

Financial Services Institutions and  
Corporate Social Responsibility:  
On Taking a Broad Versus a Narrow View

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## **Abstract**

The aim of this thesis is to examine understandings of corporate social responsibility (CSR), motivations for CSR reporting, and the nature of stakeholder engagement in relation to CSR reporting by financial services institutions. Specifically, the thesis investigates how particular New Zealand financial services institutions (NZFSIs) have interpreted the concept of CSR, and whether their motivations for voluntary CSR reporting and related stakeholder engagement hinges on a broad or narrow view of CSR.

Three distinct sources of data formed the basis of this research. The first is literature relating to the concept of CSR, common motivations for CSR reporting, and stakeholder engagement in relation to CSR reporting. Institutional theory, legitimacy theory, and stakeholder theory were also examined. Literature was reviewed and relevant theories/concepts later integrated with the findings from the second and third data sources: annual stand-alone CSR reports and interviews. These second and third data sources are related to three participating NZFSIs, two major banks and a major insurance company.

Content analysis on the three NZFSIs' annual stand-alone CSR reports from 2004 to 2009 (16 reports in total) proceeded through line-by-line analysis and coding according to inductively generated categories. Two rounds of interviews were conducted with key decision-makers involved in CSR reporting from within each of the three NZFSIs. The two rounds of interviews were conducted on either side of the 2008/9 global financial crisis. Interviews were also conducted with expert stakeholders who were conversant with CSR in the NZFSI context. Again, the interviews were conducted before and after the 2008/9 global financial crisis. Each of the resulting 15 interviews were transcribed and analysed to identify salient themes.

Unsurprisingly, content analysis revealed a narrow and corporate-centric representation of CSR in the NZFSI reports. Reports mainly focused on the impacts of the NZFSI's office operations, suppliers, customers and non-core business activities as philanthropy. There were minimal disclosures on economic, social and environmental impacts caused

by the core business products and services, and on stakeholder engagement activities for CSR reporting.

Interestingly, the interviews showed key decision-makers involved with CSR reporting in those same institutions to espouse a broad view of CSR, but they professed a rather narrower view as applicable to practice such as CSR reporting in the financial services industry context. The interviews revealed the decision-makers' understandings of CSR extending to consideration of the impacts of financial services institutions' clients' activities, particularly those clients accessing core business products and services. Admittedly these impacts were less reported on. The main reason for such practice was cited as cost-related. It was also cited that CSR reporting was motivated by a business-case rationale. As a result, stakeholder engagement in relation to CSR reporting was selectively done, instead of a more comprehensive approach, or one that was specific to that purpose.

The 2008/9 global financial crisis did not appear to spark significant change in espoused understandings of CSR or motivations for reporting. There seemed to be little evolution in terms of how CSR was understood in the context of the financial services industry in New Zealand. CSR reporting remained very much voluntary with the expressed motivations for doing it still mostly business-case related. The focus of reporting content remained selective and narrow. The post 2008/9 global financial crisis interviews raised some concerns on the part of NZFSIs about clients who were economically affected, but nothing beyond. Responses from the two expert stakeholders over the two rounds of interviews remained steady in their concern that NZFSIs need to exhibit more responsibility for the social and environmental impacts of their core business products and services.

The hesitation of NZFSIs in reporting the impacts of their core business products and services, as reflected by the results from content analysis of their stand-alone New Zealand CSR reports and as raised by interview respondents, deviates from the latter group's espoused understandings of CSR being a broad concept extending to responsibility for an array of impacts. The difference between how NZFSI respondents understood CSR in their industry context and how they deviated in their CSR reporting sheds further light on their organisations' motivations for CSR reporting. Being

relatively powerful organisations, but not normally associated with detrimental social and environmental impacts, NZFSIs have experienced little pressure to produce CSR reports or to report more broadly. It seems that the NZFSIs studied are leading and thus attempting to influence the scope of what they should be assessed upon in terms of CSR. Unlike much research using legitimacy theory and institutional theory, where stakeholders appear highly influential in setting CSR expectations, it appears that these NZFSIs are managing, meeting and even surpassing the expectations of majority of stakeholders in relation to CSR in the NZFSI context.

Arguably, financial services institutions can influence their clients' social and environmental impacts by imposing appropriate conditions to qualify for core business products and services, such as loans, investments and underwriting. Without strong encouragement, however, financial services institutions may not expand their reporting to cover impacts of their core business products and services. Reporting such impacts in their CSR reports would be one basis for financial services institutions to demonstrate a broad view of CSR. Encouragement to move beyond the business-case may logically come from regulatory sources, non-governmental organisations, a changed moral stance on the part of those leading or influencing financial services institutions, or some combination of the aforementioned sources, but currently seems unlikely. The extensiveness of financial services institutions' clientele networks and the impacts of their client operations – if addressed by lending, investing and underwriting criteria and duly reported upon – offer the possibility of huge benefits to society and environment compared with other industry-specific efforts.

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## CHAPTER 1: INTRODUCTION

### 1.0 Introduction

*Where a business product or process raises threats of harm to humans or the environment, precautionary measures should be taken even if some cause and effect relationships are not fully established scientifically. In this context, the proponent of an activity, rather than the public, should bear the burden of proof. The process of applying precautionary principle must be open, informed and democratic, and must include potentially affected parties. It must also involve an examination of the full range of alternatives, including no action.*

*(Edwards, 2005, p. 56)*

In their pursuit for business goals, according to Edwards (2005), business organisations must consider the social and environmental impacts of their business processes as well as their products and services. He suggests that business organisations ought to adopt a broad and cautious view and that those stakeholders who may be affected must be engaged to address the social and environmental impacts of business activities. Business organisations must not only seek to openly and democratically engage with their direct stakeholders, but also with those who may be indirectly affected.

Along with considerations of economic wellbeing, much of today's society has increasing concern for quality of life and preservation of the environment (Shaw & Barry, 2001; Dawkins & Lewis, 2003; Burchell & Cook, 2006; Unerman, Bebbington & O'Dwyer, 2007; Kurucz, Colbert & Wheeler, 2008). "Quality of life is affected by issues at the workplace and social interactions while the environmental issues of major consequence for business and society include ozone depletion, global warming and biodiversity" (Lawrence, Weber & Post, 2005, p. 218). The connection or inter-relatedness between business organisations, society and the environment can be explained through systems theory.

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Systems theory helps us understand how business and society, taken together, form an interactive social system. Each needs the other, and each influences the other. They are entwined so completely that any action taken by one will surely affect the other. They are both separate and connected. Business is part of society, and society penetrates far and often into business decisions (Lawrence et al, 2005, p. 5).

Gray, Owen and Adams (1996) use systems theory to explain how business organisations and their stakeholders influence each other (see also Freeman, 1984). Business organisations and stakeholders have a degree of power with which to influence the other stakeholders as well, and due to the inter-relationship, their decisions and the consequences of those decisions affect the social system.

