in a practical and empirical model, presenting a social audit that is coherent with business practices; nevertheless the model has been criticized in several fronts: limited participation of Latin American partners outside Brazil, also the model makes no differentiation between motivations for compliance, *i.e.* between compliance to norms and current legislations, and actions with direct benefit to the corporation that result in tax deductions. While the verification process is also limited, the credibility of the model has also been criticized, in addition many internationally accepted CSR indicators are not yet included, a disadvantage that is more evident when compared with other models like the GRI or the Ethos model, indicators such as, consumer relations, relationships in the supply chain and product/service quality.

4.9.6 ETHOS INSTITUTE INDICATORS FOR CORPORATE SOCIAL RESPONSIBILITY

The Ethos Institute of Business and Social Responsibility is an association of companies from all sectors and sizes, interested in the development of responsible corporate behavior, working under a process of constant evaluation and improvement. The Ethos Institute is a non-government organization conceived with a mission to *"mobilize, sensitize and help corporations in their business management so they operate in a responsible manner, contribute to a more just and sustainable society"*.

The indicators proposed by the Ethos Institute for Corporate Social Responsibility are the components of a tool designed to direct and evaluate the corporation's management of responsible practices, to support the business strategy, control and supervise the general behavior of a corporation. Basically the indicators represent a tool for auto-evaluation of the management that is carried with an established methodology that also results useful to allow comparison with other companies.

The tool consists of a questionnaire that is answered annually; the objective of the indicators is to help corporations to diagnose, plan and supervise the incorporation of Socially Responsible practices into their core management processes and addressed on the strategic business plan of the organization. By answering the questionnaires elaborated by the Ethos institute, corporations can annually determine their results in terms of CSR performance. Corporations then send the completed questioners to the Ethos institute, which generates a confidential diagnostics report; this document contains a comparison of the corporation's performance with the average performance observed by the rest of the companies that participate in the annual survey. The report also analyzes the corporate behavior with a benchmark of the ten best companies that observed the best sustainable practices in the survey.

The Ethos Institute survey is composed by 192 binary indicators, that allow a yes or no answer and 57 quantitative indicators, both organized in the survey in seven main groups:

1. Values, transparency and governance.
2. Employees and Workers.
3. Environment.
4. Suppliers.
5. Consumers and Clients.
6. Community.
7. Government and society.

The Ethos Institute carries an annual review that enables this management tool to be updated and aligned with the most relevant CSR issues locally and globally. This tool ample variety of indicators, represent a great asset for this framework, as it evaluates multiple aspects of the Social Responsibility of a corporation, but at the same time it is been qualified of being complicated and difficult to implement. The Ethos Institute is part of the CSR360 Global Partner Network and develops projects in partnership with several bodies concerned with social responsibility particularly in Latin America where it is the main local partner of the UN Global Compact to prevent and solve potential irregularities linked to the 2014 FIFA World Cup in Brazil and the 2016 Rio de Janeiro Olympics, with the program Clean Games (Jogos Limpos).[110] Currently Ethos Institute of Business

[110] See UN Global Compact website news and events section article: *"Ethos Institute and UN Global Compact Launch "Clean Games" Anti-Corruption Project"* Retrieved from URL: http://www.unglobalcompact.org/news/118-05-02-2011, cited on January 4, 2013.

and Social Responsibility counts with 1368 members, in Brazil its members' revenues account for approximately 35% of the Brazilian GDP and employ roughly 2 million people.[111]

[111] See the CSR 360 Global Partners' profile Retrieved from URL: http://www.csr360gpn.org/partners/profile/ethos-institute-of-business-and-social-responsibility/, cited on January 4, 2013.

CHAPTER 5: CSR DISCLOSURE AND GLOBAL FINANCIAL CRISIS

5.1 CSR COMMUNICATION AND CSR DISCLOSURE

CSR communication can be simply defined as a management communication that informs about the ethical and social initiatives of the organization, their performance and the rationale behind these efforts (Dawkins, 2004; Morsing and Schultz, 2006). Basically, CSR communication is all information directed to stakeholders regarding the corporation contribution or impact to the dimensions of CSR (Economic, Social and Environmental, including product responsibility and future initiatives).

CSR communication is fundamentally based on Stakeholder Theory, with social reports being designed and tailored to different audiences. These audiences or Stakeholders, are represented by the General public, Government (legislators), Investors (Institutional or Social responsible investors), NGO's and NPO's; representing also an additional challenge as a particular Social Report must address their collective interests (Dawkins, 2004). Corporations are and must be concerned about communicating properly to their diverse Stakeholders, as messages conveying information about corporate ethics and social initiatives have the ability to evoke positive reactions among them (Morsing and Schultz, 2006). In communicating with stakeholders the organization is presented with the strategic choice of a wide variety of communication channels such as CSR or Sustainability reports, the Internet and the traditional media channels like advertising campaigns on television, billboards and periodicals.

The above, highlights the importance of considering the perception of different audiences over their processes, CSR efforts and policies. CSR communication express what the organization is and what they aspire to be; in other words CSR communication as any other kind of corporate communication is what the organization says about itself, and therefore must be coherent and congruent with its actions to convey meaning to internal and external stakeholders. In addition it is also essential that managers are aware of the importance to communicate their activities and practices that have a benefit for society and how they involve with communities; this is the way managers can reach their internal and external audiences to influence their perception and improve the trust relationship that they have with those audiences.

Organizations are considered to be socially responsible when they fulfill the expectations stakeholders have of their behavior, in that sense, the organizations that communicate their actions, projects and decisions effectively, are rewarded with the approval and trust of their stakeholders, a situation that also can result in economic benefits and improvements of corporate image, clients loyalty, the morale of employees, the financial markets and governments (Vives, 2011). Some empirical studies support the idea that aspects of the corporation beyond its product or services, such as its reputation and CSR efforts particularly in the cases of the environment and corporate philanthropy have a positive effect on the evaluation of the company and purchase intent of consumers (Mohr and Webb, 2005).

5.2 CORPORATE COMMUNICATION AS A STRATEGY FOR BUSINESS INTEGRATION

To answer the question of why CSR is important to corporations is convenient to analyze the strategic role of corporate communication as a business integration tool. A successful communication strategy is based on the adequate diagnostic of the problematic, need, project or situation that requires to be managed and appropriated.

The main function of corporate communication inside the organization is to create links, networks and meanings that help them and their audiences (stakeholders) to adapt to the needs of their corporate context. For organizations these needs can be properly identified and addressed, when issues are worked in the context of concepts such as Identity, Image, and Organizational Culture. Italo Pizzolante (1993), in his work on image engineering, argues that these three are the basic concepts to build, consolidate and sustain the trust of stakeholders in the long term. To visualize the communication or the global exchange of values that the organization performs with its audiences is a powerful strategy to manage the corporate image in an effective way.

According to Pizzolante's theory of corporate culture of the business environment, these concepts can be defined in the following way:

Organizational Culture: represents what the organization is and does as a whole (human capital, physical assets and social structure), it's the intangible part of the organization, represented by its values, norms and principles, concepts that are shared by all the individuals that compose them.

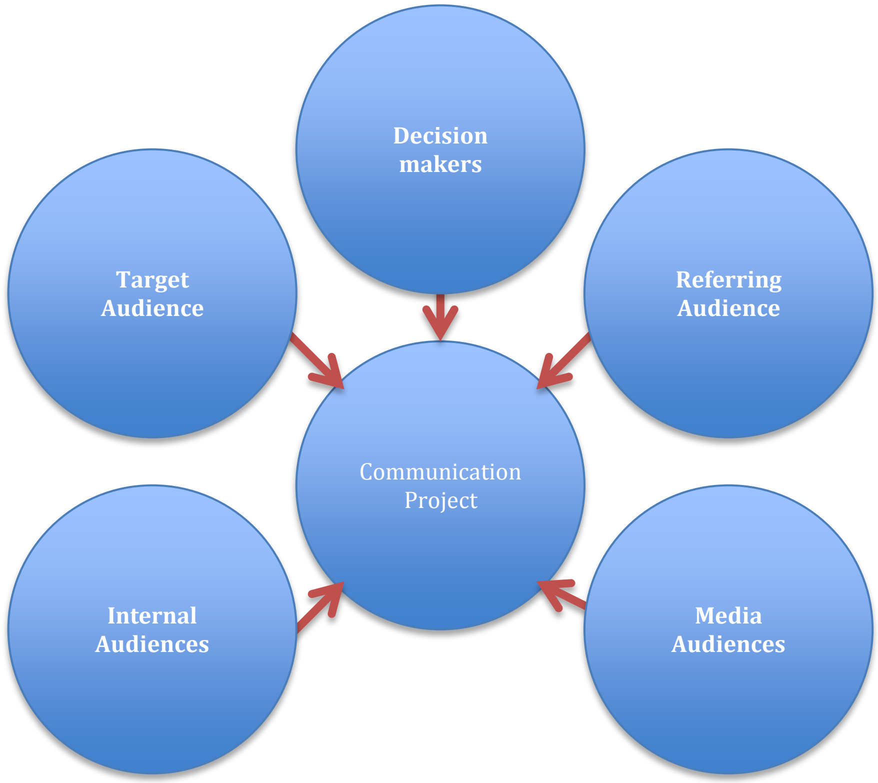
Identity: is the personality that an individual, or a group of individuals, construct for themselves. It's the way that the attributes and values of an organization become tangible to the different audiences that surround it.

The Image: Is all perceptions that surround the organization and that allow it to have a place in its surrounding environment, in this sense a strategic plant to successfully accomplish its objectives. The image is fixed and embedded in the minds of those individuals that integrate the surrounding environment, a concept otherwise known as public opinion. With the use of 'strategic communication' and the significant links and contacts of the organization, it is possible to build-up and matches the expectation of the diverse audiences (Stakeholders).

A determinant factor to be able to fulfill the needs and strategies of communication of a specific organization is to identify who are the audiences of the organization, and where their expectations are coming from. Recognizing these audience's needs, will determine the responsiveness of corporate projects.

The Following diagram shows the influences on corporate public communication projects. The logic is that a balance of these stakeholders' influences must be evaluated and decided for different issues and communication projects:

Figure 5.1 Influencing Factors for Corporate Public Communication



***Source: Manucci,* 2004.**

Internal Audiences: This group is represented by the members of the organization, the personal that is in charge of the management and the operation of corporate projects.

Target Audience: Is the beneficiary audience, in other words, the group of stakeholders that the communication project is trying to reach.

Decision Making Audience: Is the group of people whose participation and decisions will define the communication process.

Referring Audiences: The individuals or institutions in charge of the promotion, management and regulation of the external policies that will affect the project.

Media Audiences: Audiences and communication corporations in charge of the dissemination and acknowledgement of the project at the external level.

Another useful tool to identify what are the communication needs of the corporation and how audiences interact with the organization is the 'sociogram'. Sociograms are the graphic representation of the social networks of a group of people with shared interests; these diagrams show the structure and patterns of group interactions (Brown, 2010). The diagram of relations is defined by the perceptions that every individual have of their social network and is relative to the position that each individual or stakeholder occupies in the network.

The determinant factors to effectively define the sociogram of the organization are:

- The Issue to be addressed.
- The focal groups and the number of individuals that have a relation to these groups.
- The type of relationships in the system.
- Frequency of the interactions.
- Intensity of the interactions

Through the analysis of social networks, corporations not only identify what are the subjective ideas audiences have of them, but also an opportunity to recognize the fluxes and communication channels more relevant to fulfill the communication needs of its social network.

When a strategy is formulated with the knowledge of what aspects of the issue are to be solved or changed (Image, Organizational Culture or Identity), and who are affected by such actions, the next strategy is to know how to accomplish this objective. In other words, to find the more appropriate means and methods to reach these audiences and create the links and meanings that support these targeted changes.

5.3. SOCIAL AND ENVIRONMENTAL ACCOUNTING AND CSR REPORTING

5.3.1. SOCIAL AND ENVIRONMENTAL ACCOUNTING (SEA)

CSR reporting has its origins in Social and Environmental Accounting, which can be defined be defined as *"the process of communicating the social and environmental effects of organizations' economic actions to particular interest groups within society and to society at large. As such it involves extending the accountability of organizations (particularly companies), beyond the traditional role of providing a financial account to the owners of capital, in particular, shareholders; such an extension is predicated upon the assumption that companies do have wider responsibilities than simply making money for their shareholders"* (Gray et al., 1995).

Social and environmental accounting dates back to the early 70's, according to Mathews (1997) the development of the discipline can be divided in three stages. During first stage (1971-1980), research in SEA started to flourish, this early studies where descriptive in nature with studies focused on measuring the amount of information published and produced by corporations. Corporations where showing little interest in social and environmental accounting; with disclosures mainly concerned with product responsibility and labor rights.

The second period (1981-1990), corporations' interest in SEA increased bringing forward some issues on environmental accounting and auditing (Owen, 2008). As a result new research became more analytical, promoting also debates on the ethical and philosophical issues of the discipline.

Mathews (1997) argues that during the third period of the discipline environmental accounting "outstripped that related to social accounting", in other words this period is characterized by the development of environmental audits. Information on employee related disclosure reduced dramatically since 1981. However Social accounting fell under criticism as some authors (Tinker et al., 1991; Cooper, 1992) consider that the discipline has failed to produce any real social change, as it avoids the problematic and influences of the political sphere.

Currently Social and environmental accountability as a practice has grown in parallel to the increase of interest in social and environmental reporting, even when considering that CSR reporting is a voluntary practice, a still growing number of organizations are publishing these documents as a way to communicate with their stakeholders, furthermore countries such as Japan, Denmark, New Zealand and the Netherlands have passed laws in relation to corporate disclosure making it a standardized practice (Kolk, 2003).

Corporate Social and environmental reports receive many denominations, in many cases the non-financial information in these reports varies and is not limited to specific topics, and in order to address this, corporations provide them with titles to reflect the scope, nevertheless the most commonly used denominations are 'CSR Report' or 'social report'; these are the type CSR communication, which main objective is the transparency on the performance of the corporation and its impact, taking the form of an annual Social, Sustainability or Integrated report.

Social reporting has become essential to organizations, some scholars state that CSR is a source of competitive advantage and profits (Donaldson and Preston, 1995), and that CSR engagement is a mean to increase the value of corporate image and generates competitiveness (Branco and Rodrigues, 2006). Furthermore, academics recognized that when combined with corporate strategy, CSR is a tool to increase competitiveness and enhance corporate image (Porter and Kramer, 2006), but this level of integration and strategic commitment is not possible without the 'Communication effort' (Idowu and Filho, 2009).

Typically CSR reports are focused on subjects such as:

a) The resources committed to face the environmental dimension of CSR, resources destined to provide a service or product compatible or to the protection of the environment, to activities destined to reduce pollution through recycle processes or a rational use of natural resources. Kraiem (2010) argues that sustainability reporting is dominated by environmental information, due to organizations' growing awareness about environmental issues such as global warming, and in particular because of multinational corporations doing business internationally that are faced with multiple and different socio-economic circumstances that over complicates their understanding of the social dimension.
b) The realization of economic donations to social causes, to the sponsorship of cultural activities and activities that improved the quality of life in the local communities in which the corporation operates. Activities applying to the Social dimension of CSR. Nevertheless is in this area where many practitioners, users and even writers of CSR reports confuse corporate philanthropy with CSR. It is Important to note that while it is important and desirable that corporations continue committing resources to philanthropic activities, corporations fail in utilizing their expertise in diminishing their immediate or direct social impacts in favor of allocating economic resources to issues that are fairly unrelated to the core business or operations of the organization.
c) Activities centered in the interests of the organization to improve its economic performance, and to ensure its success in the long term, to

provide a competitive price policy, the corporations efforts to improve productivity when they pursue objectives that fulfill the economic dimension of CSR. In addition is also common and convenient that such communications address actions that consumers can perceive as concrete and specific, so that consumers can identify the mutual benefits for the corporation, Society and Themselves, Failure to do so will affect the perception of consumers tainting the CSR related results and strategies of the organization.