It is commonly argued that business organisations, particularly large corporations, wield great power in society, with many commentators noting that this power should be exercised responsibly (Kortens, 2001; Bakan, 2004; Thompson & Cowton, 2004; Banerjee, 2007). Lawrence et al (2005, p. 46) assert that a sense of social responsibility should compel a business organisation to be “accountable for any of its actions that affect people, their community, and their environment”. The term ‘Corporate Social Responsibility’ (CSR) has gained traction (Whitehouse, 2006; Godfrey & Hatch, 2006).

One of the earliest definitions of CSR is provided by Bowen (1953, p. 6) who suggests that it is a business’ social 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”. At the Geneva conference in 2000, the World Business Council for Sustainable Development (WBCSD), a coalition of 160 international companies from 30 countries and 20 major industrial sectors, presented a definition of ‘corporate social responsibility’ 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 the local community and society at large” (Holme & Watts, 2000, p. 8). Both definitions of CSR acknowledge the impacts of business activities on business organisations’ stakeholders.

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CSR, in its purest form, is an organisation's accountability to all stakeholders for all actions, whether the impacts of those actions are direct or indirect. This broad view of CSR is underpinned by society's expectation that business organisations will not only pursue their economic objectives, but will also meet their communal and environmental responsibilities (Shaw & Barry, 2001). To achieve this wider accountability, CSR reporting has been advocated (Gray et al 1996; Deegan, 2007). It often involves business organisations reporting to stakeholders on not only the impacts of business activities but also the actions that have been taken to reduce or mitigate, any adverse impact, as well as promote positive impacts. There is a perception among some that this type of reporting might lead to desirable changes in society (Gray et al, 1996). CSR reports have been argued to have the potential to shape the action, performance and behaviour of business organisations as business products, services and processes can be more closely monitored and the measurement of their economic, social and environmental impacts can be evaluated (Waddock, 2002).

It is important to note at the outset of this thesis that accountability is a two way activity "that involves not only the giving of accounts but also the receiving of accounts" (Buhr, 2007, p. 67). Business organisations' engagement with their stakeholders is said to be crucial for the development and refinement of CSR accountability measures (Buhr, 2007), and reports. The number and length of CSR reports are increasing, with more information on CSR activities being included (KPMG, 2010). This information is often being disseminated electronically to a greater number of stakeholders (KPMG, 2010). However, not everyone is convinced that reporting is effective. Tilt (2007, p. 115) sees the intention of "most CSR reporting as green-wash, and being undertaken to improve reputation without substantially changing practices, to placate and manipulate stakeholders, and to gain competitive advantage, rather than out of any real concern for society and the environment".

The aims of this thesis are to explore understandings of CSR, and motivations and stakeholder engagement in relation to voluntary CSR reporting by financial services institutions, an important group of business organisations in any economy, as well as internationally. The focus is on major New Zealand financial services institutions

(NZFSIs). Like most financial services institutions operating around the world, they can be deemed to be powerful and influential. Although the literature provides some information about disclosures by New Zealand companies (for example, Hackston & Milne, 1996; Bebbington, Higgins & Frame, 2009), studies relating to NZFSIs specifically have been scarce. This thesis combines content analysis of CSR reports with interviews with the decision-makers of NZFSIs to provide a contribution to literature on CSR reporting, and, at a more practical level, to possibly inspire reflection and potential change.

This chapter consists of six sections. Section 1.2 introduces the theoretical framework and research questions of this thesis. Section 1.3 explains the research design and scope. Section 1.4 describes the intended contribution of the research. The structure of the thesis is outlined in Section 1.5. The chapter concludes with Section 1.6.

## **1.2 Theoretical framework and research questions**

Financial services institutions perform an intermediary function in society that is a central feature in modern capitalism (Cowton, 2002; Scholtens, 2006). This function includes the provision of services between monetary fund seekers and those who have excess funds, and underwrite life and business-related risks, in return for professional fees. Such intermediary functions of mobilising funds and risk mitigation require expertise and involve responsibilities - and have impacts (Jeucken & Bouma, 2001; Cowton, 2002; Cuesta-Gonzalez, Munoz-Torres & Fernandez-Izquierdo, 2006).

Direct economic, social and environmental impacts of financial services institutions include consequences of the initiatives that have been implemented to positively improve those impacts in accord with the expectations of stakeholders. Examples could be to increase productivity, ensure a safe working environment, or reduce energy, water and paper usage (Shaw & Barry, 2001). Jeucken and Bouma (2001, p. 29) categorise these consequences and initiatives as “internal issues relating to the business processes

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within banks, while external issues are connected to the bank's products". They consider external issues as those indirect economic, social and environmental impacts resulting from the core business products and services of the financial services institutions. For example, the loans, investment and underwriting facilities of financial services institutions themselves may be considered neutral, but the activities that they permit to be undertaken by the clients of financial services institutions, can cause positive and also indeed negative social and environmental impacts.

A broad view of CSR takes into consideration both direct and indirect economic, social and environmental impacts, while a narrow CSR view mainly considers the direct impacts (Shaw & Barry, 2001). Financial services institutions have less environmentally hazardous activities, and subsequent direct impacts, compared to businesses engaged in primary resource extraction or heavy industries. However, Thompson and Cowton (2004, p. 199) note that "they can be seen as facilitators of industrial activity which causes environmental damage", through their intermediary function. Indirect impacts of financial services institutions' activities are thus generally far higher than their direct impacts.

It is argued that financial services institutions' are in a relatively powerful position to encourage CSR adoption and/or discourage anti-CSR activities by their clients, and so can provide overall benefits to society (Thompson & Cowton, 2004; Scholtens, 2006). Through their core business activities, or indirectly through the activities of their clients, it is claimed that financial services institutions are powerful and influential and as such can have an enormous economic, social and environmental impact (Jeucken & Bouma, 2001; Scholtens, 2006).

This thesis examines why and how particular financial services institutions exercise CSR, and undertake CSR reporting, through the complementary lenses of institutional, legitimacy, and stakeholder theories. Institutional theory, legitimacy theory, and stakeholder theory, are sometimes referred to as systems-oriented theories (Deegan, 2007), as all have the underlying assumption that decisions made, or actions taken by one stakeholder, have impacts on others. Gray et al (1996, p. 45) suggest that "a system-oriented view of organisations and society permits us to focus on the role of

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information and disclosure in the relationship between organisations, the state, individuals and groups”.

Disclosure in stand-alone CSR reports by financial services institutions serves to inform the public about their CSR activities. Through their core business products and services, such as lending, investing and underwriting, financial services institutions have potential to influence society and environment indirectly through influencing their clients’ behaviour. Jeucken and Bourma (2001) purport that disclosure about financial services institutions’ direct and indirect social and environmental impacts must be taken into consideration as part of their accountability or responsibility.