5.3.2 EVOLUTIONARY STAGES OF CSR AND SUSTAINABILITY REPORTS: TOWARDS THE INTEGRATED REPORT

During recent years we have experience a growing trend on the creation and availability of formal CSR Reports, even in tertiary markets like Latin America, South East Asia and Africa, where the demand from society and pressure from governments is incipient (Hartman and Morland, 2007). In many cases this efforts start as an internal commitment from organizations to demonstrate their efforts in the subject as a response to the publicity that promotes competitors reports, the promotion carried by specialized media and the also growing offer of consulting services on CSR.

This growing tendency is more prominent in corporations of bigger size (Andrew et al. 1989), particularly in those organizations that are more linked to the processes of globalization, because of their product or services or their stockholders. Vives (2011) argues that CSR and Sustainability reports will pass through the following evolutionary stages towards the integrated report.

Table 5.1 Evolution Stages of CSR Reports

Printed Reports	Financial Reports and Sustainability Reports are completely independent, and there is no or little interaction between them.
Focalization	Focalized Information, Information tailored to different type of stakeholders, in unique or independent reports, disseminated mainly through electronic media
Physical Integration	Financial and Sustainability reports are presented in a single report, interaction is present but there is no analysis or presentation of impact integration.
Strategic Integration	Financial and sustainability reports are presented in a single document that includes strategic linkage of the contents of both reports
Integrated Report	All financial and Sustainability information is integrated in a qualitative and quantitative way in a single report.

Source: Vives, 2011; p. 103

5.3.3 PRINTED REPORT STAGE

The relatively recent organizational practice of communicating activities through printed CSR or Sustainability Reports will most likely continue in the medium term, but reports are already halfway in a second stage in their evolution. Printed CSR reports for the most part have given way to online reporting due to their low efficiency and disadvantages over more informal and dynamic information that can be presented online.

In this stage, the efforts are concentrated in complementing the information on traditional financial reports, complementing the quantitative information with the description of the activities related with responsible practices and whenever possible the disclosure of quantitative indicators that reflect the performance in this activities. Currently the most used indicators, as mentioned before, are the GRI indicators that experience somewhat universal acceptance. By using independent and recognizable indicators corporations give formality to the process of disclosure.

5.3.4. FOCALIZATION STAGE

As CSR and Environmental reporting is becoming the norm, more and more SMEs are publishing specialized reports, due to their limited resources many of these are represented by partial and specialized information, as they lack the resources to prepare and create traditional sustainability reports. For these corporations it may even be counterproductive to produce traditional sustainability or CSR reports, as the benefits are still difficult to measure and when evaluating the effort required producing them and gathering the information needed to their production. Furthermore it may be expensive for the corporation to stop producing a report, as CSR is a long-term strategy that is intrinsically linked to the corporate image. Therefore in this stage innovation in

CSR reporting came from economies in the media by using electronic methods and preparing specific information for specific stakeholder groups.

5.3.5 PHYSICAL INTEGRATION

Demand of CSR or sustainable information has increased and consolidated in to a market standard, as a response Sustainability reports are created and presented as independent documents that are available in the same outlets or that are even physically integrated to financial reports. Sustainable or CSR disclosures are completely independent of the information presented in the financial section of the reports.

In this stage it is difficult for users to link sustainability actions with the economic information previously presented, furthermore contents in the Sustainable section are written in a narrative way, showcasing the key actions or cases that are uplifting in tone but otherwise difficult to link to the core strategy of the corporation.

5.3.6 STRATEGIC INTEGRATION STAGE

As corporations gain more experience in Reporting CSR and Sustainability information, corporations will generate synergies between sustainable practices and financial results. Eventually, as mentioned in chapter one and two, CSR will remain an essential part of organizations; it will evolve in a unique corporate strategy, of doing business the right way.

The consolidation of financial and non-financial information by itself won't ensure the corporate strategy integration; the results will always be dependent on the strategy. But integration in both reports will surface all the CSR activities that have little consequence to the core values of the company, their strategy, and even the beneficiaries, as many donations and projects are quickly abandoned activities that represent a unique expenditure and do not impact the strategic scope of either society or the corporation. Activities such as philanthropy, community and social investment will still be reported, the aim is to integrate them to the corporate strategy, in a way that corporations can maximize their skills and returns for society. Manpower Group's "Project Ability"[112], represents one excellent example of a CSR program with such a strategic alignment, an example that shows how more benefit is created when the work and experience of the corporation is fully utilized, rather than just simply put 'throwing money at the problem'.

The abundance of complex indicators and frameworks could complicate the process towards the integrated report, due to the diversity and the complex application. Currently there are few financial analysts using sustainability criteria due to this complexity, nevertheless the acceptance of frameworks like the GRI intends to equate this complex evaluations with the more traditional and standardized accountancy and financial systems.

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[112] Project Ability, Launched in 2010, was Man Power Group's initiative to transition people with disabilities in to sustainable employment. The project was launched in the US, and now is part of the international strategy of the group. This initiative gas gained global recognition earning several local and international sustainability awards. See http://press.manpower.com/press/2011/manpower-named-2011-disability-matters-honoree-for-leadership-in-supporting-people-with-disabilities-in-the-workplace/, last accessed January, 13 2013.

The determinant factor that will support the demand for integrated reports is the availability and simplicity of a consolidated system of indicators, which has similar applicability as that of financial indicators. As more information is made available to annalist they will understand it and increase its application.

5.3.7 THE INTEGRATED REPORT

For this integration to be a successful one, the level of reliability of financial information and sustainable information must be compatible. Processes of auditory and accountability must be designed. Currently we have guidelines for both CSR reports and CSR audits, indicators should converge in generally accepted practices of financial reports. Currently the GRI and the Project 'Accounting for Sustainability' co-founded the "International Integrated Reporting Council (IIRC)" and they define the integrated report as:

"…is a form of corporate reporting that provides a clear and concise representation of how an organization creates value, now and in the future. An integrated report is one that could bring together material information about an organization's strategy, governance, performance and prospects."[113]

IIRC argues that the successful organization of the future must have an integrated strategy to achieve their financial goals and create lasting value for itself, its stakeholders and society. That value can't properly be expressed by

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[113] See GRI on Integrated Reporting, Retrieved from URL: https://www.globalreporting.org/information/current-priorities/integrated-reporting/Pages/default.aspxCited on January 29, 2013.

current CSR, Sustainability and or financial reports; understanding the links between financial results and sustainability impacts is critical to managers and to the long and short-term success of the corporation. To understand this linkage organizations need to identify the material sustainability to manage and control, arguing that the GRI guidelines prepare organization for the 'integrated thinking process' that is the foundation of the 'integrated report'.

The IIRC work towards the Integrated Report Framework started back in the year 2011 with a discussion paper titled "Towards Integrated Reporting – Communicating Value in the 21st Century".[114] This work has evolved into a Working Draft of the prototype framework[115], which final version is announced by the end of 2013.

In an argument that supports the creation of integrated reports, Vives (2011), contends that the actives of modern organization are changing from tangibles to intangibles, and accounting systems must also reflect this in their valuation of the organization. Even for manufacturing corporations fixed assets have less and less impact in the assessment of the global capacity to produce profits of the organization. The organization's capacity of innovation, its brand, flexibility and responsibility are assets that are not accounted for, assets that are gaining more and more relevance. Many of the intangible assets of the organization are affected and determined by their sustainability practices.

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[114] Retrieved from URL: http://theiirc.org/wp-content/uploads/2011/09/IR-Discussion-Paper-2011_spreads.pdf. Cited on January 29, 2013.
[115] See IIRC's Integrated Reporting (IR) Working Draft of Prototype Framework: http://www.theiirc.org/wp-content/uploads/2012/10/DraftPrototypeFramework.pdf, Cited on January 29, 2013

5.4 IMPORTANCE OF CSR REPORTING AS A COMMUNICATION TOOL

As mention in previous chapters, companies operate in an open system context, in which they interact with different groups of society (Katz and Kahn, 1966). Because of the profit-oriented nature of organization, these interactions are strategic to the goals and operation, and they follow a specific protocol and are documented and supported by particular means of communication.

CSR reporting is the core element of the communication in terms of corporate citizenship and sustainability matters it represents the facts and documentation regarding social performance, in other words it is the most basic tool for researchers and stakeholders to analyze the documented relationship between a corporation's financial and social performances. But CSR reporting is important also in the sense that it is disclosure of the ethical and social efforts carried by individuals and organizations in addition to explaining the rationale behind such efforts, it is what we can define as CSR communication (Dawkings, 2004: Morsing and Schultz, 2006).

There are several reasons to why companies are increasingly interested in CSR and its disclosure, according to a survey by the Economist Intelligence Unit[116] surveyed executives present as the three main drivers for CSR disclosure: shareholders, recent corporate scandals and greater pressure from regulators.

[116] *Survey titled "The importance of corporate responsibility" accessed 2011/12/06 Retrieved from http://graphics.eiu.com/files/ad_pdfs/eiuOracle_CorporateResponsibility_WP.pdf*

Other cited reasons for adopting CSR measures were erosion of trust, globalization, competitive pressure and competitive advantage. CSR reporting is a window to the ethics and values of an organization; in addition CSR transfers some emphasis from financials to people and environmental impacts.

There is much debate in whether CSR reporting should be or not mandatory[117], but in order to ensure compliance in these voluntary framework, the figure of sustainability consultancy firms is dedicated to promote sustainable disclosure, creating frameworks and guidelines to improve reporting practices, one of this entities is The Global Reporting Initiative (GRI), which is one of the most widely used reporting frameworks for CSR currently in existence. The GRI is a network based non-governmental organization that was founded with the objective to promote and organize, environmental, social and sustainable reporting by improving reporting frameworks, the aim is to make sustainability information as comparable as financial information[118], and therefore has one of the most reliable database of corporations engaged in CSR practices.

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[117] *In one of the more recent discussions took place at the Net Impact Conference in 2010, in the event Aron Cramer president and CEO of the sustainability consultancy firm BSR answer to this question with a negative as he explained.. "Corporations would be reporting just to meet the requirements of the report, not truly making any genuine effort towards sustainability or social responsibility".*

[118] *As stated by their own publications GRI's mission is "…to create conditions for the transparent and reliable exchange of sustainability information through the development and continuous improvement of the GRI Sustainability Reporting Framework" but more important it is stated in it's vision that "disclosure on economic, environmental and social performance should become as common place and comparable as financial reporting, and as important to organizational success."*

5.5 THE EFFECTS OF FINANCIAL CRISIS IN CSR REPORTING

The central question is what kind of effects has the International financial crisis had over CSR and CSR reporting? In other words how does the GFC affect a particular management practice? According to scholars the effects of the GFC can be seen in the restrain of resources that will produce, or force a re-evaluation of priorities in the execution of the programs and projects that organizations adopt.

As a result from the Global Financial Crisis, CSR has received increased attention by scholars, previous studies on the relationships of CSR and the Crisis. On the one side there is consensus over companies confronted with financial circumstances where it is difficult to borrow capital from banks, this situation forces companies to observe restrain in their expenses, some of them cutting down their sustainable investments on CSR initiatives. Njoroge (2009) concludes that CSR face the risk of being postponed or even cancelled in times of financial crisis as corporations try to reduce costs. In his study about the impact of the financial crisis, on multinational companies operated social projects and labor standards in Nigeria, Njoroge findings showed that, while there is little impact to labor standards, there was an adverse impact to the implementation of privately funded social projects.

According to the findings of Fernandez and Souto (2009), that some of the perceptions of managers and stock holders, are affected by economic recession, under this view CSR is perceived as a risk to corporations, as it represents an additional financial cost, in addition, CSR is not considered as a unique period cost, it is an ongoing activity that should be part of all core strategic processes of the organization. According to Porter and Kramer (2002) companies need to change and redefine their business objectives to fit the expectations of society.

Karaibrahimoglu (2010), in his research found that CSR projects in the USA decreased in a greater proportions, than in Europe and other countries during the pre-crisis period in the year 2007. An additional study by Arevalo and Aravind (2010), found that corporations that integrate the principles of the United Nations Global Compact (UNGC), adopt a proactive strategy and show less conformity and therefore are less exposed to the effects of financial crisis, and by the used of content analysis, found that the six main CSR priorities defined by CEOs in times of financial crisis are: building strong management teams, applying innovation to solve complex problems, forming partnerships with NGOs, maintaining a core commitment to global citizenship, engaging in dialogue concerning the important issues of human rights and climate change. This is where the present paper draws the question of how are the social commitments of ethical companies affected by the emergence of global financial crisis. Studies about the effect of financial crisis and its consequences to Corporate Social Responsibility are not so numerous, but there seems to be consensus in that during financial crisis organizational strategies tend to be more conservative, therefore restraining all expenses that are not aligned with the core operation of the business (Karaibrahimoglu, 2010; Cheney et al., 1990), or as Porter and

Kramer (2002) put it organizations are forced to make tradeoffs between economic and social goals therefore hindering social projects.

This presents an interesting dilemma, as chronists and analyst of the crisis of the last decade establish a relationship between the disregard for society, the lack of business ethics and values to the events that gave origin to the crisis, while at the same time financial crisis is believed to have an impact in CSR and other good business practices that may alleviate some of its effects toward society. In any case both academics and practitioners agree that CSR is crucial for sustainable development.

Changes in the application of CSR in the management plane are inevitable; the organizational theories give a vision over practical aspects to understand those changes. According to Gorrochategui (2010), there are two types of changes that can occur in organizations due to the duration and deepness of the impact of the Crisis.

On the one side, the range and penetration of the impacts of the crisis generated sudden changes in the organizational environment, modifying the relationships the organization has with the environment and affecting the whole of the organization. On the other hand, the duration of the crisis will determine if corporations can produce intentional changes in the organizational structure and policies that allow them to cope with the crisis and maintain their CSR programs. In this sense managers can defined the contents of the CSR strategy, to measure the incidence of external forces and adapt their policies to the new expectations of Stakeholders in the context of financial crisis, such as the increased claim of transparency and improved risk assessment in corporate governance.

Institutional theory provides a reference framework to explain the fast expansion of CSR during the last decade. Organizations have been able to integrate the practices of traditional philanthropy, social needs and the consequences of economic downturn around the CSR discipline. Attention to these social valued topics became a synonym of legitimacy (Powell and DiMaggio, 1991). CSR structures have grown inside corporations, as they incorporate elements that are important issues for society.

According to Powell and DiMaggio's (1991) theory of Institutional Isomorphism, that explains how units inside a population tend to look like other individuals in the same population. This assimilation happens through coercion, imitation, or norms that regulate the group. The influence of formal and informal regulation is observed both, in public and private organizations having similar rules influencing the structures and programs of all type of institutions. Imitation is also noted as a strong influence in orientating organizational change, imitation is a normal response in environments with uncertainty, such as the one characterized by the GFC period.

The Global Financial Crisis reopens the discussion on the future of the future of CSR; there is concern about the abandonment of CSR, as it has happened to many other management techniques that where approached as fads or temporary trends, as it is being threatened by the new financial concerns. The opinion of this research is that CSR will continue to be relevant as an institutional strategy, as corporations will continue to have the need to communicate and manage their relationship with stakeholders, CSR activities and CSR disclosure provides an effective way to achieve this goal; while also showing the surrounding audiences that the corporation shares the same values and concern that are relevant to them. In addition the adoption of CSR is a response to international and local factors that are likely to continue to exert their influence in the long term, factors such as globalization, and the deterioration of the environment. The GFC forces organizations to reformulate their priorities around the objectives and resources destined to CSR programs, in order to adapt to the new financial environment.

There are several factors that point to the continuation of CSR as a corporate strategy:

1. The high degree of pressure from: a) the positions of governments as a result of the crisis; b) the international agenda of multinational organization on CSR; c) International legislation on CSR becoming more abundant and detailed; d) NPOs and Multinational organizations promoting the incorporation and creation of CSR policies in new countries; e) The elaboration of international reports by multinational authorities on the application of CSR and human rights policies by industry sector and countries.
2. Stakeholders awareness, as evidenced by: a) corporations tailoring their initiatives and strategies based on a stakeholder hierarchy; b) the existence of organizations and structures to represent stakeholders and

their interests wielding real influence in the management of the organization

3. Increasing interest on the topic for both academics and practitioners, expressed by: a) Organization creating units and designating people to develop the CSR function, b) increasing body of articles and research on CSR; c) the use of criteria related to CSR in respected rankings of companies.

The above-mentioned factors generate a positive environment for the survival of CSR, as it is a concept that is strongly interrelated with the specific circumstances of environmental forces. Therefore corporations that integrate a CSR philosophy in to their corporate culture, strategies and management systems, have competitive responsiveness and therefore more chances for survival, as evidence by some lines of research that affirm that in periods of crisis being a sustainable corporation, becomes a competitive advantage. For instance according to the report "Green Winners, The performance of sustainability-focused companies during the financial crisis" by the firm ATKEARNY (2009), that analyzed the performance of 99 companies listed in the Dow Jones and Goldman Sachs Indicators, found that corporations with sustainable initiatives where in average 10% more profitable than their competitors in a financial quarter period, and 15% in a 2 quarter period. The consulting firm also noted that Sustainability projects must be integrated to the business value chain. What differentiates these corporations is that during the period of the GFC they found a way to be more efficient with the resources destined to CSR initiatives.

In relation to the future perspectives of CSR development, we can infer that the GFC context will increase the importance of principles such as simplify, economize, clarify and prioritize, when designing CSR strategies. The context of the crisis will also highlight the importance of using dialogue and participation tools to be inclusive with all stakeholders. The new economic constrains will favor the study and development of cooperation strategies through multinational and industry associations to implement coordinated CSR programs. Nevertheless it is also likely that, initiatives operated by NGO's, or Non Profit Organizations (NPOs), that are financially backed up by businesses will decrease which, will generate a critical environment for third sector organizations.

CHAPTER 6: DATA COLLECTION AND ANALYSIS

6.1 SAMPLE AND DESCRIPTIVE STATISTICS

The present study compares scores for Report type, Adherence of Application Levels, and report status for 2,790 companies that published CSR reports following the GRI guidelines during the period 2007 -2011.

Table 6.1 presents the coding summaries for the main variables in the present research. Values were assigned to a grading scale in order to be later analyzed by quantitative methods.

Table 6.1 Coding summaries

	Report Type variable
Variable Labels	**Explanation**
Non- GRI	Released a sustainability/ESG/integrated report, but did not use the GRI Guidelines (only for 2011)
GRI-Ref	Has referenced GRI in the reporting, but did not include a Content Index (only for 2011)
G1	Used GRI G1 Guidelines (released in 1999)
G2	Used GRI G2 Guidelines (released in 2002) with Content Index
G3	Used GRI G3 Guidelines (released in 2006) with Content Index

	Application/Adherence Level variable
Variable Labels	**Explanation**
U	Undeclared Application Level (G3)
CI	Adherence level "Content Index Only" (G2)
IA	Adherence level "In Accordance" (G2)
C(+)	Application Level C(+) (G3)
B(+)	Application Level B(+) (G3)
A(+)	Application Level A(+) (G3)

	Report Status variable
Variable Labels	**Explanation**
Sd	Self-declared
3p	Third-party-checked
GRI	GRI-checked

Source: Elaboration for this study

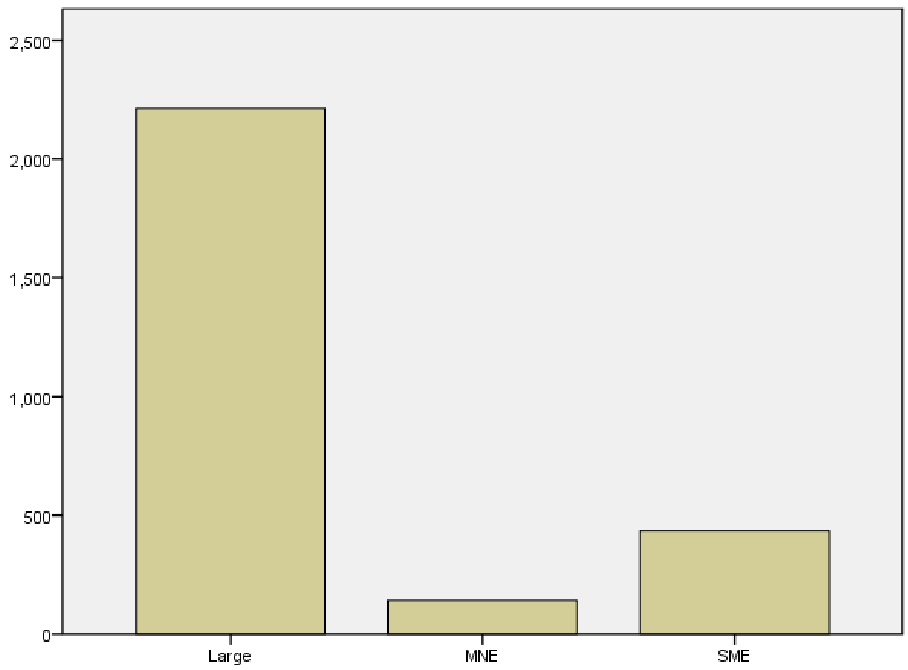
While the effects of the Global Financial Crisis have their origins in the year 2007, and recorded their highest effects in the subsequent years (2008-2009), the first signs of recovery could be seen in 2010 and 2011; we still may argue that some regions of the globe are still suffering some localized symptoms. This is the reason why this study compared scores for the GRI report variables report availability, adherence level and report type for the periods 2007-2011 as determinants of the quality of CSR reporting for the GRI framework during the GFC period. The following tables present a detailed description of the sample by company size, while figure 6.1 presents it graphically:

Table 6.2 Distribution by company size

	Frequency	Percent	Valid Percent	Cumulative Percent
Large	2213	79.3	79.3	79.3
MNE	142	5.1	5.1	84.4
SME	435	15.6	15.6	100.0
Total	2790	100.0	100.0	

Source GRI "Report list" 1999-2011

Figure 6.1 Frequencies distribution by company size

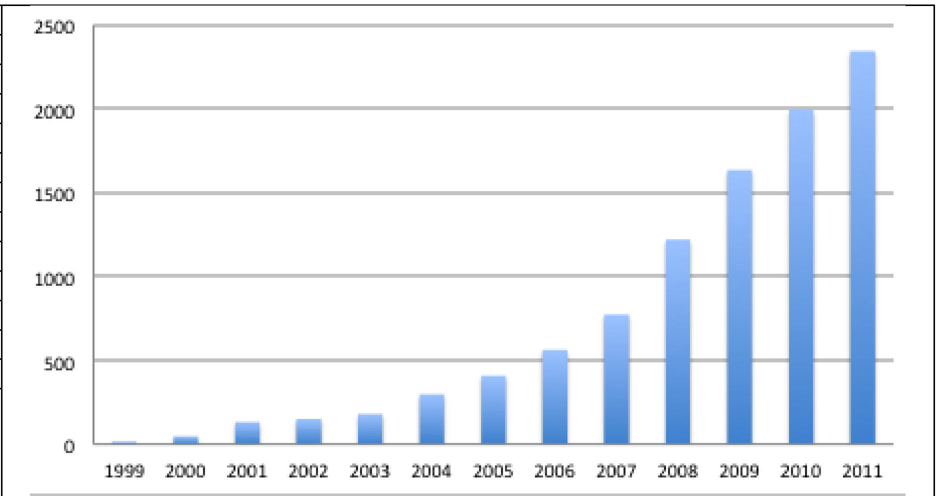


Source: Author elaboration for this study.

Corporations publishing reports following the guidelines of the Global Reporting Initiative are in their vast majority large sized corporations, including many prominent corporations of the Fortune 500 companies list, nevertheless since the creation of the framework SME's CSR and Sustainability reporting has been steadily growing. It is important to mention that as of February 2013 the GRI has not yet publish any statistical data for the year 2012, furthermore it has announced a new database project, that most likely will be available in the second half of 2013. The following graph shows the growth of GRI type reports that the Global Reporting Initiatives is aware of. The data shows the exponential growth of the reporting framework, showing a constant trend, even during the years of the Global Financial Crisis. According to the latest data available on the GRI Annual Report 2011/12, there were 2,304 GRI reports published in the year 2011[119].

Figure 6.2 GRI Reporting Framework Growth 1999-2011

Year	Growth
2011	^18%
2010	^22%
2009	^34%
2008	^58%
2007	^37%
2006	^38%
2005	^36%
2004	^65%
2003	^20%
2002	^14%
2001	^177%
2000	^300%
1999	Base Year



Source: Global Reporting initiative

[119] See "GRI Annual Report 2011/2012" Available at URL: https://www.globalreporting.org/resourcelibrary/GRI-Annual-Report-2011-2012.pdf, Last accessed February, 23, 2013.

Geographically, Asia and Europe where the regions with more published GRI reports during the period observed in this research. Europe was the most prominent region with 44.5% of the reports, followed by Asia with 19.7% of published reports. CSR and Sustainable reporting is more prominent in regions with economic development. As it can be seen in the following table, Africa was the region with the lowest amount of published reports.

Table 6.3: Companies with GRI reports by Region

	Frequency	Percent	Valid Percent	Cumulative Percent
Africa	75	2.7	2.7	2.7
Asia	549	19.7	19.7	22.4
Europe	1241	44.5	44.5	66.8
Latin America	418	15.0	15.0	81.8
Northern America	385	13.8	13.8	95.6
Oceania	122	4.4	4.4	100.0
Total	2790	100.0	100.0	

Source GRI "Report list" 1999-2011

When classifying the corporations in the sample by their type of industry we could observe that the Industry with more published reports was the one represented by corporations in the financial services sector. This fact may be a direct result on the reforms over corporate governance and increased need of transparency for corporations in the financial sector as a result of the GFC. Originally the sample was organized in 38 industry sectors by the GRI, but in order to facilitate the statistical analysis these categories were collapsed into 11 industry sectors following the Industry Classification Benchmark (ICB)[120] used by the Dow Jones and FTSE Group. The following table presents the distribution of corporation in the sample by industry.

[120] The Industry Classification Benchmark is available and can be consulted at their home page http://www.icbenchmark.com/, Last accessed March 14, 2013.

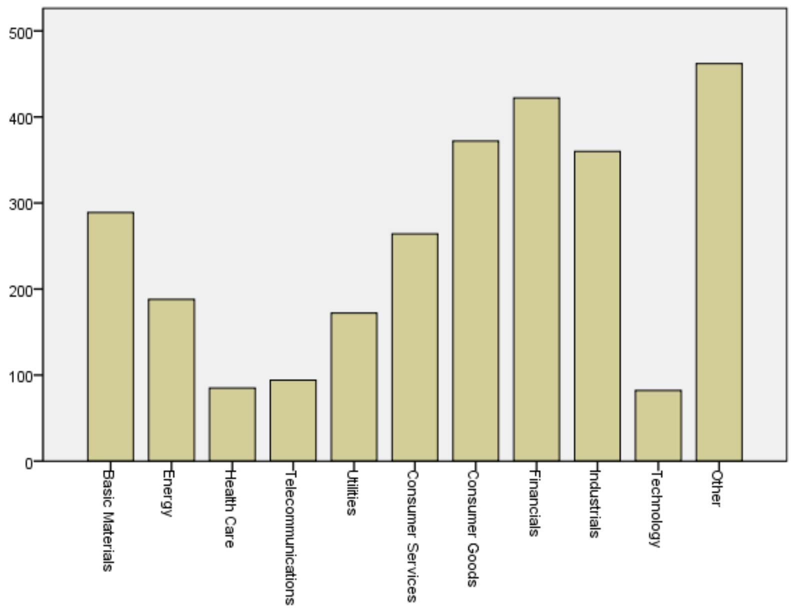
Table 6.4: Corporations with GRI reports by Sector

	Frequency	Percent	Valid Percent	Cumulative Percent
Basic Materials	289	10.4	10.4	10.4
Energy	188	6.7	6.7	17.1
Health Care	85	3.0	3.0	20.1
Telecommunications	94	3.4	3.4	23.5
Utilities	172	6.2	6.2	29.7
Consumer Services	264	9.5	9.5	39.1
Consumer Goods	372	13.3	13.3	52.5
Financials	422	15.1	15.1	67.6
Industrials	360	12.9	12.9	80.5
Technology	82	2.9	2.9	83.4
Other	462	16.6	16.6	100.0
Total	2790	100.0	100.0	

Source: Author elaboration for this study.

As mentioned before corporations were re-classified using the ICB taxonomy, with the addition of the category labeled as 'Other' that included reports for Education Institutions, NPO's, Government and Public Agencies that do not fit the ICB criteria, as they don't participate in public trading. Figure 6.3 shows the distribution of the sample by Industry sector.

Figure 6.3 Distribution of the sample by Industry



Source: Author elaboration for this study.

According to GRI's classification reports in the database can also fall into the following categories: Non-GRI reports, GRI-Referenced (Reports that declared to be based in the Guidelines of the GRI, but did not actually provide a GRI content Index or the form and content do not comply with the guidelines), and finally, GRI reports, which depending on the edition of the framework that the publisher of the reports follows, reports could be labeled G1(1999), G2 (2002) or G3(2006). These categories where coded in order to represent the type of report; naturally the desirable value will be the newest framework, in other words those reports that followed the G3 guidelines. The following table presents the distribution values for the variable Report Type:

Table 6.5: Report Type Frequencies

	2007	**%**	**2008**	**%**	**2009**	**%**	**2010**	**%**	**2011**	**%**
No report	2083	74.7	1681	60.3	1290	46.2	939	33.7	2000	71.6
Non-GRI	-	-	1	-	1	-	1	-	52	1.9
GRI-Ref	-	-	-	-	1	-	3	.1	28	1.0
G2	143	5.1	24	.9	2	.1	-	-	-	-
G3	564	20.2	1084	38.9	1496	53.6	1847	66.2	710	25.4
Total	2790	100.0	2790	100.0	2790	100.0	2790	100.0	2790	100.0

Source GRI "Report list" 1999-2011

Most critics to GRI and other similar frameworks focus in the voluntary compliance of these types of guidelines. Since reports and their audits are completely voluntary, the adherence level (Application) of the framework varies greatly. According to the variable "Adherence level to the GRI" reports in the GRI list could receive a grading from A+ to C and labels for Un-declared reports and for when the framework was only referenced and not actually applied. Corporations are required to assess their own application level, but the GRI also provides an application review service. The Plus status ("+") is a rating that organizations can obtain when the sustainability report is externally assured.[121]

Table 6.6: Application/Adherence level Frequencies.