While legislated and standardised formats of financial reporting are being shaped mainly by regulatory and shareholder stakeholders, the mostly discretionary and unlegislated non-financial or voluntary CSR reporting activities are influenced by other groups of stakeholders (Tilt, 2007). The involvement of these other stakeholder groups in voluntary CSR reporting is important, and CSR reporting guides, such as the Global Reporting Initiative (GRI), underscore that importance and the requirement for stakeholder engagement in voluntary CSR reporting (GRI, 2007a).

Souto (2009) suggested that the lack of CSR contributed to the 2008/9 global financial crisis as US financial services institutions had shown a strong bias toward economic responsibility to shareholders, by aggressive pursuit of revenue and profit at the expense of the other stakeholders. It was this narrow view (Shaw & Barry, 2001) and practice of CSR that appeared to have prevailed in US financial services institutions prior to the 2008/9 global financial crisis and possibly even contributed to that event. As this thesis involved research undertaken prior to the 2008/9 global financial crisis, and was written up during and subsequent to the crisis, it was decided that it could be useful to know whether the crisis had indeed had an impact on CSR in financial services institutions, and their reporting in the local context. Therefore, an aspect of this research explores the effect of the crisis on the New Zealand financial services institutions and their CSR reporting.

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This thesis addresses three major research questions:

- i) What are the CSR issues<sup>1</sup> covered in financial services institutions' CSR reports, and what is the rationale behind their selection?*

Specifically, the thesis analyses the content of selected CSR reports and then uses interviews to identify the motivations for New Zealand financial services institutions' reporting and the reasons why specific CSR issues were selected. Interviews also provide background information on how CSR is understood in the financial services context.

- ii) How are stakeholders identified, defined, prioritised and engaged in CSR reporting undertaken by New Zealand financial services institutions?*

The intention is to determine the degree of stakeholder involvement in CSR reporting and whether it is indicative of a broad or narrow view of CSR. The rationale for the degree of stakeholder engagement is first investigated using content analysis of CSR reports, and then through examination of interview data.

- iii) How has the 2008/9 global financial crisis affected the CSR reporting of selected New Zealand financial services institutions?*

To answer this question, a comparative content analysis of CSR reports pre and post the 2008/9 global financial crisis is undertaken and data from interviews pre and post crisis, are examined. Changes to the issues reported, and the degree of stakeholder engagement as a result of the crisis, as well as the reason(s) for doing so, are identified.

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<sup>1</sup> In this thesis, the word 'issues', in the context of CSR issues, is used to convey the orientation of reporting content, rather than ideas in dispute. That is, it is used here in a relatively neutral sense.

### 1.3 Scope and research design

This thesis covers the period 2004 to 2010. This period included a major event, the 2008/9 global financial crisis, so the data collected from pre, post, and during the event enabled the initial effect of the global financial crisis on local NZFSIs' CSR reporting to be ascertained. The number of participants is restricted to NZFSIs that produce stand-alone New Zealand CSR reports which includes two banks and one insurance company. The insurance company, and one of the banks were pioneers in producing a New Zealand specific stand-alone CSR report. Each could be considered a major industry player.

As previously mentioned, the data used for this research came from the content analysis of the three participating NZFSIs annual stand-alone CSR reports (2004 to 2009) as well as two rounds of interviews conducted with decision-makers from the three financial services institutions, and two expert stakeholders conversant with CSR in the New Zealand financial services context. Data from the content analysis and the interviews were analysed, and the findings integrated with the literature.

Content analysis is a systematic way of translating text into numerical format for analysis (Collis & Hussey, 2003). The CSR reports were examined for the extent of reporting on direct and indirect economic, social and environmental impacts, as a result of delivering core business products, services and processes, and other business activities. The reports were also examined for evidence of stakeholder engagement for the purpose of CSR reporting.

Interview data was derived from two rounds of interviews conducted with decision-makers involved with CSR reporting at the three NZFSIs, both pre and post the 2008/9 global financial crisis. Consistent with research conducted by O'Dwyer (2004, p. 392), the researcher wanted to "get inside the heads of the managers and hear them speak and reflect" on their thinking and intentions with regard to CSR and CSR reporting. Two

expert stakeholders, conversant with CSR in the New Zealand context, were also interviewed to elicit their views on the state of CSR reporting by the NZFSIs. The thesis thus covers what the decision-makers and expert stakeholders said about CSR and their perceived motivations for CSR reporting, and the effect the 2008/9 global financial crisis had on the NZFSIs' CSR reporting.

#### **1.4 Areas of intended contribution**

This thesis intended to make contributions relating to theoretical development and practice. The areas of potential contribution include the use of a combined method of collecting empirical data, the choice of a less scrutinised industry in terms of CSR, the inclusion of a special event known as the 2008/9 global financial crisis, and the possibility of enhancing CSR reporting by financial services institutions.

This thesis provides a detailed description of the espoused understandings of CSR, and the practice of CSR reporting by financial services institutions in the New Zealand context using empirical data collected from two sources: stand-alone New Zealand CSR reports and interviews. Information from these sources was used to evaluate current theory about CSR and CSR reporting within financial services institutions.

In terms of the social and environmental impacts of their core business activities, financial services institutions are less scrutinised than are other kinds of business organisations such as those that are resource-based and in the manufacturing sector (Coulson, 2007; O'Sullivan & O'Dwyer, 2008). Financial services institutions provide an intermediary financial function and their 'clean' offices and service-related business activities are found to be their major focus in terms of reported CSR activity. Their indirect impacts, through influencing the behaviour of their clientele, are not addressed as adequately as the direct impacts of their activities. This research also advances the idea of indirect impact which is an area that has not been well covered by literature to date.

A comparison of report content and interviews obtained either side of the 2008/9 global financial crisis provides new insights into how CSR activity, specifically CSR reporting, is affected by such an event. The contribution to the CSR literature in relation to the 2008/9 global financial crisis may be unique and topical because it has the potential to demonstrate the impacts of such an event on organisational commitment.

A key aim of this thesis is to encourage financial services institutions to adopt a broad view of CSR so that responsibility is taken not only for direct social and environmental impacts but also for indirect impacts (i.e. for those social and environmental impacts caused by their clients and in which they are implicated through their core business activities). Involving a greater variety of stakeholder groups, and promoting an engagement environment that is open and non-threatening in the process of their CSR reporting can provide financial services institutions with ideas on how to put the broad concept of CSR into practice. The feasibility of developments in CSR reporting to extend to issues relating to indirect economic, social and environmental impacts of core business products and services is also considered.