	2007	%	2008	%	2009	%	2010	%	2011	%
No Report	2083	74.7	1681	60.3	1290	46.2	939	33.7	2000	71.7
Un-declared (G3)	133	4.8	332	11.9	371	13.3	406	14.6	170	6.1
Content Index Only (G2)	87	3.1	8	.3	2	.1	-	-	-	-
In Accordance (G2)	56	2.0	16	.6	-	-	-	-	-	-
C	72	2.6	165	5.9	271	9.7	331	11.9	151	5.4
C+ (G3)	30	1.1	29	1.0	72	2.6	98	3.5	26	.9
B (G3)	92	3.3	151	5.4	229	8.2	298	10.7	134	4.8
B+ (G3)	67	2.4	115	4.1	141	5.1	192	6.9	81	2.9
A (G3)	48	1.7	81	2.9	119	4.3	150	5.4	71	2.5
A+ (G3)	122	4.4	212	7.6	295	10.6	376	13.5	157	5.6
Total	2790	100.0	2790	100.0	2790	100.0	2790	100.0	2790	100.0

Source GRI "Report list" 1999-2011

The variable Report Status is concern about the transparency of the sustainability report, as it classifies reports by their auditory status; according to this variable reports could be classified as Self-declared, Third Party Checked, or GRI-Checked. Reporters following the GRI framework can have their application level confirmed by the GRI or a third party. Nevertheless these independent auditors and their methodologies are not endorsed or affiliated with the GRI.[122]

[121] See the GRI "Three Application Levels" at URL: https://www.globalreporting.org/reporting/reporting-framework-overview/application-level-information/Pages/default.aspx, last accessed on February 28, 2013.
[122] See the GRI "Application Level Check" *Ibid.*

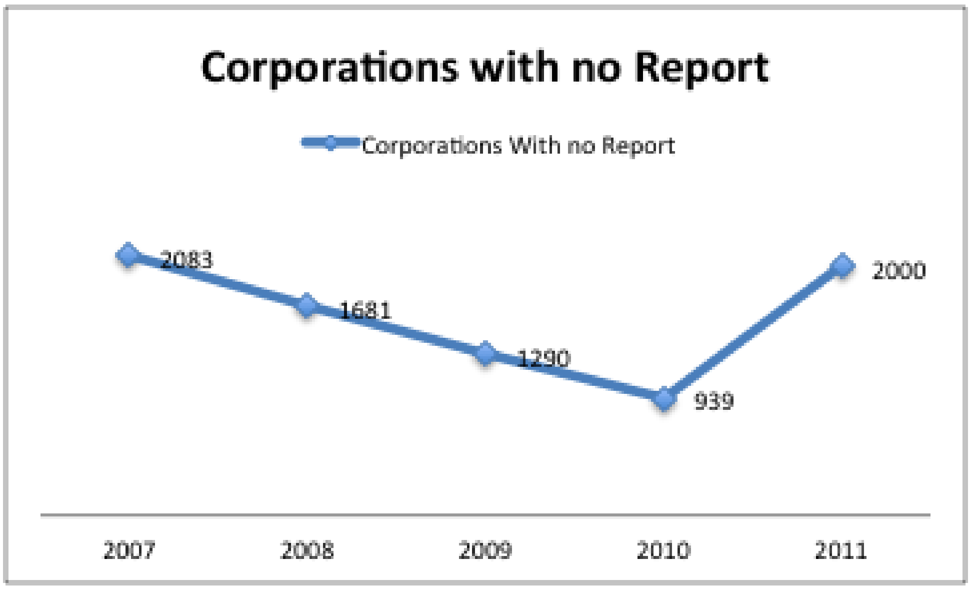
Table 6.7: Report Status Frequencies

	2007	Percent	2008	Percent	2009	Percent	2010	Percent	2011	Percent
No Report	2083	74.7	1681	60.3	1290	46.2	939	33.7	2000	71.7
Self-Declared	345	12.4	668	23.9	839	30.0	972	34.8	376	13.5
3rd Party Checked	104	3.7	154	5.5	281	10.1	415	14.9	121	4.3
GRI-Checked	258	9.2	287	10.3	380	13.6	464	16.6	293	10.5
Total	2790	100.0	2790	100.0	2790	100.0	2790	100.0	2790	100.0

Source GRI "Report list" 1999-2011

One interesting aspect to discuss is that as revealed from the information on figure 6.1 on the exponential growth of the CSR framework, and the number of companies with no report represented in figure 6.4, corporations were increasingly committed to publishing CSR/Sustainability reports during the period of the global financial crisis up until the year 2011 where 1,061 corporations failed to keep providing a CSR disclosure. Corporations were labeled as no report when they stopped presenting reports in a particular year some of this corporations provided reports irregularly.

Figure 6.4



6.2 Statistical Testing and Discussion

Companies and their reports were analyzed using one-way repeated measures ANOVA, as we observed corporations' CSR reports over a period of five years. This type of statistical test is useful for before-after designs (Darlington, 1990); in this case the Global Financial Crisis event. The following tables present the summaries for the statistical test applied to the variables report type, application level of the GRI framework, and report status.

The statistical testing revealed that the differences and increase in quality of report type during the Global Financial Crisis period is significant (Eta^2 value=.380)[123]. In other words CSR and sustainability reports steadily increased during the period of the Crisis, in particular those following the G3 guidelines from 564 reports in 2007 to 1847 reports in 2010.

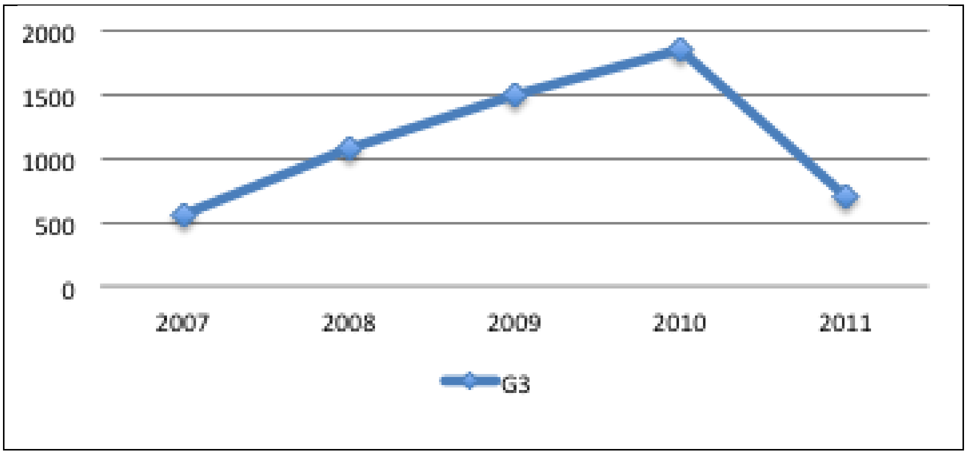
Table 6.8: ANOVA test results for Report Type

Effect		Value	F	Hypothesis df	Error df	Sig.	Partial Eta Squared
Report _Type	Wilks' Lambda	.620	4.270	4.000	2786.000	.000	.380

In a previous paper (Calderon, 2011) it was commented that this tendency reflected a decrease in GRI reports due to economical constrains, reaffirming traditional criticisms to CSR, however while this is true in the total number of GRI reports of the year 2011, during the period 2007-2009 the amount of reports actually increased. The main reason was the increased demand for transparency, in particular for those corporations in the financial sector.

[123] See Annex 2 for complete results of statistical tests applied.

Figure 6.5 Reports following the GRI-G3 Guidelines



According to these results we can say that the Global Financial Crisis, actually worked as a temporary boost to CSR and Sustainability reporting, as there was an all industry and market clamor for higher standards in transparency and corporate governance.

Table 5.8 presents the ANOVA test results for the Application level scores of the GRI guidelines, presenting the mean scores for Crisis years 2007-2011. Application level similarly presented a consistent growth until the year 2010. In the case of Application of GRI Guidelines scores, the effect of crisis years was also significant ($p<.0005$ as represented by the .000 value in table 6.9). The Wilkis' Lambda test also revealed that the effect was large (.314).

Table 6.9 ANOVA test results for Application Level

	Mean	Std. Deviation	N
2007 Application Level	1.22	2.558	2790
2008 Application Level	1.96	3.087	2790
2009 Application Level	2.79	3.358	2790
2010 Application Level	3.56	3.438	2790
2011 Application Level	1.53	2.859	2790

Effect		Value	F	Hypothesis df	Error df	Sig.	Partial Eta Squared
Report _Type	Wilks' Lambda	.686	3.190	4.000	2786.000	.000	.314

Application behaved similarly as report type as these three variables are interrelated, and the report type variable will determine score of the Application of the GRI guidelines. Means for application remained above the 1.52 score, indicating an application level equal to that of the G2 guidelines.

The report status variable is important, as it helps to determine the transparency and accuracy of reports, as it is more desirable to have reports being checked, audit and confirm by the GRI, or at least a third party. Table 6.10 shows that there is a greater presence of self-declared reports in 2007, but the proportion of GRI or third party checked reports, constantly grew during the years of the global financial crisis; this effect was also large (represented by an Eta^2=.254).

Table 6.10: ANOVA Test for Status Level Score

	Mean	Std. Deviation	N
2007 Status Level	.48	.938	2790
2008 Status Level	.66	.976	2790
2009 Status Level	.91	1.055	2790
2010 Status Level	1.15	1.069	2790
2011 Status Level	.54	.983	2790

Effect		Value	F	Hypothesis df	Error df	Sig.	Partial Eta Squared
Report _Type	Wilks' Lambda	.746	2.377	4.000	2786.000	.000	.254

In order to test other relationships and particularities in the sample total scores for Report Type, Application level and Report Status was calculated by company and analyzed using a One-way between-groups analysis of variance through grouping variables such as Industry type, region and size of corporations.[124] In the majority of cases the test for Homogeneity of variances was violated. There are several approaches in dealing with this issue, but for the present research we followed Keppel & Wickens (2004) approach using a more stringent α level (2.5%). The following table presents the summary of ANOVA test for the total scores for Report Type, Application Level and Report Status analyzed by company size. According to the analysis the difference is significant ($p<.0005$), with Multi National Enterprises (MNEs) having higher average scores across the board out-performing Large Corporation and SME corporations. This trend shows that Reporting frameworks are somewhat foreign to SMEs. Frameworks and Guidelines such as the GRI are yet far from being universal, and therefore need to be more inclusive to SMEs. Table 6.11 presents the summary of ANOVA test results for average scores by company size.

[124] The full reports for the One-way group Anova tests can be found in Annex 3.

Table 6.11. ANOVA test for Average Scores by Company Size.

		Sum of Squares	df	Mean Square	F	Sig.
Average Report Type score	Between Groups	139.954	2	69.977	45.977	.000
	Within Groups	4241.785	2787	1.522		
	Total	4381.739	2789			
Average Application score	Between Groups	145.856	2	72.928	27.378	.000
	Within Groups	7423.744	2787	2.664		
	Total	7569.600	2789			
Average Status Score	Between Groups	23.182	2	11.591	29.573	.000
	Within Groups	1092.369	2787	.392		
	Total	1115.552	2789			

In terms of region the European continent was the highest in quantity and report quality concentration, while Latin America and Asia were the regions with lower average scores all three variables Report Type, Framework Application and Report Status. These relationships were also statistically significant at the $p<.025$ level as it can be seen in table 6.12.

Table 6.12. ANOVA test for Average Scores by Region

		Sum of Squares	Df	Mean Square	F	Sig.
Average Report Type score	Between Groups	90.357	5	18.071	11.724	.000
	Within Groups	4291.383	2784	1.541		
	Total	4381.739	2789			
Average Application score	Between Groups	186.994	5	37.399	14.103	.000
	Within Groups	7382.605	2784	2.652		
	Total	7569.600	2789			
Average Status Score	Between Groups	34.361	5	6.872	17.696	.000
	Within Groups	1081.190	2784	.388		
	Total	1115.552	2789			

With respect to the Industry sector, the corporations with top scores for the variable report type were those in the Utilities, Energy, Technology and Financial sector.

The application of the GRI score was higher in corporations in the Utilities, Telecommunication, Financial and Energy sectors. Finally in the case of report status, which relates to the auditability of reports, the corporations with a greater proportion of GRI or third party checked reports were those in the Utilities, Energy and Financial Sectors.

Corporations in the Consumer Goods, Consumer services and the 'Other' (Education Institutions, NPO's, Public Agencies) presented the lowest scores across the board for all three variable categories. These differences in average scores were also significant and Table 6.13 presents the summary report for the ANOVA test by groups applied.

Table 6.13. ANOVA test for Average Scores by Industry

		Sum of Squares	Df	Mean Square	F	Sig.
Average Report Type score	Between Groups	201.050	10	20.105	13.364	.000
	Within Groups	4180.689	2779	1.504		
	Total	4381.739	2789			
Average Application score	Between Groups	362.699	10	36.270	13.986	.000
	Within Groups	7206.901	2779	2.593		
	Total	7569.600	2789			
Average Status Score	Between Groups	48.246	10	4.825	12.562	.000
	Within Groups	1067.306	2779	.384		
	Total	1115.552	2789			

CHAPTER 7: CONCLUSIONS

Throughout the present study we have analyzed the relationship between the CSR and the Global Financial Crisis (GFC), acknowledging that some of the causes of the most recent financial crisis event were also linked to a lack of ethical behavior and relaxed corporate governance standards in the financial industry. While CSR can help us to understand the causes and events that caused the GFC, when faced with the question of whether CSR could have help to prevent the crisis, or to help economies out of it; the analysis points that ethical behavior and CSR concerns alone could not make up for the technical lack of controls and failures in risk assessment (Argadoña, 2009). Explaining the limitations and capabilities of regulations and controls of the financial system, and the specific policies that may have averted the Financial Crisis, are topics outside the scope of the present research.

In the literature review we analyzed the concept of CSR and its importance, not in order to provide a definition, or to contribute to the already abundant discussion on the ambiguity of the term, but in order to understand and de-construct the responsibilities that corporations acquire when operating, and how do they approach them and their stakeholders through the use of CSR communication. The rich literature on the topic establishes the linkages between, Corporate Image and Corporate Value. With the extensive literature review on the background and history of the concept and the discipline, we intend to illustrate that by giving new names to the discipline, trying to constantly redefining the concept of CSR by re-interpreting their dimensions

(Environmental, Social, Economic, Stakeholder, and Voluntariness), and academics tend to disregard prior discourse in extant literature. In terms of corporate literature CSR is a concept that should be reaching its maturity, if we consider that the concept has been debated for almost seven decades since Bowen first coined the term in 1953.

Traditionally scholars believe that during a financial crisis, limited resources force corporations to act conservatively and defensively, decreasing the available resources that they can assign to non-profitable activities or strategies such as CSR programs (Cheney *et al.* 1990); and in particular cases translating in significant drops in the number and extent of CSR projects (Karaibrahimoglu, 2010). However contrary to Neoclassical or traditional views of CSR critics, it was concluded through the findings of this research that the Global Financial Crisis of the 2007-2011 period, had a positive effect in CSR reporting. In other words businesses increased the quality and amount of reporting as a strategy to regain trust in businesses, as represented by the increasing scores in Report Type, Report Status, and Application of the GRI Framework. These trends proved to be statistically significant, as seen in the previous discussion chapter, and in the full reports contained in the annex section. Our findings are also in line with previous studies (Arevalo and Aravind, 2010, Fernandez and Souto 2009, Giannarakis, 2011), these studies argument that CSR is a strategic tool to face some of the effects of the financial crisis, observing an actual increase of the quality and amount of CSR reporting under the GRI framework in the immediate periods after the crisis. Many of the external issues faced by corporations, in particular those concerning financial corporations in the post crisis world are resulting in a loss in the moral capital and brand confidence. CSR communication is a particular type of corporate communication that addresses the concerns of the most salient stakeholders of the organization, therefore a sensible and rational approach that should be evident to corporations.

The above assumption is not always reflected in the professional or academic world, as there is no consensus on the effects of the crisis, or the relationship between CSR and CFP. For instance Njoroge (2009) argue in an equally reasonable way that companies that are affected by the crisis, faced with the lack of financing sources and a difficulty to raise capital, restrain their expenses in sustainable investments in CSR programs. Similarly Fernandez and Souto (2009), debate that managers and shareholders perceive CSR initiatives as a risk to corporations as it is an ongoing effort that should remain constant, an effort that is not easily link to profitability.

Nevertheless it has been argued that one of the benefits of embracing CSR is the enhancement of corporate reputation and brand image (Schreck, 2009). Firms should be vigilant on the perception of stakeholders, particularly in the contemporary world of social media, for instance, JP Morgan Chase, a firm that was at the center of the mortgage crisis was faced with angry attacks by their own miscalculation of their stakeholders perceptions and practically invited the attacks through their social media online forum in November, 2013 in what is known as the "#Ask JPM fiasco"[125]. We don't intend to link directly these attacks

[125] See http://www.bloomberg.com/news/2013-11-14/jpmorgan-twitter-hashtag-trends-against-bank.html; last accessed June, 24 2014.

to a lack of CSR, but clearly JP Morgan Chase needed to work with the perception of their stakeholders in the social media either through Marketing, PR or CSR efforts or a combination of the above before engaging in open media forums.

In the turmoil of the GFC, stakeholders and all audiences of businesses in general, where made aware of the ethical and transparency crisis in the financial sector, similarly other previous scandals put CSR and other corporate governance in the spotlight. In particular, we believe that the close relationship between social and financial accounting gave relevancy and impulse to CSR reporting during the 2007-2011 period.

In a comparatively similar study by Giannarakis (2011), using a sample of 112 GRI reporting companies, the author used Wilcoxon signed rank test to find how economic downturn affected CSR reporting performance, analogously the author found that there was an increase in CSR reporting performance before and during the crisis, with the exception to the period of 2009-2010. Although there are some differences in methodology,[126] the findings of the present study corroborate Giannarakis observations. We improved on Giannakis methodology as we found that considering the GRI report list as the data source, and being represented by a universe of 2790 companies the researchers should have used at least a sample of 338 companies in order to be representative to the framework.

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[126] In his paper Giannarakis (2011) used a sample of 112 corporations, in the present study we analyzed the universe of reporting companies that composed the GRI-List during the 2007-2011 period. A second and more important difference between studies, resides in the statistical test selection; while we used a test based on analysis of variance (ANOVA), Giannarakis used a non-parametrical alternative to paired sample T-test dividing the observations of the Crisis in two periods in a pre and post study design.

The importance of CSR for corporations in the financial sector was made evident by the fact that corporations in this sector were consistently among the top performers for all three variables: Report Type, Report Status, and GRI Adherence/Application scores. In addition, it is not surprising to see that the other highest performing industries were the Utilities and Energy sector. Traditionally corporations with high environmental footprint are scrutinized over their sustainability policies and CSR and Sustainability reporting constitute cornerstones of their corporate communication. In contrast it was revealed by the statistical testing, that corporations in the Consumer Goods and Services Industries, in addition to those that conformed the Other Category (NPOs, Educational Institutions and Public Agencies) were consistently among the lowest performing groups.

In the discussion section of this research we mentioned that corporations in Europe where among the highest performers, while Latin America and Asia were the lowest performers. This is important to mention, as it is a topic that has not been successfully tackled in the past by the GRI. In particular the United Kingdom was the country that concentrated the highest amount of reports (297); this constitutes an opportunity to identify a benchmark, to point out the policies and situations that promote CSR in that particular region. However previous initiatives such as the 2010 GRI Readers' Choice Awards, provide the wrong message. As pointed by the strong critics of Vives (2011), the fact that Brazilian companies where selected as the absolute winners of the event, was a clear evidence of faulty methodology, the author points out that there is an statistical failure, having Brazil with 5% of all reports submitted to the GRI, winning all awards across the board; while traditionally strong reporting countries such as United Kingdom, Spain and Holland could only put together four of the 103 finalist. Is important to mention that, due to similar criticisms from institutions such as the Global Compact, the 2010 were the last edition of these awards. The point we want to make is that there are more important contributions that can be drawn by identifying the regions and countries with best reporting practices, rather than trivializing and probably tainting the highly discussed concept of CSR.

With respect to the analysis of scores by company size, it is no surprise that the GRI framework is somewhat foreign to small corporations; this is an issue that requires great deal of discussion, in terms of how to be more inclusive and provide effective guidelines for small and medium size corporations. As CSR disclosure becomes more formalized, the level of complexity of CSR disclosure also raises, which may constitute an entry barrier for corporations based on their particular size and availability of resources. It is also relevant to mention that CSR's implementation costs cannot be overlooked, particularly in times of financial crisis, and like other long term strategies CSR has a slow revenue cycle.

In regards to the research questions that motivated the present study we can conclude the following answers based on the above discussion:

RQ1. Does Global Financial Crisis (GFC) affect the availability of CSR transparency?

In this respect the data and analysis of this research shows that according to the variable Report Type Frequencies (Table 6.5), Report Status Frequencies (Table 6.7) and the number of reports published during the period 2007-2011, showed that the availability and transparency of reports increased, with the exception of the year 2010, where reports showed a critical decline (figure 6.4). In summary the influence of the Global Financial Crisis did affect the availability of reports in a positive way, with the exception of the year 2010 as mentioned before.

RQ2. How is the CSR communication approach affected by the Global Financial Crisis?

According to the observations of this study the CSR communication strategy of corporations strengthen during the years of the global financial crisis, this as a corporate response to the needs of stakeholders and the vacuum of compliance and responsibility created by financial collapse of the 2008 Crisis. This in contradiction of traditional beliefs and previous academic works (Njoroge 2009, Fernandez and Soto 2009, Karaibrahimoglu 2010)

RQ3. How does participation in CSR frameworks is affected during financial crisis?

As mentioned above participation on the GRI framework observed an increased adherence, as a response to the renewed demand for CSR and business ethics, compliance instruments such as sustainability frameworks became important instruments to ensure compliance in the aftermaths of the 2008 financial collapse.

In conclusion, H0: CSR performance is immutable in financial crisis periods, was proven as not valid as CSR disclosure and quality of disclosure was in fact variable during the aforementioned period. In addition it was also concluded by this study that the main Hypothesis: H1: CSR performance is significantly different in financial crisis periods was proved as valid since we observed a positive increase in all three variables to measure CSR disclosure (Report Type, Report Status and Adherence/application level), a relationship that was statistically significant in all cases (see chapter 6 tables 6.8, 6.9 and 6.10).

Limitations

There are limitations to the present study, the first consist in the methodology used by the GRI in creating the "GRI report list", which was used as the universe of the research. The GRI database was created, by coding in all reports that the GRI is made aware off by voluntary submission. The above brings out the possibility that the List may or may not contain a registry for all corporations effectively using the Global Reporting Initiative Framework.

The second limitation originated by the design of the GRI database lies in the issue that since July 5th 2011 the GRI announced a new data base project that as of September 2013 has not yet been completed, making the information for the year 2012 unattainable.[127] In addition the GRI data may not be representative of the reporting behavior of small and medium size companies.

[127] See https://www.globalreporting.org/information/news-and-press-center/Pages/GRI-Reports-List-2.0-New-database-project-announced.aspx

Finally by relying on the data of the GRI framework we have the limitation of not being able to extrapolate or generalized the result or even to apply them to other frameworks. If we intend to make the same inferences in frameworks such as AA 1000, or the UN Global Compact this research may not be valid, as mentioned in previous chapter we decided upon the GRI due to the increasing number of practitioners, the strong support to this framework by respectable institutions such as The U.N. and the transparency of their report list/ data base.

Implications for literature

Through our observations we found that previous research of CSR under a particular disclosure framework tend to center under companies on the same industry instead of pursuing a cross comparison, even when the parameters and indicators established by these type of guidelines for disclosure offer the opportunity to compare them. This offer an interesting comparison as we can appreciate that stakeholders do not exert the same pressure or the loss of legitimacy is not equal across industries.

The business case of CSR and other traditional views, contradict the idea of social investment in times of economic constraint; however, the present research shows that the relationship between the GFC and CSR reporting is positive as stakeholders become more demanding increasing the standards of corporate behavior and their impacts on society. Trust became the main casualty in the post financial crisis society, but at the same time, corporations have the opportunity to benefit from satisfying the demands of stakeholders, as CSR is believed to improve corporate image (O'Brady, 2005; Pizzolante, 1993), becoming a competitive advantage (Visser 2008; Schreck, 2009; Lantos, 2001). With some scholars even agreeing in the positive relationship between CSR and Financial performance (Carroll *et all.* 2010), the benefits that may arise by embracing CSR are more important and relevant for a business survival. The Global Financial Crisis has re-opened the discussion of the nature of CSR's contributions to the bottom line of corporations, however if we consider that crisis situations create a demand for transparent and responsible business behavior, corporations cannot afford to turn their back on CSR programs and reporting practices.

CSR studies are now populated with research analyzing stock prices and CSR disclosure, with varying results, this relationship is yet to be proven, the present research can also follow that line applying the findings of the present research in the chase of a similar objective, but we also believe that there are more important and interesting questions that need to be answered. For instance why did CSR disclosure improve during the years of the crisis 2007-2011 with the exception of the year 2010. In other words what was the event that caused this change, additionally we can also ask, did perceptions of managers and stakeholder changed in the financial crisis period?

Earlier studies use content analysis in order to evaluate the significance of CSR information in non-financial reports, in contrast the present study focus on the use of a particular framework for CSR reporting in order to evaluate how CSR reporting trends were affected by the events of the Global Financial Crisis, which has not been the focus of previous studies. In addition preceding research that do not use a particular reporting framework, tend to use data that is centered in a particular country or industry, this leaves the results vulnerable to an effect of the local culture. In the present research we use the guidelines of the GRI as an equalizer parameter, a feat possible do to the standardization of information. Nevertheless, this also implicates that there may be unaccounted country specific influences that could affect the results of the present study.

In our exploration we contemplated that there was a higher demand of CSR disclosure due to the loss of confidence and moral capital of corporations, nevertheless this finding could be aid by a qualitative study of the reactions in the professional field or among, the works of Arevalo and Aravind, (2010), Fernandez and Souto (2009) seem to point in this direction, but further research could clarify this fact.

Implications for practitioners

In this research we offer methodology of measuring the disclosure under the GRI framework using a multi-variable indicator that compares the disclosure of companies using the reporting variables such as Report Type, Report Status and Adherence/application level. Traditionally studies use only the report Type variable but this only describes how updated the reports are. Having a more complex model provides better parameters for identifying best practices in corporate disclosure under the same framework.

The corporate governance reform of the last few years that have resulted in an increased scrutiny by society, a demand to establish and maintain sufficient and transparent internal controls has created the need to evaluate and identify the best practices of corporations in CSR and its disclosure.

As a result of the GFC stakeholders are conscious that the influence of corporations in all areas of human behavior has increased. Actions of corporations have intended and un-intended consequences for the environment, society and the economy. Investors and other stakeholders shared the need of transparency and ethics, even when different groups have different interests; they need disclosure frameworks and the tools to evaluate performance in those contexts in order to understand what constitutes an acceptable disclosure and what doesn't.

The multi-variable model that we proposed and analyzed in this study addresses this need by offering an objective parameter to evaluate performances of published reports under the GRI. As we discussed in chapter 4, The GRI owes its creation to stakeholder's pressure to have better standards that allow an objective comparison among corporations (Moneva, 2007). In this spirit we put forward this methodology that will aid future research on the relationship between CSP and CFP. By demonstrating in the present research that there is a significant relationship between the changes on disclosure behavior of the companies operating under the GRI framework during times of financial crisis, we can also extrapolate this results and use the multi-variable model to evaluate the influence of GRI disclosure (Represented by Report Type, Report Status and

Adherence/application level) on financial performance. Future research could pursue this objective by applying the following model:

$$\textit{Share Price} = \beta_0 + \beta_1 EPS + \beta_2 BV + \beta_3 GRI\ RT + \beta_4 GRI\ RS + \beta_5 GRI\ AS + \beta_6 Size + \varepsilon$$

The suggested model would measure the share price of a firm in function of EPS: Earnings per Share, Book Value, GRI Report Type, GRI Report Status, GRI Application Scores, and control variables such as firm size or Industry. This is one of the many applications of the model proposed and evaluated in this study. Providing a more complex but accurate evaluation to disclosure than the one used in previous research (Griffin and Mahon 1999, Njoroge 2009, Fernandez and Soto 2009, Karaibrahimoglu 2010, Giannarakis 2011) is in line with the values of the GRI, in particular Comparability, Accuracy and Reliability, which will aid the readers and audiences of Reports under the GRI. From the stakeholders stand point providing the methodology to evaluate the disclosure under the GRI presented in this study provides more transparency and therefore facilitates stakeholder engagement as it is important as part of latent information demands (Isenmann & Kim, 2006). A corporation life is determined by its ability to build and maintain sustainable and lasting relations with all members of its stakeholder network (Donaldson & Preston 1995; Post *et al.* 2002).

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ANNEX I: CHRONOLOGY OF THE GLOBAL FINANCIAL CRISIS

March 5, 2007: HSBC Holdings Plc, Europe's biggest bank by market value, says the U.S. subprime market is ``unstable'' and now in a ``downturn,'' making it the main drag on company earnings.
March 29, 2007: HSBC Chairman Stephen Green says the U.S. subprime mortgage services division will be ``run down significantly'' as the bank tries to recover from loan losses.
April 2, 2007: New Century Financial Corp., which specialized in loans to people with poor credit, files for bankruptcy protection after being overwhelmed by customer defaults.
July 17, 2007: Investors in two Bear Stearns Cos. hedge funds that invested in collateralized debt obligations backed by subprime mortgage loans are told there is no value left in the funds, wiping out $1.6 billion originally invested.
July 19, 2007: Federal Reserve Chairman Ben S. Bernanke tells the U.S. Senate's Banking Committee that there may be as much as $100 billion in losses associated with subprime mortgage products.
Aug. 9, 2007: BNP Paribas SA, France's biggest bank, halts withdrawals from three investment funds because it can't ``fairly'' value their holdings, as concern over U.S. subprime mortgage losses roils credit markets.
Aug. 17, 2007: The Fed lowers the interest rate it charges banks and acknowledges for the first time that an extraordinary policy shift is needed to contain the subprime-mortgage collapse.
Aug. 22, 2007: Countrywide Financial Corp., the biggest U.S. mortgage lender, sells $2 billion of preferred stock to Bank of America Corp., the biggest U.S. bank by market value, to bolster its finances.
Sept. 7, 2007: The three-month London interbank offered rate, or Libor, the rate banks charge each other for dollars, rises to a seven-year high, signaling efforts by central banks to free up lending are sputtering.
Sept. 14, 2007: Northern Rock Plc says the Bank of England agreed to provide emergency funds to ease a ``severe liquidity squeeze'' sparked by U.S. subprime mortgage defaults following the first run on a British bank in more than a century.
Oct. 9, 2007: U.S. stock indexes rally to records for the second time in a month after minutes from the Fed allayed investor concern that the U.S. economy is heading for a recession. The Dow Jones Industrial Average and the Standard & Poor's 500 Index set all-time highs, with the Dow closing at 14,164.53.
Oct. 30, 2007: Merrill Lynch & Co. ousts Stan O'Neal as chairman and chief executive officer after reporting a $2.24 billion loss, six times bigger than a forecast the firm offered just three weeks earlier.
Nov. 4, 2007: Citigroup Inc. CEO Charles ``Chuck'' Prince, who took over in 2003, steps down after the largest U.S. bank by assets increased its estimate for mortgage-related writedowns.
Jan. 11, 2008: Bank of America, the biggest U.S. bank by market value, agrees to buy Countrywide for about $4 billion.
March 14, 2008: Bear Stearns Cos. gets emergency funding from the U.S. Federal Reserve and JPMorgan Chase & Co. as a run on the bank depletes its cash reserves in three days.
March 16, 2008: JPMorgan Chase agrees to buy Bear Stearns for 7 percent of its market value in a sale brokered by the Fed and the U.S. Treasury.
April 1, 2008: Lehman Brothers Holdings Inc., the fourth- largest U.S. securities firm, raises $4 billion from a stock sale to quell speculation it's short of capital.
April 9, 2008: Washington Mutual Inc. rejected an offer from JPMorgan Chase to buy it for as much as $8 a share, or $7 billion, before announcing it received a $7 billion capital infusion from a group led by TPG Inc., the Wall Street Journal reports, citing people familiar with the situation.
April 28, 2008: The U.S. Internal Revenue Service starts distributing tax rebates electronically as part of a $168 billion economic stimulus plan.
May 31, 2008: Bear Stearns ceases to exist as the acquisition by JPMorgan is completed.
June 20, 2008: The Dow closes below 12,000.
July 11, 2008: IndyMac Bancorp Inc., the second-biggest independent U.S. mortgage lender, is seized by federal regulators after a run by depositors depleted its cash.
July 31, 2008: Nationwide Building Society, Britain's fourth-biggest mortgage lender, says U.K. house prices declined the most in almost two decades in July and consumer confidence fell to a record low as the economy edged closer to a recession.
Aug. 12, 2008: UBS AG, Switzerland's biggest bank, announces plans to separate its investment banking and wealth management units after mounting subprime writedowns prompt rich clients