## **1.5 Structure of the thesis**

The thesis consists of 10 chapters. This chapter, Chapter 1, has provided a brief background to the research, including the theoretical framework, research questions and research design. It also explained the importance of the research, and the areas of intended contribution.

Chapter 2 reviews literature about the profit-motive of business organisations and the relevance of the CSR concept. It explores reasons why business organisations undertake CSR activities as well as reasons why they should undertake CSR activities. There is a section on CSR and financial services institutions that provides additional context.

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Chapter 3 reviews literature on the evolution of CSR reporting, as well as motivations specific to CSR reporting that include business-case driven, moral driven, and external-pressure driven motivations as related to institutional, legitimacy, and stakeholder theories. The section that reviews the literature on stakeholder engagement and its importance, and CSR reporting, identifies that there is little in the literature about these particular topics in the financial services institutions context. The chapter also examines CSR reporting guidelines, and considers their relevance for the financial services sector.

Chapter 4 focuses on the financial services sector and reviews literature on the causes and impacts of the 2008/9 global financial crisis. The chapter includes a section that discusses CSR in relation to the 2008/9 global financial crisis.

Chapter 5 explains the methodological underpinnings and the research methods used in this thesis. The processes used for the selection and analysis of the CSR reports, and the interviews, are explained.

Chapter 6 presents the results from the content analyses of selected NZFSIs' CSR reports. The findings are separated into two main parts. The first part presents the results of the three NZFSIs individually. The second part presents the results in an aggregated format that is supplemented with comments about the main content analysis findings.

Chapter 7 and Chapter 8 present the findings from interviews conducted with NZFSI respondents and expert stakeholder respondents. Chapter 7 describes their espoused understandings of the CSR concept. It also presents the respondents' perceptions about the motivations for CSR reporting by the financial services institutions with which they are associated. Chapter 8 presents the respondents' views on stakeholder engagement in CSR reporting. Other issues mentioned during the interviews, including the perceived

## CHAPTER 1: INTRODUCTION

impacts of the 2008/9 global financial crisis on CSR reporting by NZFSIs, are described.

Chapter 9 discusses the research findings. The results from content analysis presented in Chapter 6 and interviews findings presented in Chapters 7 and 8, are discussed in relation to the literature that is reviewed in Chapters 2, 3 and 4. The discussion is separated into four parts: espoused understandings of the concept of CSR; perceived motivations for CSR reporting; stakeholder engagement in CSR reporting; and other issues relating to CSR reporting.

Chapter 10 concludes the thesis. This final chapter provides a comprehensive response to each of the research questions based on the findings and discussion in the earlier chapters. It also presents the contributions to literature and implications of the thesis. The limitations of this thesis are identified and suggestions made about directions for further research.

### **1.6 Chapter conclusion**

Proponents of systems theory, who subscribe to a broad view of CSR, assume that as systems are inter-related, organisational decisions and activities have economic, social and environmental consequences. The impacts of business organisations' activities on the economy, society and environment may be direct or indirect. Business organisations, such as financial services institutions, arguably have the capacity to influence others as they make decisions and carry out activities that can have major impacts on the economy, society and the environment. CSR reporting is a process that collects, collates and relays information and can affect how the reporting organisations conduct their business and relate to stakeholders. Through their core business products and services, financial services institutions could potentially be influential in determining the desired behaviour of their client-stakeholders by imposing and reporting on economic, social and environment impact criteria as conditions for the

## **CHAPTER 1: INTRODUCTION**

provision of financial services such as lending, investing and underwriting. Whether they are motivated and wish to be seen to engage in this broader level of CSR is the focus of this thesis.

## CHAPTER 2: CSR AND BUSINESS ORGANISATIONS

### 2.0 Introduction

*Over the last 150 years the corporation has risen from relative obscurity to become the world's dominant economic institution. Today, corporations govern our lives. They determine what we eat, what we watch, what we wear, where we work, and what we do.*

*(Bakan, 2004, p. 5)*

This chapter reviews literature relating to the role that academic and other commentators expect business organisations to play within society. Traditionally, the main objective of a business organisation is to make money for shareholders as, based on the ownership or finance theory of the firm, the organisation is expected to maximise profits. However, in addition to the firm's economic wellbeing, society is becoming increasingly concerned about quality of life and preservation of the environment (Shaw & Barry, 2001; Dawkins & Lewis, 2003; Burchell & Cook, 2006; Unerman, Bebbington & O'Dwyer, 2007).

The following Section 2.1, reviews literature about the profit motive of business organisations that has been considered a normal part of business. As well as the responsibility to make profit, business organisations have to ensure that they achieve a balance with their other responsibilities. Section 2.2 introduces the concept of corporate social responsibility (CSR) including its complexities. Section 2.3 discusses some of the forces that influence business organisations to undertake CSR activities. Section 2.4 examines CSR in the context of financial services. Section 2.5 concludes the chapter.

### 2.1 The profit-motive and other responsibilities

If shareholders' interest in profit-seeking is considered paramount over other societal interests then the motivation of business organisations is to maximise returns to its

shareholders. Lawrence, Weber and Post (2005) refer to this view as the ownership or finance theory of the firm. The profit-seeking priority is akin to a self-interest attitude where Smith (2003, p. 119) describes the effect of reality as “It is not from benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest”, or in other words, rational utility maximisation. Authors, such as Friedman and Miles (2002), support this view with the argument that business organisations have only one responsibility, that of maximising profit in order to enhance shareholder value, but with regard to rules and regulations.

In his book, *The Civil Corporation: The New Economy of Corporate Citizenship*, Zadek (2004) also supports the argument for profit-making as being the prime motive for business organisations;

We all have different roles in society. Business exists to make money, and ours is to ensure that they do this according to acceptable rules of the game. It just confuses the picture when some argue that business can have a social purpose beyond making money (p. 38).

Although Zadek (2004, p. 140) recognises a strong argument for the profit motive of a business organisation, he states that “to argue that corporations necessarily have the primary purpose of making money is a sociologically weak proposition that glosses over their complex structures and organisational dynamics”. Handy (1993) also suggests that the true objectives of business organisations are seldom as clear-cut as they seem.

More than 50 years ago Drucker (1964), in his book *Concept of the Corporation*, claimed that as well as the profit motive, corporations have obligations to society. This view acknowledges that a business organisation’s social obligations exist alongside its profit-seeking responsibility. These obligations include operating in a socially responsible manner that is acceptable to all stakeholders and maintains the social fabric that supports its existence.

Those who subscribe to systems theory consider that groups such as business organisations, institutions, and society itself, are inter-related as the decisions and actions of a group impact on the other groups (Lawrence et al 2005). In other words, systems theory is about thinking in wholeness, where holons<sup>2</sup> are interrelated and, therefore, inter-dependent on each other (Waddock, 2002). Waddock (2002) states that:

When we begin to think about systems in this way, our perspective on the corporation is changed: No longer that we can consider that a company operates independently of its impact on stakeholders, because the company and its stakeholders are part of the larger holon of communities, societies, and global village in which they are nested. They must, by this way of thinking, impact each other reciprocally (p. 27).