to withdraw funds for the first time in almost eight years.
Aug. 31, 2008: Commerzbank AG agrees to buy Allianz SE's Dresdner Bank for 9.8 billion euros ($13.3 billion) in Germany's biggest banking takeover in three years.
Sept. 7, 2008: The U.S. government seizes control of Fannie Mae and Freddie Mac, the largest U.S. mortgage-finance companies.
Sept. 15, 2008: Lehman Brothers Holdings Inc. files the largest bankruptcy in history, and Bank of America agrees to acquire Merrill Lynch for about $50 billion.
Sept. 16, 2008: American International Group Inc. accepts an $85 billion loan from the Fed to avert the worst financial collapse in history, and the government takes over the company.
Sept. 18, 2008: Lloyds TSB Group Plc, the U.K.'s biggest provider of checking accounts, agrees to buy HBOS Plc, Britain's largest mortgage lender, for 10.4 billion pounds ($18.1 billion).
Sept. 21, 2008: Goldman Sachs Group Inc. and Morgan Stanley receive approval to become commercial banks regulated by the Fed as tight credit markets forced Wall Street's two remaining independent investment banks to widen their sources of funding.
Sept. 23, 2008: Goldman Sachs says it will raise at least $7.5 billion from Warren Buffett's Berkshire Hathaway Inc. and public investors in a bid to quell concerns that pushed up the Wall Street firm's borrowing costs and hurt its stock.
Sept. 26, 2008: The U.S. Securities and Exchange Commission ends a program that monitored securities firms' capital after Morgan Stanley and Goldman Sachs, the only companies remaining under its jurisdiction, became banks overseen by the Fed.
Sept. 26, 2008: The SEC's inspector general releases a report asserting that the agency failed in overseeing Bear Stearns because it knew the firm had ``high leverage'' and was too concentrated in mortgage securities before its forced sale to JPMorgan Chase & Co.
Sept. 26, 2008: Washington Mutual Inc. is seized by government regulators and its branches and assets sold to JPMorgan Chase in the biggest U.S. bank failure in history.
Sept. 27, 2008: Washington Mutual files for bankruptcy protection.
Sept. 28, 2008: Fortis, the largest Belgian financial- services firm, receives an 11.2 billion-euro rescue from Belgium, the Netherlands and Luxembourg after investor confidence in the bank evaporates.
Sept. 29, 2008: The House of Representatives rejects a $700 billion plan to rescue the U.S. financial system, sending the Dow Jones Industrial Average down 778 points, its biggest point drop ever. Citigroup agrees to acquire the banking operations of Wachovia Corp. for about $2.16 billion after shares of the North Carolina lender collapsed under the weight of overdue mortgages. Bradford & Bingley Plc, the U.K.'s biggest lender to landlords, is seized by the government. The Dow closes below 11,000.
Sept. 30, 2008: Dexia SA, the world's biggest lender to local governments, gets a 6.4 billion-euro state-backed rescue as a worsening financial crisis forces policy makers across Europe to aid ailing banks. Ireland says it will guarantee its banks' deposits and debts for two years.
Oct. 1, 2008: The U.S. Senate approves a revised version of the rescue plan that was refashioned to entice enough votes for passage.
Oct. 3, 2008: The House passes the revised version of the rescue plan. Wells Fargo & Co., the biggest U.S. bank on the West Coast, agrees to buy all of Wachovia for about $15.1 billion, trumping Citigroup's government-assisted offer. U.S. President George W. Bush signs the rescue plan into law.
Oct. 5, 2008: BNP Paribas SA, France's biggest bank, will take control of Fortis's units in Belgium and Luxembourg after an earlier government rescue failed to ensure the company's stability as the global credit crisis worsened.
Oct. 6, 2008: The Fed says it will double its auctions of cash to banks to as much as $900 billion and is considering further steps to unfreeze short-term lending markets as the credit crunch deepens. The German government and the country's banks and insurers agreed on a 50 billion euro rescue package for commercial property lender Hypo Real Estate Holding AG after an earlier bailout faltered. The Dow Jones Industrial Average falls below 10,000 for the first time in four years.
Oct. 9, 2008: Citigroup walks away from its attempt to buy Wachovia, handing victory to Wells Fargo. The Dow Jones falls below 9,000 for the first time in five years and briefly dips below 8,000.
Oct. 11, 2008: U.S. Treasury Secretary Henry Paulson indicates that pumping government funds into banks is a priority, saying financial markets will remain volatile.

Oct. 12, 2008: European leaders agree to guarantee bank borrowing and use government money to prevent big lenders from going under, trying to stop the financial hemorrhage and stave off a recession.
Oct. 13, 2008: The Fed leads an unprecedented push by central banks to flood the financial system with as many dollars as banks want, backing up government efforts to revive confidence and helping to reduce money-market rates. Royal Bank of Scotland Group Plc, HBOS Plc, and Lloyds TSB Group Plc get an unprecedented 37 billion-pound bailout from the U.K. government as Germany, France and Spain prepare similar rescues. Germany says it will provide as much as 500 billion euros in loan guarantees and capital to bolster the banking system, the country's biggest government intervention since the Berlin Wall came down in 1989.
SOURCE: *Bloomberg.com (http://www.bloomberg.com/apps/news?pid= newsarchive&sid=aleqkSjAAw10 - Last accessed 21/9/2012.*

ANNEX 2: STATISTICAL TESTING

ANNEX 2.1: ANOVA TEST FOR REPORT TIPE
General Linear Model

Notes

Output Created		2013-03-03T17:45:05.000
Comments		
Input	Data	/Users/mario/Documents/CSR-CRISIS 2011.sav
	Active Dataset	DataSet1
	Filter	<none>
	Weight	<none>
	Split File	<none>
	N of Rows in Working Data File	2790
Missing Value Handling	Definition of Missing	User-defined missing values are treated as missing.
	Cases Used	Statistics are based on all cases with valid data for all variables in the model.
Syntax		GLM TYPE7 TYPE8 Type9 TYPE10 TYPE11 /WSFACTOR=Report_Type 5 Polynomial /METHOD=SSTYPE(3) /PRINT=DESCRIPTIVE ETASQ /CRITERIA=ALPHA(.05) /WSDESIGN=Report_Type.
Resources	Processor Time	0:00:00.120
	Elapsed Time	0:00:01.000

Within-Subjects Factors

Measure:MEASURE_1

Report_ Type	Dependent Variable
1	TYPE7
2	TYPE8
3	Type9
4	TYPE10
5	TYPE11

Descriptive Statistics

	Mean	Std. Deviation	N
2007 Report Type	1.22	2.097	2790
2008 Report Type	1.98	2.438	2790
2009 Report Type	2.68	2.492	2790
2010 Report Type	3.31	2.363	2790
2011 Report Type	1.31	2.169	2790

Multivariate Tests[b]

Effect		Value	F	Hypothesis df	Error df	Sig.	Partial Eta Squared
Report_Type	Pillai's Trace	.380	4.270E2	4.000	2786.000	.000	.380
	Wilks' Lambda	.620	4.270E2	4.000	2786.000	.000	.380
	Hotelling's Trace	.613	4.270E2	4.000	2786.000	.000	.380
	Roy's Largest Root	.613	4.270E2	4.000	2786.000	.000	.380

a. Exact statistic

b. Design: Intercept
Within Subjects Design:
Report_Type

Mauchly's Test of Sphericity[b]

Measure:MEASURE_1

Within Subjects Effect	Mauchly's W	Approx. Chi-Square	df	Sig.	Epsilon[a] Greenhouse-Geisser	Huynh-Feldt	Lower-bound
Report_Type	.816	566.609	9	.000	.915	.917	.250

Tests the null hypothesis that the error covariance matrix of the orthonormalized transformed dependent variables is proportional to an identity matrix.

a. May be used to adjust the degrees of freedom for the averaged tests of significance. Corrected tests are displayed in the Tests of Within-Subjects Effects table.

b. Design: Intercept
Within Subjects Design: Report_Type

Tests of Within-Subjects Effects

Measure:MEASURE_1

Source		Type III Sum of Squares	df	Mean Square	F	Sig.	Partial Eta Squared
Report_Type	Sphericity Assumed	9014.752	4	2253.688	474.874	.000	.145
	Greenhouse-Geisser	9014.752	3.661	2462.277	474.874	.000	.145
	Huynh-Feldt	9014.752	3.667	2458.645	474.874	.000	.145
	Lower-bound	9014.752	1.000	9014.752	474.874	.000	.145
Error(Report_Type)	Sphericity Assumed	52944.848	11156	4.746			
	Greenhouse-Geisser	52944.848	10210.931	5.185			
	Huynh-Feldt	52944.848	10226.016	5.177			
	Lower-bound	52944.848	2789.000	18.983			

Tests of Within-Subjects Contrasts

Measure:MEASURE_1

Source	Report_Type	Type III Sum of Squares	df	Mean Square	F	Sig.	Partial Eta Squared
Report_Type	Linear	650.146	1	650.146	116.687	.000	.040
	Quadratic	6261.606	1	6261.606	1181.511	.000	.298
	Cubic	1849.301	1	1849.301	445.090	.000	.138
	Order 4	253.700	1	253.700	64.111	.000	.022
Error(Report_Type)	Linear	15539.554	2789	5.572			
	Quadratic	14780.751	2789	5.300			
	Cubic	11587.999	2789	4.155			
	Order 4	11036.543	2789	3.957			

Tests of Between-Subjects Effects

Measure:MEASURE_1

Transformed Variable:Average

Source	Type III Sum of Squares	df	Mean Square	F	Sig.	Partial Eta Squared
Intercept	61544.703	1	61544.703	7834.705	.000	.737
Error	21908.697	2789	7.855			

ANNEX 2.2: ANOVA TEST FOR REPORT STATUS

General Linear Model

Notes

Output Created		2013-03-03T20:45:05.000
Comments		
Input	Data	/Users/mario/Documents/CSR-CRISIS 2011.sav
	Active Dataset	DataSet1
	Filter	<none>
	Weight	<none>
	Split File	<none>
	N of Rows in Working Data File	2790
Missing Value Handling	Definition of Missing	User-defined missing values are treated as missing.
	Cases Used	Statistics are based on all cases with valid data for all variables in the model.
Syntax		GLM STAT7 STAT8 STAT9 STAT10 STAT11 /WSFACTOR=Status_level 5 Polynomial /METHOD=SSTYPE(3) /PRINT=DESCRIPTIVE ETASQ /CRITERIA=ALPHA(.05) /WSDESIGN=Status_level.
Resources	Processor Time	0:00:00.067
	Elapsed Time	0:00:00.000

Within-Subjects Factors

Measure:MEASURE_1

Status_level	Dependent Variable
1	STAT7
2	STAT8
3	STAT9
4	STAT10
5	STAT11

Descriptive Statistics

	Mean	Std. Deviation	N
2007 Status Level	.48	.938	2790
2008 Status Level	.66	.976	2790
2009 Status Level	.91	1.049	2790
2010 Status Level	1.14	1.063	2790
2011 Status Level	.54	.983	2790

Multivariate Tests[b]

Effect		Value	F	Hypothesis df	Error df	Sig.	Partial Eta Squared
Status_level	Pillai's Trace	.256	2.391E2	4.000	2786.000	.000	.256
	Wilks' Lambda	.744	2.391E2	4.000	2786.000	.000	.256
	Hotelling's Trace	.343	2.391E2	4.000	2786.000	.000	.256
	Roy's Largest Root	.343	2.391E2	4.000	2786.000	.000	.256

a. Exact statistic

b. Design: Intercept
Within Subjects Design:
Status_level

Mauchly's Test of Sphericity[b]

Measure:MEASURE_1

Within Subjects Effect	Mauchly's W	Approx. Chi-Square	df	Sig.	Epsilon[a]		
					Greenhouse-Geisser	Huynh-Feldt	Lower-bound
Status_level	.771	726.121	9	.000	.892	.894	.250

Tests the null hypothesis that the error covariance matrix of the orthonormalized transformed dependent variables is proportional to an identity matrix.

a. May be used to adjust the degrees of freedom for the averaged tests of significance. Corrected tests are displayed in the Tests of Within-Subjects Effects table.

b. Design: Intercept
Within Subjects Design: Status_level

Tests of Within-Subjects Effects

Measure:MEASURE_1

Source		Type III Sum of Squares	df	Mean Square	F	Sig.	Partial Eta Squared
Status_level	Sphericity Assumed	867.190	4	216.798	286.373	.000	.093
	Greenhouse-Geisser	867.190	3.569	242.949	286.373	.000	.093
	Huynh-Feldt	867.190	3.575	242.600	286.373	.000	.093
	Lower-bound	867.190	1.000	867.190	286.373	.000	.093
Error(Status_level)	Sphericity Assumed	8445.610	11156	.757			
	Greenhouse-Geisser	8445.610	9955.132	.848			
	Huynh-Feldt	8445.610	9969.461	.847			
	Lower-bound	8445.610	2789.000	3.028			

Tests of Within-Subjects Contrasts

Measure:MEASURE_1

Source	Status_level	Type III Sum of Squares	df	Mean Square	F	Sig.	Partial Eta Squared
Status_level	Linear	103.219	1	103.219	102.074	.000	.035
	Quadratic	510.400	1	510.400	578.839	.000	.172
	Cubic	231.969	1	231.969	391.142	.000	.123
	Order 4	21.602	1	21.602	39.846	.000	.014
Error(Status_level)	Linear	2820.281	2789	1.011			
	Quadratic	2459.243	2789	.882			
	Cubic	1654.031	2789	.593			
	Order 4	1512.055	2789	.542			

Tests of Between-Subjects Effects

Measure:MEASURE_1

Transformed Variable:Average

Source	Type III Sum of Squares	df	Mean Square	F	Sig.	Partial Eta Squared
Intercept	7747.442	1	7747.442	3873.889	.000	.581
Error	5577.758	2789	2.000			

ANNEX 2.3: ANOVA TEST FOR APPLICARTION/ADHERENCE LEVEL

General Linear Model

Notes

Output Created		2013-03-03T20:38:55.000
Comments		
Input	Data	/Users/mario/Documents/CSR-CRISIS 2011.sav
	Active Dataset	DataSet1
	Filter	<none>
	Weight	<none>
	Split File	<none>
	N of Rows in Working Data File	2790
Missing Value Handling	Definition of Missing	User-defined missing values are treated as missing.
	Cases Used	Statistics are based on all cases with valid data for all variables in the model.
Syntax		GLM APPL7 APPL8 APPL9 APPL10 APPL11 /WSFACTOR=Application_level 5 Polynomial /METHOD=SSTYPE(3) /PRINT=DESCRIPTIVE ETASQ /CRITERIA=ALPHA(.05) /WSDESIGN=Application_level.
Resources	Processor Time	0:00:00.098
	Elapsed Time	0:00:00.000

Within-Subjects Factors

Measure:MEASURE_1

Application_level	Dependent Variable
1	APPL7
2	APPL8
3	APPL9
4	APPL10
5	APPL11

Descriptive Statistics

	Mean	Std. Deviation	N
2007 Application Level	1.22	2.558	2790
2008 Application Level	1.96	3.087	2790
2009 Application Level	2.79	3.358	2790
2010 Application Level	3.56	3.438	2790
2011 Application Level	1.53	2.859	2790

Multivariate Tests[b]

Effect		Value	F	Hypothesis df	Error df	Sig.	Partial Eta Squared
Application_level	Pillai's Trace	.314	3.190E2	4.000	2786.000	.000	.314
	Wilks' Lambda	.686	3.190E2	4.000	2786.000	.000	.314
	Hotelling's Trace	.458	3.190E2	4.000	2786.000	.000	.314
	Roy's Largest Root	.458	3.190E2	4.000	2786.000	.000	.314

a. Exact statistic

b. Design: Intercept
Within Subjects Design:
Application_level

Mauchly's Test of Sphericity[b]

Measure:MEASURE_1

Within Subjects Effect	Mauchly's W	Approx. Chi-Square	df	Sig.	Epsilon[a]		
					Greenhouse-Geisser	Huynh-Feldt	Lower-bound
Application_level	.744	822.875	9	.000	.885	.886	.250

Tests the null hypothesis that the error covariance matrix of the orthonormalized transformed dependent variables is proportional to an identity matrix.

a. May be used to adjust the degrees of freedom for the averaged tests of significance. Corrected tests are displayed in the Tests of Within-Subjects Effects table.

b. Design: Intercept
Within Subjects Design: Application_level

Tests of Within-Subjects Effects

Measure:MEASURE_1

Source		Type III Sum of Squares	df	Mean Square	F	Sig.	Partial Eta Squared
Application_level	Sphericity Assumed	10228.719	4	2557.180	385.533	.000	.121
	Greenhouse-Geisser	10228.719	3.540	2889.077	385.533	.000	.121
	Huynh-Feldt	10228.719	3.546	2884.960	385.533	.000	.121
	Lower-bound	10228.719	1.000	10228.719	385.533	.000	.121
Error(Application_level)	Sphericity Assumed	73996.081	11156	6.633			
	Greenhouse-Geisser	73996.081	9874.398	7.494			
	Huynh-Feldt	73996.081	9888.491	7.483			
	Lower-bound	73996.081	2789.000	26.531			

Tests of Within-Subjects Contrasts

Measure:MEASURE_1

Source	Application_level	Type III Sum of Squares	df	Mean Square	F	Sig.	Partial Eta Squared
Application_level	Linear	1354.764	1	1354.764	169.010	.000	.057
	Quadratic	6257.603	1	6257.603	792.389	.000	.221
	Cubic	2349.291	1	2349.291	435.195	.000	.135
	Order 4	267.062	1	267.062	51.160	.000	.018
Error(Application_level)	Linear	22356.236	2789	8.016			
	Quadratic	22025.112	2789	7.897			
	Cubic	15055.709	2789	5.398			
	Order 4	14559.023	2789	5.220			

Tests of Between-Subjects Effects

Measure:MEASURE_1
Transformed Variable:Average

Source	Type III Sum of Squares	df	Mean Square	F	Sig.	Partial Eta Squared
Intercept	68281.345	1	68281.345	3280.967	.000	.541
Error	58042.855	2789	20.811			

ANNEX 3
ANNEX 3.1 ANOVA for Average Scores by Company Size.

Oneway

Notes

Output Created		2013-03-16T00:50:42.000
Comments		
Input	Data	/Users/mario/Documents/CSR-CRISIS 2011.sav
	Active Dataset	DataSet1
	Filter	<none>
	Weight	<none>
	Split File	<none>
	N of Rows in Working Data File	2790
Missing Value Handling	Definition of Missing	User-defined missing values are treated as missing.
	Cases Used	Statistics for each analysis are based on cases with no missing data for any variable in the analysis.
Syntax		ONEWAY AVTYPE AVAPP AVSTAT BY SIZE /STATISTICS DESCRIPTIVES HOMOGENEITY BROWNFORSYTHE WELCH /PLOT MEANS /MISSING ANALYSIS /POSTHOC=TUKEY ALPHA(0.05).
Resources	Processor Time	0:00:00.155
	Elapsed Time	0:00:00.000

Descriptives

						95% Confidence Interval for Mean			
		N	Mean	Std. Deviation	Std. Error	Lower Bound	Upper Bound	Minimum	Maximum
Average Report Type score	Large	2213	2.1872	1.24068	.02637	2.1354	2.2389	.20	5.00
	MNE	142	2.3296	1.71984	.14433	2.0443	2.6149	.20	5.00
	SME	435	1.5844	.98352	.04716	1.4917	1.6771	.20	5.00
	Total	2790	2.1004	1.25343	.02373	2.0539	2.1470	.20	5.00
Average Application score	Large	2213	2.2079	1.67036	.03551	2.1382	2.2775	.20	7.40
	MNE	142	2.3606	2.00627	.16836	2.0277	2.6934	.20	7.40
	SME	435	1.5936	1.25583	.06021	1.4752	1.7119	.20	6.80
	Total	2790	2.1199	1.64745	.03119	2.0587	2.1810	.20	7.40
Average Status Score	Large	2213	.7745	.63348	.01347	.7481	.8009	.20	3.00
	MNE	142	.9056	.83256	.06987	.7675	1.0438	.20	3.00
	SME	435	.5439	.49642	.02380	.4971	.5907	.20	3.00
	Total	2790	.7452	.63244	.01197	.7218	.7687	.20	3.00

Test of Homogeneity of Variances

	Levene Statistic	df1	df2	Sig.
Average Report Type score	74.195	2	2787	.000
Average Application score	40.266	2	2787	.000
Average Status Score	43.865	2	2787	.000

ANOVA

		Sum of Squares	df	Mean Square	F	Sig.
Average Report Type score	Between Groups	139.954	2	69.977	45.977	.000
	Within Groups	4241.785	2787	1.522		
	Total	4381.739	2789			
Average Application score	Between Groups	145.856	2	72.928	27.378	.000
	Within Groups	7423.744	2787	2.664		
	Total	7569.600	2789			
Average Status Score	Between Groups	23.182	2	11.591	29.573	.000
	Within Groups	1092.369	2787	.392		
	Total	1115.552	2789			

Robust Tests of Equality of Means

		Statistic[a]	df1	df2	Sig.
Average Report Type score	Welch	64.021	2	327.907	.000
	Brown-Forsythe	35.502	2	270.386	.000
Average Application score	Welch	40.188	2	334.211	.000
	Brown-Forsythe	25.462	2	304.583	.000
Average Status Score	Welch	38.961	2	329.785	.000
	Brown-Forsythe	24.431	2	283.820	.000

a. Asymptotically F distributed.

Post Hoc Tests

Multiple Comparisons

Tukey HSD

Dependent Variable	(I) Size	(J) Size	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval Lower Bound	95% Confidence Interval Upper Bound
Average Report Type score	Large	MNE	-.14241	.10680	.377	-.3928	.1080
		SME	.60280*	.06470	.000	.4511	.7545
	MNE	Large	.14241	.10680	.377	-.1080	.3928

		SME	.74521*	.11924	.000	.4656	1.0248
	SME	Large	-.60280*	.06470	.000	-.7545	-.4511
		MNE	-.74521*	.11924	.000	-1.0248	-.4656
Average Application score	Large	MNE	-.15270	.14129	.526	-.4840	.1786
		SME	.61430*	.08560	.000	.4136	.8150
	MNE	Large	.15270	.14129	.526	-.1786	.4840
		SME	.76700*	.15774	.000	.3971	1.1369
	SME	Large	-.61430*	.08560	.000	-.8150	-.4136
		MNE	-.76700*	.15774	.000	-1.1369	-.3971
Average Status Score	Large	MNE	-.13112*	.05420	.041	-.2582	-.0040
		SME	.23061*	.03284	.000	.1536	.3076
	MNE	Large	.13112*	.05420	.041	.0040	.2582
		SME	.36173*	.06051	.000	.2198	.5036
	SME	Large	-.23061*	.03284	.000	-.3076	-.1536
		MNE	-.36173*	.06051	.000	-.5036	-.2198

*. The mean difference is significant at the 0.05 level.

Homogeneous Subsets

Average Report Type score

Tukey HSD

		Subset for alpha = 0.05	
Size	N	1	2
SME	435	1.5844	
Large	2213		2.1872
MNE	142		2.3296
Sig.		1.000	.326

Means for groups in homogeneous subsets are displayed.

Average Application score

Tukey HSD

		Subset for alpha = 0.05	
Size	N	1	2
SME	435	1.5936	
Large	2213		2.2079
MNE	142		2.3606
Sig.		1.000	.479

Means for groups in homogeneous subsets are displayed.

Average Status Score

Tukey HSD

Size	N	Subset for alpha = 0.05		
		1	2	3
SME	435	.5439		
Large	2213		.7745	
MNE	142			.9056
Sig.		1.000	1.000	1.000

Means for groups in homogeneous subsets are displayed.

ANNEX 3.2. ANOVA for Average Scores by Region

Oneway

Notes

Output Created		2013-03-16T00:54:04.000
Comments		
Input	Data	/Users/mario/Documents/CSR-CRISIS 2011.sav
	Active Dataset	DataSet1
	Filter	<none>
	Weight	<none>
	Split File	<none>
	N of Rows in Working Data File	2790
Missing Value Handling	Definition of Missing	User-defined missing values are treated as missing.
	Cases Used	Statistics for each analysis are based on cases with no missing data for any variable in the analysis.
Syntax		ONEWAY AVTYPE AVAPP AVSTAT BY REGION /STATISTICS DESCRIPTIVES HOMOGENEITY BROWNFORSYTHE WELCH /PLOT MEANS /MISSING ANALYSIS /POSTHOC=TUKEY ALPHA(0.05).
Resources	Processor Time	0:00:00.184
	Elapsed Time	0:00:00.000

Descriptives

						95% Confidence Interval for Mean			
		N	Mean	Std. Deviation	Std. Error	Lower Bound	Upper Bound	Minimum	Maximum
Average Report Type score	Africa	75	2.4827	1.09203	.12610	2.2314	2.7339	.80	4.00
	Asia	549	1.9220	1.08925	.04649	1.8307	2.0134	.20	5.00
	Europe	1241	2.2216	1.33906	.03801	2.1470	2.2962	.20	5.00
	Latin America	418	1.8526	1.11459	.05452	1.7455	1.9598	.20	5.00
	Northern America	385	2.0416	1.30501	.06651	1.9108	2.1723	.20	5.00
	Oceania	122	2.4705	1.14095	.10330	2.2660	2.6750	.80	5.00
	Total	2790	2.1004	1.25343	.02373	2.0539	2.1470	.20	5.00
Average Application score	Africa	75	2.0800	1.35726	.15672	1.7677	2.3923	.20	6.40
	Asia	549	1.7800	1.37802	.05881	1.6644	1.8955	.20	7.40
	Europe	1241	2.3747	1.81628	.05156	2.2735	2.4758	.20	7.40
	Latin America	418	1.9861	1.54904	.07577	1.8372	2.1351	.20	7.40

	Northern America	385	1.8540	1.43730	.07325	1.7100	1.9981	.20	7.40
	Oceania	122	2.3787	1.62924	.14750	2.0867	2.6707	.20	6.40
	Total	2790	2.1199	1.64745	.03119	2.0587	2.1810	.20	7.40
Average Status Score	Africa	75	.7120	.39761	.04591	.6205	.8035	.20	1.60
	Asia	549	.6277	.48837	.02084	.5867	.6686	.20	3.00
	Europe	1241	.8617	.72688	.02063	.8212	.9022	.20	3.00
	Latin America	418	.6560	.57845	.02829	.6004	.7116	.20	3.00
	Northern America	385	.6203	.52212	.02661	.5679	.6726	.20	3.00
	Oceania	122	.8098	.57084	.05168	.7075	.9122	.20	3.00
	Total	2790	.7452	.63244	.01197	.7218	.7687	.20	3.00

Test of Homogeneity of Variances

	Levene Statistic	df1	df2	Sig.
Average Report Type score	16.212	5	2784	.000
Average Application score	20.879	5	2784	.000
Average Status Score	33.935	5	2784	.000

ANOVA

		Sum of Squares	df	Mean Square	F	Sig.
Average Report Type score	Between Groups	90.357	5	18.071	11.724	.000
	Within Groups	4291.383	2784	1.541		
	Total	4381.739	2789			
Average Application score	Between Groups	186.994	5	37.399	14.103	.000
	Within Groups	7382.605	2784	2.652		
	Total	7569.600	2789			
Average Status Score	Between Groups	34.361	5	6.872	17.696	.000
	Within Groups	1081.190	2784	.388		
	Total	1115.552	2789			

Robust Tests of Equality of Means

		Statistic[a]	df1	df2	Sig.
Average Report Type score	Welch	13.450	5	465.477	.000
	Brown-Forsythe	13.137	5	1133.129	.000
Average Application score	Welch	14.610	5	466.632	.000
	Brown-Forsythe	16.248	5	1086.836	.000
Average Status Score	Welch	17.583	5	478.883	.000
	Brown-Forsythe	23.378	5	1353.168	.000

a. Asymptotically F distributed.

Homogeneous Subsets

Average Report Type score

Tukey HSD

Region	N	Subset for alpha = 0.05		
		1	2	3
Latin America	418	1.8526		
Asia	549	1.9220	1.9220	
Northern America	385	2.0416	2.0416	
Europe	1241		2.2216	2.2216
Oceania	122			2.4705
Africa	75			2.4827
Sig.		.636	.140	.270

Means for groups in homogeneous subsets are displayed.

Average Application score

Tukey HSD

Region	N	Subset for alpha = 0.05	
		1	2
Asia	549	1.7800	
Northern America	385	1.8540	
Latin America	418	1.9861	1.9861
Africa	75	2.0800	2.0800
Europe	1241		2.3747
Oceania	122		2.3787
Sig.		.421	.141

Means for groups in homogeneous subsets are displayed.

Average Status Score

Tukey HSD

Region	N	Subset for alpha = 0.05		
		1	2	3
Northern America	385	.6203		
Asia	549	.6277		
Latin America	418	.6560	.6560	
Africa	75	.7120	.7120	.7120
Oceania	122		.8098	.8098
Europe	1241			.8617
Sig.		.669	.123	.144

Means for groups in homogeneous subsets are displayed.

ANNEX 3.3 ANOVA for Average Scores by Industry.