The imperfection of the free market model, where business organisations can be complacent and absolve themselves of responsibilities, such as environmental pollution, prompted the economist Jagdish Bhagwati (2000) to write:

When a producer pollutes the air but does not have to pay for his pollution, then the invisible hand can lead you in the wrong direction. Or to put it in flamboyant manner, Adam Smith's invisible hand will guide you to an efficient allocation of resources only if markets yield prices that reflect 'true' costs. If there are market failures, as when a producer pollutes freely, it can immiserize [impoverish] you (p. 17).

Proponents of systems theory with concern for the consequences of the free market model, have spawned the notion that a business organisation has responsibilities other than just making money for shareholders (Shaw & Barry, 2001). This broader responsibility includes attending to the demands of the organisations' stakeholders, often referred to as "any group or individual who can affect or is affected by the achievement of the organisation's objective" (Freeman, 1984, p. 46). Freeman's definition covers a range of stakeholder groups whose interests include not only the direct but also the indirect impacts of the organisation's business processes and core business products and services. Porter and Kramer (2006, p. 83) assert that "to advance CSR, we must root it in a broad understanding of the inter-relationship between

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<sup>2</sup> A holon is anything that is itself whole and also part of something else (Wilber, 1996).

corporations and society while at the same time anchoring it in the strategies and activities of specific companies”.

The negative impacts of business organisations are varied and can have severe consequences, as Edwards (2005) focussing on environmental dimensions claims:

Business activities of many multinational, medium-sized and small corporations are having a detrimental impact on natural systems, reflected in declining fish stocks, forests, water supply and agricultural yields worldwide, an increase in pollution and toxic waste and global climate change. ‘Business as usual’ is destroying Earth’s life-support systems (p. 49).

The ‘business as usual’ model where the quest for profit is overwhelmingly dominant over other responsibilities is a concern for many stakeholders, such as non-governmental organisations, some of which were part of a groundswell for change in organisational responsibilities to cover a broader perspective (Bendell, 2009).

## **2.2 Challenges of defining CSR**

The concept of CSR is about the relationship between business, society, and the environment. The remainder of this section reviews the CSR literature with regard to: the difficulty in defining what is meant by CSR; the relationship between the organisation and its stakeholders; and organisational responsibility for direct and indirect economic, social and environmental impacts.

### **2.2.1 A vague, ambiguous and complex concept**

The concept of CSR is vague, ambiguous and complex (Frankental, 2001; Coelho, McClure & Spry, 2003), and therefore can produce huge variations in how organisations undertake or fulfill their social responsibilities (Ziek, 2009). Carroll and Buchholtz (2003) highlight the paradox of increasing enthusiasm for embracing CSR with lack of consensus as to what is actually meant by the concept.

Defining CSR is challenging because CSR is an “essentially contested concept, being appraisive, and internally complex” (Moon, Crane & Matten, 2005, p. 433). CSR is a dynamic phenomenon (Carroll, 1999), that is all encompassing, and overlapping with relatively open rules of application (Matten & Crane, 2005), and CSR is also multi-faceted as Gray et al (1996) describe:

The early 1970s focussed on social responsibility; by the mid-late 1970s, this had shifted to employees and unions; the 1980s saw explicit pursuit of economic goals with a thin veneer of community concern and a re-definition of employee rights as the major theme; while in the 1990s, attention shifted to environmental concern (p.97).

According to Banerjee (2007, p. 15), “the emergence of CSR in the mid-twentieth century can be seen as an attempt to create a soul for the corporate body based on its obligations to society – doing good to do good”. Non-core business activities such as philanthropy and organisational community services projects were typical examples of early CSR activities, but also included were early employee-care and social programmes.

The CSR concept remains highly debated and contested (Humphreys & Brown, 2007; Orlitzky, Siegel & Waldman, 2011). One of the earliest perspectives of CSR is provided by Bowen (1953, p. 6) who defines it as a business organisation’s social 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”. At its Geneva conference in 2000, the WBCSD, a coalition of 160 international companies from 30 countries and 20 major industrial sectors, presented a definition of 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 the local community and society at large” (Holme & Watts, 2000, p. 8).

Whetten, Rands and Godfrey (2002, p. 374) define CSR as “societal expectations of corporate behaviour: a behaviour that is alleged by a stakeholder to be expected by

society or morally required and is therefore justifiably demanded of a business”. The European Commission (2005) perceives CSR as a concept whereby companies integrate social and environmental concerns in their business operations and in their interactions with their stakeholders on a voluntary basis. Both sources emphasise the role and expectations of stakeholders in CSR. To further complicate clarification of a definition and thus its application, Clark (2000) argues that the difference between public relations and CSR is minimal, and both have a similar objective which is to seek to enhance the quality of the relationship between the business organisation and its stakeholder groups. “The variety of definitions leads to confusion regarding how CSR should be operationalized and measured” (Godfrey & Hatch, 2007, p. 87). One way of keeping records of organisational accountability for CSR is through reporting on the economic, social and environmental impacts of the organisational activities, as discussed in the next chapter.

It is useful to distinguish between a narrow and broad view of CSR. The narrow view of CSR, as proposed by Devinney (2009, p. 44), states that “for those with a narrow concept of CSR, the corporation has little, if any, obligation to the society other than the creation of economic rents that can accrue to the stakeholders with recognised rights to those rents”. Such a view of CSR “is dominated by the need to make money for shareholders, to grow, make profits and seek economic efficiency (Gray et al, 1996, p. 57). Although the main emphasis is on maximising shareholders’ returns, the narrow view of CSR does allow room to possibly consider for other stakeholders as implied with words such as ‘has little, if any, obligation to society’ and ‘CSR is dominated’, rather than exclusively responsible to shareholders.

Beyond the narrow view of CSR, a broad view of CSR has evolved and it entails organisations being responsible for broader social and environmental objectives (Gray et al, 1996; Welford, 2004). Gray et al (1996) relate this broad view<sup>3</sup> of CSR to those adopted by ‘social ecologists’ who:

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<sup>3</sup> The broad view of CSR is sometimes linked to the concept of “sustainability, or, as it is often called sustainable development” (Gray et al, 1996, p. 61). Sustainable development is defined by the United Nations’ World Commission on Environment and Development (1987, p. 8) as a system of development which “meets the needs of the present without compromising the ability of future generations to meet their own needs”. Admitting that the

are concerned for the human environment in the widest sense, who see serious problems developing if nothing is done about organisation-environment interactions soon and who consider that large organisations (in particular) have been influential in creating the social and environmental problems and so could be equally influential in helping to eradicate them (p. 58).

The inclusion of social and environmental responsibilities into CSR is also supported by Cramer, Jonker and Heijden (2004) and Whitehouse (2006). Cramer et al (2004, p. 216) found in their study of 18 companies that CSR was perceived as a broad concept embracing a desire to extend environmental responsibility and to balance “people, planet and profit and taking more responsibility for societal issues”.

This thesis promotes a broad view of CSR where responsibilities relating to the economy, society and environment are included. CSR activities of business organisations in this view include all business activities that have direct and indirect economic, social and environmental impacts on all stakeholders (Shaw & Barry, 2001). In the broad view, all stakeholders’ issues are addressed as well as the ethical aspect of stakeholder theory where “the concern for the ethical treatment of stakeholders [which] may require that the economic motive or organisations to be profitable, be tempered to take into account of the moral role of organisations and their enormous social effects on people’s life” (Stoney & Winstanley, 2001, p. 608).

Despite the complexities of the CSR definition, there has been an effort to refine the concept for practical implementation. For example, Frederick (1994) used the acronym CSR and then distinguished between CSR1 and CSR2, where CSR1 stands for corporate social responsibility and CSR2 stands for corporate social responsiveness. CSR1 covers a general and wide obligation of business to better society, whereas CSR2 refers to “the capacity of a corporation to respond to social pressures” which is in effect

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terms are often used interchangeably, Bebbington and Gray (2001, p. 584) differentiated ‘sustainability’ and ‘sustainable development’ by referring to the former as “a state” and the latter as “a process by which human activity moves towards sustainability or maintains that state”. What constitutes sustainability is contested. Yet, it would seem a highly desirable state. Its operationalisation is problematic because of the different views it implies (Bebbington & Gray, 2001; Tregidga & Milne, 2006; Buhr, 2007; Gray, 2010). Just like the narrow and broad views of CSR, there are proposals for a weak-strong sustainability continuum. Dresner (2002, p. 77) proposes that “weak sustainability allows human-made capital to substitute for natural capital and strong sustainability does not”.

reactive. A further refinement of the concept of CSR to CSR3 (Frederick, 2006, p. 154) which is a call for business to be ethical, has the same message as Waddock (2008, p. 8) who asks that business organisations be responsible beyond an effort to just “do good for society”. One interpretation of being responsible could be that businesses need to actually measure their success in terms of outcomes for others, as well as for themselves (Handy, 2003).

Carroll (1979) identifies four types of CSR obligations: economic, legal, ethical and philanthropic. However, the last of the four obligations was later dropped by Schwartz and Carroll as they argue that “philanthropy is not considered a duty or social responsibility of business, something that is merely desirable” (Schwartz & Carroll, 2003, p. 505). Notwithstanding Carroll’s revision of philanthropy as being part of CSR, there are those who prefer his prior interpretation. Tsang, Welford and Brown (2009) found it common for organisations to cite philanthropy-related activities, such as donations and community services, as being one of their key CSR efforts.

### **2.2.2 Understanding direct and indirect impacts**

A further refinement of CSR was introduced in the mid-nineties by scholars (e.g. Clarkson, 1995; Donaldson & Preston, 1995; Wood & Jones, 1995) who argue that business organisations are not responsible toward society as a whole but only to those who are directly or indirectly affected by business activities. Swanson (1995) concurs that CSR be based on the principle that requires the organisation to be responsible for both the direct and indirect impacts of its core business product and services.

Emphasising the importance of not only considering direct but also indirect impacts as part of CSR, O’Sullivan and O’Dwyer (2009, p. 554) suggest that financial services institutions have “significant roles to play in economic progression, environmental protection and social stewardship, through both direct and indirect influence on the companies they finance and support”. Direct economic, social and environmental impacts of financial services institutions include consequences of initiatives taken that

are, for example, to increase productivity, ensure a safe working environment, and reduce energy usage, water and paper (Shaw & Barry, 2001). Jeucken and Bouma (2001, p. 29) categorise these consequences and initiatives as “internal issues relating to the business processes within banks, while external issues are connected to the bank’s products”.

Jeucken and Bouma (2001) consider external issues to be those indirect economic, social and environmental impacts by the clients of the financial services institutions resulting from the use of core business products and services of the financial services institutions, for example, loans, investments and underwriting services. These core business products and services do not themselves pollute or cause communal inconveniences but it is the activities they permit on behalf of users or clients which can cause negative impacts. Matthew and Gelder (2001) observe that Friends of the Earth, a non-governmental organisation, in its investigation of the public accounts of Asia Pulp and Paper revealed its dissatisfaction in loans being extended to such clients so as to cause pollution, thus suggesting that some stakeholders do have serious concerns about the indirect impacts of the products and services of financial services institutions. A broad view of CSR would take into consideration both direct and indirect economic, social and environmental impacts while a narrow view of CSR considers only the direct social and environmental impacts of the organisation (Shaw & Barry, 2001).

Whereas a narrow view of CSR accepts selective responsibilities leading to omission of some, the broad view of CSR embraces all responsibilities for economic, social and environmental impacts. For example, when an organisation focuses its responsibility on “costs and risk reduction, competitive advantage, reputation and legitimacy, and synergistic value creation” (Kurucz, Colbert & Wheeler, 2008, p. 85), then only the economic responsibility is considered. Such an orientation is considered as business-case CSR as there is a lack of concern for social and environmental impacts as a result of the organisation’s activities. The broad view of CSR not only considers organisational responsibility for the full range of economic, social and environmental impacts, it takes account of stakeholders who may be impacted or impact the organisation. Being selective in organisational responsibilities or in the choice of

stakeholders to which it responds may be tantamount to an incomplete operationalisation of CSR from the perspective of broad CSR.

### 2.2.3 The role of stakeholders

Whether directly or indirectly, the impacts of organisational decisions and activities affect stakeholders. ‘Stakeholder’ is a term popularised by Freeman (1984) who identified 12 different groups of stakeholders<sup>4</sup> and used the term in reference to strategies for business management. The stakeholder concept provides a way of thinking about strategic management where the business can align its policies with the different actors that the business has to deal with (Freeman, 1984). Stakeholder theory also depicts a business as operating within an open and flexible system made up of diverse actors or stakeholders, and involving itself a network of relationships with various other actors (Donaldson & Preston, 1995). Gray et al (1996) explain that business organisations and their stakeholders (Freeman, 1984), have varying degrees of power with which to influence each other and because the groups are inter-related, the consequences of their decisions impact on the social system.