Oneway

Notes

Output Created		2013-03-16T00:55:22.000
Comments		
Input	Data	/Users/mario/Documents/CSR-CRISIS 2011.sav
	Active Dataset	DataSet1
	Filter	<none>
	Weight	<none>
	Split File	<none>
	N of Rows in Working Data File	2790
Missing Value Handling	Definition of Missing	User-defined missing values are treated as missing.
	Cases Used	Statistics for each analysis are based on cases with no missing data for any variable in the analysis.
Syntax		ONEWAY AVTYPE AVAPP AVSTAT BY Instry /STATISTICS DESCRIPTIVES HOMOGENEITY BROWNFORSYTHE WELCH /PLOT MEANS /MISSING ANALYSIS /POSTHOC=TUKEY ALPHA(0.05).
Resources	Processor Time	0:00:00.276
	Elapsed Time	0:00:00.000

Descriptives

						95% Confidence Interval for Mean			
		N	Mean	Std. Deviation	Std. Error	Lower Bound	Upper Bound	Minimum	Maximum
Average Report Type score	Basic Materiasl	289	2.2457	1.23406	.07259	2.1028	2.3886	.20	5.00
	Energy	188	2.3926	1.29951	.09478	2.2056	2.5795	.80	5.00
	Health Care	85	2.0565	1.30516	.14156	1.7750	2.3380	.40	5.00
	Telecommunications	94	2.3426	1.33622	.13782	2.0689	2.6162	.20	5.00
	Utilities	172	2.6430	1.37130	.10456	2.4366	2.8494	.80	5.00
	Consumer Services	264	1.9091	1.24060	.07635	1.7587	2.0594	.20	5.00
	Consumer Goods	372	1.9892	1.21327	.06290	1.8656	2.1129	.20	5.00

	Financials	422	2.2659	1.29267	.06293	2.1422	2.3896	.20	5.00
	Industrials	360	2.0894	1.25301	.06604	1.9596	2.2193	.20	5.00
	Technology	82	2.3659	1.38200	.15262	2.0622	2.6695	.20	5.00
	Other	462	1.6567	.95776	.04456	1.5691	1.7443	.20	5.00
	Total	2790	2.1004	1.25343	.02373	2.0539	2.1470	.20	5.00
Average Application score	Basic Materiasl	289	2.2595	1.62568	.09563	2.0713	2.4477	.20	7.40
	Energy	188	2.4149	1.79130	.13064	2.1572	2.6726	.20	7.40
	Health Care	85	2.0941	1.64594	.17853	1.7391	2.4491	.20	6.40
	Telecommunications	94	2.5426	1.84347	.19014	2.1650	2.9201	.20	6.40
	Utilities	172	2.8512	2.03690	.15531	2.5446	3.1577	.20	7.40
	Consumer Services	264	1.8250	1.42465	.08768	1.6524	1.9976	.20	7.40
	Consumer Goods	372	1.7968	1.38018	.07156	1.6561	1.9375	.20	7.40
	Financials	422	2.4820	1.85160	.09013	2.3048	2.6592	.20	7.40
	Industrials	360	2.1378	1.73418	.09140	1.9580	2.3175	.20	7.40
	Technology	82	2.2268	1.72556	.19056	1.8477	2.6060	.20	7.40
	Other	462	1.6238	1.12932	.05254	1.5206	1.7271	.20	6.40
	Total	2790	2.1199	1.64745	.03119	2.0587	2.1810	.20	7.40
Average Status Score	Basic Materiasl	289	.7571	.57912	.03407	.6900	.8241	.20	3.00
	Energy	188	.8745	.71976	.05249	.7709	.9780	.20	3.00
	Health Care	85	.7365	.68188	.07396	.5894	.8835	.20	3.00
	Telecommunications	94	.8872	.66206	.06829	.7516	1.0228	.20	3.00
	Utilities	172	1.0302	.81306	.06200	.9079	1.1526	.20	3.00
	Consumer Services	264	.6652	.60668	.03734	.5916	.7387	.20	3.00
	Consumer Goods	372	.6204	.49690	.02576	.5698	.6711	.20	3.00
	Financials	422	.8701	.70641	.03439	.8025	.9377	.20	3.00

	Industrials	360	.7667	.66072	.03482	.6982	.8351	.20	3.00
	Technology	82	.7561	.61746	.06819	.6204	.8918	.20	3.00
	Other	462	.5654	.45368	.02111	.5239	.6068	.20	3.00
	Total	2790	.7452	.63244	.01197	.7218	.7687	.20	3.00

Test of Homogeneity of Variances

	Levene Statistic	df1	df2	Sig.
Average Report Type score	9.423	10	2779	.000
Average Application score	19.920	10	2779	.000
Average Status Score	18.823	10	2779	.000

ANOVA

		Sum of Squares	df	Mean Square	F	Sig.
Average Report Type score	Between Groups	201.050	10	20.105	13.364	.000
	Within Groups	4180.689	2779	1.504		
	Total	4381.739	2789			
Average Application score	Between Groups	362.699	10	36.270	13.986	.000
	Within Groups	7206.901	2779	2.593		
	Total	7569.600	2789			
Average Status Score	Between Groups	48.246	10	4.825	12.562	.000
	Within Groups	1067.306	2779	.384		
	Total	1115.552	2789			

Robust Tests of Equality of Means

		Statistic[a]	df1	df2	Sig.
Average Report Type score	Welch	15.423	10	707.380	.000
	Brown-Forsythe	12.445	10	1554.731	.000
Average Application score	Welch	15.013	10	704.545	.000
	Brown-Forsythe	12.890	10	1525.195	.000
Average Status Score	Welch	12.880	10	705.088	.000
	Brown-Forsythe	11.566	10	1541.149	.000

a. Asymptotically F distributed.

Post Hoc Tests

Homogeneous Subsets

Average Report Type score

Tukey HSD

Industry	N	Subset for alpha = 0.05			
		1	2	3	4
Other	462	1.6567			
Consumer Services	264	1.9091	1.9091		
Consumer Goods	372	1.9892	1.9892	1.9892	
Health Care	85	2.0565	2.0565	2.0565	
Industrials	360		2.0894	2.0894	
Basic Materiasl	289		2.2457	2.2457	2.2457
Financials	422		2.2659	2.2659	2.2659
Telecommunications	94			2.3426	2.3426
Technology	82			2.3659	2.3659
Energy	188			2.3926	2.3926
Utilities	172				2.6430
Sig.		.083	.192	.077	.088

Means for groups in homogeneous subsets are displayed.

Average Application score

Tukey HSD

Industry	N	Subset for alpha = 0.05			
		1	2	3	4
Other	462	1.6238			
Consumer Goods	372	1.7968	1.7968		
Consumer Services	264	1.8250	1.8250		
Health Care	85	2.0941	2.0941	2.0941	
Industrials	360	2.1378	2.1378	2.1378	
Technology	82		2.2268	2.2268	
Basic Materiasl	289		2.2595	2.2595	
Energy	188			2.4149	2.4149
Financials	422			2.4820	2.4820
Telecommunications	94			2.5426	2.5426
Utilities	172				2.8512
Sig.		.099	.207	.248	.286

Means for groups in homogeneous subsets are displayed.

Average Status Score

Tukey HSD

Industry	N	Subset for alpha = 0.05			
		1	2	3	4
Other	462	.5654			
Consumer Goods	372	.6204			
Consumer Services	264	.6652	.6652		
Health Care	85	.7365	.7365	.7365	
Technology	82	.7561	.7561	.7561	
Basic Materiasl	289	.7571	.7571	.7571	
Industrials	360	.7667	.7667	.7667	
Financials	422		.8701	.8701	.8701
Energy	188		.8745	.8745	.8745
Telecommunications	94			.8872	.8872
Utilities	172				1.0302
Sig.		.086	.061	.453	.358

Means for groups in homogeneous subsets are displayed.

ANNEX 4
PROTECT, RESPECT AND REMEDY PRINCIPLES

1. The State duty to protect human rights[128]
   a. Foundational principles
      xi. States must protect against human rights abuse within their territory and/or jurisdiction by third parties, including business enterprises. This requires taking appropriate steps to prevent, investigate, punish and redress such abuse through effective policies, legislation, regulations and adjudication.
      xii. States should set out clearly the expectation that all business enterprises domiciled in their territory and/or jurisdiction respect human rights throughout their operations.

   b. Operational principles

General State regulatory and policy functions:
   iii. In meeting their duty to protect, states should
   - Enforce laws that are aimed at, or have the effect of, requiring business enterprises to respect human rights,

[128] *Ibid.* pp. 6-27.

and periodically to assess the adequacy of such laws and address any gaps;

- Ensure that other laws and policies governing the creation and ongoing operation of business enterprises, such as corporate law, do not constrain but enable business respect for human rights;
- Provide effective guidance to business enterprises on how to respect human rights throughout their operations;
- Encourage, and where appropriate require, business enterprises to communicate how they address their human rights impacts.

The State-business nexus

iv. States should take additional steps to protect against human rights abuses by business enterprises that are owned or controlled by the State, or that receive substantial support and services from State agencies such as export credit agencies and official investment insurance or guarantee agencies, including, where appropriate, by requiring human rights due diligence.

v. States should exercise adequate oversight in order to meet their international human rights obligations when they contract with, or legislate for, business enterprises to provide services that may impact upon the enjoyment of human rights.

vi. States should promote respect for human rights by business enterprises with which they conduct commercial transactions.

vii. Because the risk of gross human rights abuses is heightened in conflict-affected areas, States should help ensure that business enterprises operating in those contexts are not involved with such abuses, including by:

- Engaging at the earliest stage possible with business enterprises to help them identify, prevent and mitigate the human rights-related risks of their activities and business relationships;
- Providing adequate assistance to business enterprises to assess and address the heightened risks of abuses, paying special attention to both gender-based and sexual violence;
- Denying access to public support and services for a business enterprise that is involved with gross human rights abuses and refuses to cooperate in addressing the situation;
- Ensuring that their current policies, legislation, regulations and enforcement measures are effective in addressing the risk of business involvement in gross human rights abuses.

viii. States should ensure that governmental departments, agencies and other State-based institutions that shape business practices are aware of and observe the State's human rights obligations when fulfilling their respective mandates, including by providing them with relevant information, training and support.

ix. States should maintain adequate domestic policy space to meet their human rights obligations when pursuing business-related policy objectives with other States or business enterprises, for instance through investment treaties or contracts.

x. States, when acting as members of multilateral institutions that deal with business- related issues, should:

- Seek to ensure that those institutions neither restrain the ability of their member States to meet their duty to protect nor hinder business enterprises from respecting human rights;
- Encourage those institutions, within their respective mandates and capacities, to promote business respect for human rights and, where requested, to help States meet their duty to protect against human rights abuse by business enterprises, including through technical assistance, capacity-building and awareness-raising;
- Draw on these Guiding Principles to promote shared understanding and advance international cooperation in the management of business and human rights challenges.

2. The corporate responsibility to respect human rights

a. Foundational Principles

xi. Business enterprises should respect human rights. This means that they should avoid infringing on the human rights of others and should address adverse human rights impacts with which they are involved.

xii. The responsibility of business enterprises to respect human rights refers to internationally recognized human rights – understood, at a minimum, as those expressed in the International Bill of Human Rights and the principles concerning fundamental rights set out in the International Labour Organization's Declaration on Fundamental Principles and Rights at Work.

xiii. The responsibility to respect human rights requires that business enterprises:

- Avoid causing or contributing to adverse human rights impacts through their own activities, and address such impacts when they occur;
- Seek to prevent or mitigate adverse human rights impacts that are directly linked to their operations, products or

services by their business relationships, even if they have not contributed to those impacts.

xiv. The responsibility of business enterprises to respect human rights applies to all enterprises regardless of their size, sector, operational context, ownership and structure. Nevertheless, the scale and complexity of the means through which enterprises meet that responsibility may vary according to these factors and with the severity of the enterprise's adverse human rights impacts.

xv. In order to meet their responsibility to respect human rights, business enterprises should have in place policies and processes appropriate to their size and circumstances, including:

- A policy commitment to meet their responsibility to respect human rights;
- A human rights due-diligence process to identify, prevent, mitigate and account for how they address their impacts on human rights;
- Processes to enable the remediation of any adverse human rights impacts they cause or to which they contribute.

b. Operational principles

xvi. As the basis for embedding their responsibility to respect human rights, business enterprises should express their commitment to meet this responsibility through a statement of policy that:

- Is approved at the most senior level of the business enterprise;
- Is informed by relevant internal and/or external expertise;
- Stipulates the enterprise's human rights expectations of personnel, business partners and other parties directly linked to its operations, products or services;
- Is publicly available and communicated internally and externally to all personnel, business partners and other relevant parties;
- Is reflected in operational policies and procedures necessary to embed it throughout the business enterprise.

Human rights due diligence

xvii. In order to identify, prevent, mitigate and account for how they address their adverse human rights impacts, business enterprises should carry out human rights due diligence. The process should include assessing actual and potential human rights impacts, integrating and acting upon the findings, tracking responses, and communicating how impacts are addressed. Human rights due diligence:

- Should cover adverse human rights impacts that the business enterprise may cause or contribute to through its own activities, or which may be directly linked to its operations, products or services by its business relationships;
- Will vary in complexity with the size of the business enterprise, the risk of severe human rights impacts, and the nature and context of its operations;
- Should be ongoing, recognizing that the human rights risks may change over time as the business enterprise's operations and operating context evolve.

xviii. In order to gauge human rights risks, business enterprises should identify and assess any actual or potential adverse human rights impacts with which they may be involved either through their own activities or as a result of their business relationships. This process should:

- Draw on internal and/or independent external human rights expertise;
- Involve meaningful consultation with potentially affected groups and other relevant stakeholders, as appropriate to the size of the business enterprise and the nature and context of the operation.

xix. In order to prevent and mitigate adverse human rights impacts, business enterprises should integrate the findings from their impact assessments across relevant internal functions and processes, and take appropriate action.

- Effective integration requires that:
    - Responsibility for addressing such impacts is assigned to the appropriate level and function within the business enterprise;
    - Internal decision-making, budget allocations and oversight processes enable effective responses to such impacts.
- Appropriate action will vary according to:
    - Whether the business enterprise causes or contributes to an adverse impact, or whether it is involved solely because the impact is directly linked to its operations, products or services by a business relationship;
    - The extent of its leverage in addressing the adverse impact.

xx. In order to verify whether adverse human rights impacts are being addressed, business enterprises should track the effectiveness of their response. Tracking should:

- Be based on appropriate qualitative and quantitative indicators;

- Draw on feedback from both internal and external sources, including affected stakeholders.

xxi. In order to account for how they address their human rights impacts, business enterprises should be prepared to communicate this externally, particularly when concerns are raised by or on behalf of affected stakeholders. Business enterprises whose operations or operating contexts pose risks of severe human rights impacts should report formally on how they address them. In all instances, communications should:

- Be of a form and frequency that reflect an enterprise's human rights impacts and that are accessible to its intended audiences;
- Provide information that is sufficient to evaluate the adequacy of an enterprise's response to the particular human rights impact involved;
- In turn not pose risks to affected stakeholders, personnel or to legitimate requirements of commercial confidentiality.

xxii. Where business enterprises identify that they have caused or contributed to adverse impacts, they should provide for or cooperate in their remediation through legitimate processes.

Issues of Context

xxiii. In all contexts, business enterprises should:

- Comply with all applicable laws and respect internationally recognized human rights, wherever they operate;
- Seek ways to honor the principles of internationally recognized human rights when faced with conflicting requirements;
- Treat the risk of causing or contributing to gross human rights abuses as a legal compliance issue wherever they operate.

xxiv. Where it is necessary to prioritize actions to address actual and potential adverse human rights impacts, business enterprises should first seek to prevent and mitigate those that are most severe or where delayed response would make them irremediable.

3. Access to Remedy

a. Operational principles

xxv. As part of their duty to protect against business-related human rights abuse, States must take appropriate steps to ensure, through judicial, administrative, legislative or other appropriate means, that when such abuses occur within their territory and/or jurisdiction those affected have access to effective remedy.

b. Operational principles

xxvi. States should take appropriate steps to ensure the effectiveness of domestic judicial mechanisms when addressing business-related human rights abuses, including considering ways to reduce legal, practical and other relevant barriers that could lead to a denial of access to remedy.

State-based non-judicial grievance mechanisms

xxvii. States should provide effective and appropriate non-judicial grievance mechanisms, alongside judicial mechanisms, as part of a comprehensive State-based system for the remedy of business-related human rights abuse.

Non-State-based grievance mechanisms

xxviii. States should consider ways to facilitate access to effective non-State-based grievance mechanisms dealing with business-related human rights harms.

xxix. To make it possible for grievances to be addressed early and remediated directly, business enterprises should establish or participate in effective operational-level grievance mechanisms for individuals and communities who may be adversely impacted.

xxx. Industry, multi-stakeholder and other collaborative initiatives that are based on respect for human rights-related standards should ensure that effective grievance mechanisms are available.

Effectiveness criteria for non-judicial grievance mechanisms

xxxi. In order to ensure their effectiveness, non-judicial grievance mechanisms, both State- based and non-State-based, should be:

- Legitimate: enabling trust from the stakeholder groups for whose use they are intended, and being accountable for the fair conduct of grievance processes;
- Accessible: being known to all stakeholder groups for whose use they are intended, and providing adequate assistance for those who may face particular barriers to access;
- Predictable: providing a clear and known procedure with an indicative timeframe for each stage, and clarity on the types of process and outcome available and means of monitoring implementation;
- Equitable: seeking to ensure that aggrieved parties have reasonable access to sources of information, advice and

expertise necessary to engage in a grievance process on fair, informed and respectful terms;

- Transparent: keeping parties to a grievance informed about its progress, and providing sufficient information about the mechanism's performance to build confidence in its effectiveness and meet any public interest at stake;
- Rights-compatible: ensuring that outcomes and remedies accord with internationally recognized human rights;
- A source of continuous learning: drawing on relevant measures to identify lessons for improving the mechanism and preventing future grievances and harms;
- Operational level mechanisms should also be based on engagement and dialogue: consulting the stakeholder groups for whose use they are intended on their design and performance, and focusing on dialogue as the means to address and resolve grievances.