There are many available definitions for stakeholder. In his renowned book, *Strategic Management: A Stakeholder Approach*, Freeman (1984, p. 46) defined ‘stakeholder’ as “any group or individual who can affect or is affected by the achievement of the firm’s objectives”. As cited in Freeman (1984, p. 31), Stanford Research Institute being the pioneer of the stakeholder concept defined stakeholders in 1963 as “those groups without whose support the organisation would cease to exist”. Both Freeman and the earlier group espouse a relatively instrumentalist view of stakeholders.

Greenwood (2001) referred to the Stanford Research Institute’s definition of stakeholders as the ‘narrow view’ as it is based on selected categories of stakeholders

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<sup>4</sup> Aside from depicting the stakeholder groups using a stakeholder map that shows 12 groups of stakeholders (as owners, financial community, activist groups, customers, customer advocate groups, unions, employees, trade associations, competitors, suppliers, government, and political groups), Freeman (1984) also claimed that there could be more groups such as “other groups who can help or hurt the corporation” (p. vi).

that the business is ethically inclined to manage with its limited resources. The proposal by Clarkson (1995) to categorise stakeholders into primary and secondary stakeholders, introduced the idea of assigning the degree of importance to the different groups that business organisations deal with. Using three discriminating factors (power, legitimacy, and urgency), Mitchell, Agle and Wood, (1997, p. 857) identify eight categories of stakeholders but also present a broad view of stakeholders based on the reality “that companies can indeed be vitally affected by, or they can vitally affect, almost anyone”. This demonstrates how the stakeholder concept is challenging as there is not any universally-accepted criteria to determine the range and number of stakeholder groups that a business should consider. Between the stakeholder groups, Mitchell et al, (1997, p. 869) also differentiate their degree of power between the stakeholder groups and “the degree to which managers give priority to competing stakeholder claims”. They describe ‘definitive stakeholders’ as the strongest group where all the three attributes of power, legitimacy and urgency are possessed by that group at the same time.

### **2.3 Forces that influence organisations to undertake CSR activities**

This section presents three forces that stimulate business organisations to undertake CSR activities. The first force is governmental stakeholders who make rules in one form of regulation for organisations to comply with. The second force is non-governmental stakeholders, such as civil society movements, that exert influence through the use of petitions, protests or demonstrations, and other less concerted efforts. The third force is the business organisations themselves and their leaders who initiate CSR activities.

#### **2.3.1 Governmental stakeholders**

According to Wilson (2003), CSR ‘legislation’ is traceable to ancient Greece where the governing bodies set rules of conduct for businessmen and merchants. The role of business organisations in society has been debated since then. Most of the debate has been about whether CSR should be obligatory for business organisations. Non-compliance can result in fines and/or imprisonment. For example, in New Zealand the

penalty for breaching section 15 of The Resource Management Act 1991 which relates to the discharge of contaminants into the environment, can be imprisonment for up to two years or a fine not exceeding \$200,000 upon conviction. Legislative requirements mean that the government is a powerful stakeholder and can influence organisations towards more responsible activities.

Some legislation has resulted from problems in the past. One example of relevance to business organisations, including financial services institutions, is the Sarbanes-Oxley Act 2002 in the US which came about because of the collapse of Enron, one of the biggest companies in the US that went bankrupt because of fraudulent practices. Other countries also have CSR-related legislation impacting financial services institutions where they are required to disclose CSR-related activities. In Australia, a law was passed in 2002 that requires all investment firms to disclose how they determine what is considered to be a socially responsible investment. It is similar to the UK's Socially Responsible Investment Regulation (2000) that requires pension fund managers to disclose their policies on socially responsible investment. Notably, various forms of social and environmental reporting have also been made compulsory in countries like Malaysia, Japan, Sweden, Norway, Germany, France, Belgium (Waddock, 2008).

Although there has been some improvement in organisations' environmental impacts as a result of stakeholder pressure, governmental regulations have been more successful in changing organisations' environmental practices in the US and Europe, and fewer would have developed environmental policies had there not been governmental regulations (Gunningham, Kagan & Thornton, 2003). Banerjee, Iyer and Kashyap (2003) also found that legislation had the most impacts on organisations' environmental policy, followed by public concerns. It has been argued that legislated activities, such as CSR reporting, have a negative impact especially on the costs of implementation and enforcement of the mandated requirement, and can also stifle creativity (Buhr, 2007). On the other hand, Banerjee (2007) argues that legislation could force organisations to be more creative and result in making changes in their products, services and processes to become socially and environmentally beneficial.

### 2.3.2 Non-governmental stakeholders

As well as governmental stakeholders, non-governmental organisations (NGOs) and civil society movements influence business organisations to be accountable for their actions. People's movements in the 1960s and 1970s have been widely credited with inspiring improvements particularly in a local and natural sense, in western democracies. Bakan (2004) reports that:

Beginning in the mid-1990s, mass demonstrations against corporate power and abuse rocked North American and European cities. The protestors, part of a broader "civil society" movement, which also included non-governmental organisations, community coalitions, and labour unions, targeted corporate harms to workers, consumers, communities, and the environment (p. 27).

Joyner and Payne (2002) suggest that the enormous success of business organisations and the resultant power derived from those successes, particularly by multi-national corporations, has led to extravagant expectations by the public. This expectation of corporate responsibility has been enlarged to include those areas formerly considered to be the responsibility of government, such as support of the arts, funding and providing facilities for research and public utilities, alleviating hunger and poverty via donations, and enablement of human rights (Joyner & Payne, 2002; Matten, Crane & Chapple, 2003; Kurucz, Colbert & Wheeler, 2008).

Knox, Maklan and French (2005, p. 8) observe that as NGOs have "become more powerful there is an expectation for organisations to account for their policies in areas of fair trade, human rights, workers' rights, environmental impact, financial probity and corporate governance". Recognising the impacts that business organisations have on society and the environment, non-governmental stakeholders, through various means try to influence business organisations to undertake or increase their CSR activities. For example, empirical studies by Patten (1992) and Deegan and Rankin (1996), identify that business organisations increase reporting on their environmental impacts as a result of pressure from stakeholder groups.

There is evidence of organisations being responsive to stakeholders' demand for CSR (see Patten 1992; Deegan, Rankin & Voght, 2000; Idowu & Pappasolomou, 2007). The degree of response by an organisation to pressure from stakeholders to increase focus on CSR is conceptualised by Frederick (1994) as corporate social response (CSR2). According to Porter and Kramer (2006), responsive CSR involves attuning to stakeholder concerns, and mitigating existing or potential adverse effects of business activities.

### **2.3.3 Internal stakeholders**

Whereas the previous two sub-sections focused on the influence of governmental and non-governmental stakeholders in business organisations undertaking CSR activities, this sub-section relates to business organisations adopting CSR voluntarily. Business organisations are often pressurised to maximise returns for shareholders. But there may also be pressures on business organisations to undertake CSR activities that relates to the community and the environment in order to maintain legitimacy, grow the business or remain competitive. Whether business organisations claim to have undertaken CSR activities voluntarily or under pressure is not easy to ascertain absolutely.

Hart (1995) and London and Hart (2011) present a natural-resource based theory of the firm where organisations supposedly benefit by undertaking strategies on pollution prevention, product stewardship, and sustainable development. In a study of 53 organisations in the UK and Japan, Bansal and Roth (2000) found that competitive advantage is not a strong motivation to undertake CSR initiatives, however. Shrivastava (1995, p. 955) argues that organisations have the opportunity to “drive down operating costs by exploiting ecological efficiencies”. This type of competitive advantage or business-case rationale related motivation is initiated by the organisation's internal forces rather than by external stakeholders.

Other authors attempt to link CSR to business profitability. They claim that organisations can reduce costs and increase revenues by undertaking CSR activities.

Margolis, Elfenbein and Walsh (2008) found in their study that engaging in activities that result in social benefits does not give the best return on investments. They conclude that there is a small positive relationship between CSR activities and economic performance of business organisations and caution that profitability should not be the primary rationale for CSR. Despite the inconclusive linkage between CSR and business-case benefits, there seems to be increasing encouragement from authors who suggests that CSR is a profitable venture<sup>5</sup> for business organisations.

Using CSR reporting as an example of CSR activity, Buhr (2007, p. 63) offers “the idea of voluntary and mandatory [CSR reporting] being different shades of a rainbow instead of black or white possibilities”. It is more likely for business organisations to experience some combination of forces for undertaking CSR activities. The concern, then, is on how business organisations choose to balance the economic, social and environmental responsibilities and their impacts to ensure the expectations of stakeholders are taken into consideration.

One of the most common motivations why some of the world’s leading organisations undertook corporate responsibility<sup>6</sup> reporting is due to “ethics and economics considerations” (KPMG, 2008, p. 18). KPMG (2008, p. 14) also reported that “corporate responsibility reporting has gone mainstream – nearly 80 percent of the largest 250 companies worldwide issued reports, and an additional four percent integrated corporate responsibility information into their annual reports”. Milne and Gray (2008) reported a steady increase in the trend of voluntary reporting since 1990 and the financial services sector, one of their 16 categories of business sectors from 13

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<sup>5</sup> See for example, Grayson & Hodges’ (2004) book entitled “*Corporate Social Opportunity!: 7 steps to make corporate social responsibility work for your business*”; “*The competitive advantage of corporate philanthropy*” (Porter & Kramer, 2003), “*Serving the world’s poor, profitably*” (Pralhad & Hammond, 2003), and “*The virtue Matrix: Calculating the return on corporate responsibility*” (Martin, 2003).

<sup>6</sup> KPMG (2008, p. 14) used 250 companies drawn from Fortune Global 500 list (2007) with representation of over a dozen industry sectors where finance, insurance and securities companies dominate the sample, followed by oil and gas, utilities, electronics and computers, and automotive companies. According to KPMG (2008, p. 12), the term ‘corporate responsibility’ is used throughout the survey to describe the ethical, economic, environment, and social impacts and issues that concern the private sector.

countries, showed an increase from five percent in 1996 to 31 percent in 2005 against the 340 financial services companies sampled.

## **2.4 Financial services institutions and CSR**

Financial services institutions are important business organisations that perform an intermediary function in society that is a central feature in modern capitalism (Cowton, 2002; Scholtens, 2006). Prior and Argandona (2009) discuss how the performance of financial services institutions affects the Gross Domestic Product (GDP) of a country. Through their core business products and services, or indirectly through the activities of their clients, financial services institutions can have enormous economic, social and environmental impacts (Scholtens, 2006). Their relatively powerful position, where they have opportunity to encourage CSR adoption and/or discourage anti-CSR activities by their clients, can provide overall benefits to society (Thompson & Cowton, 2004; Scholtens, 2006;). Although financial services institutions undertake considerably less environmentally hazardous activities compared to primary resource extraction or heavy industry, Thompson and Cowton (2004, p. 199) note that “they can be seen as facilitators of industrial activity which causes environmental damage”, by virtue of their intermediary function. Scholtens (2006, p. 29) sees “a natural weakness of finance when it comes to affecting CSR is that it is of an indirect, intermediate character”.

Banks are a major contributor to financial services, with lending being a core business activity, and so “need to take responsibilities in their lending policies” (Cowton, 2002, p. 399). Although it could be asserted that banks are just deposit takers and money lenders, Lachowicz (2000, p. 111) argues that “Yes they are, but because of this function they occupy a central position in most societies and therefore have a responsibility for the state of those societies”. Scholtens (2006) proposes that, when providing finance, three goals relating to economic, social and environmental performance must be considered; first, the loan has to be repaid, second, there must be a decent return, and third, there must be some improvement in social and environmental performance resulting from the transaction. Scholtens (2006) notes that in instances

where financial services institutions have CSR policies, or might have conveyed the three goals to their clients, they were not sufficiently explicit or transparent about the targets or about their expectations of how clients should perform socially and environmentally. Kokke, Os and Racz (2010), and Cowton and Thompson (2000) observe that many financial services institutions that articulate their CSR intentions fail to actually put them into practice. One of the reasons could be due to the competitive nature of the industry, where imposing additional requirements, such as social and environmental performances, was seen as being uncompetitive.

Insurance companies are similar to banks in that they provide vital financial services. They also have the power to influence their clients. They are also not directly involved in environmentally hazardous activities. The core business of insurance companies includes investment, assessment of risks and underwriting insurance policies for personal and business clients. Insurance companies are known to have promoted environmental sustainability. For example, in the aftermath of Hurricane Andrew in 1992, where more than US\$17 billion insurance costs were paid and resulted in the bankruptcy of more than eight insurance companies, some insurance companies began promoting insurance premium options that relate to environmental risk (Jeucken, 2001). Insurance companies are powerful institutions that can have significant influence over a significant number of companies. An example of an insurance company effecting such change is AVIVA Plc, the UK's largest insurer and the world's sixth largest insurance group, has started to impose environmental requirements, such as environmental disclosures, on their client-companies.

The economic, social and environmental impacts of financial services institutions can be broadly categorised into external and internal impacts that relate to the core business products and services<sup>7</sup> and those that relate to the office-operational related processes respectively (Jeucken & Bouma, 2001). Those impacts connected to the core business products and services can be further categorised into direct and indirect economic,

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<sup>7</sup> 'The term 'core business products and services' of financial services institutions is used to represent mainly commercial bank loans and deposits, and insurance underwriting. The core business products and services referred to in this thesis represent the conventional 'bread and butter' business of these financial services institutions.

social and environmental impacts. The direct economic impacts of financial services institutions are related to those profitability indicators which shareholders may arguably be most concerned. The indirect impacts of financial services institutions' core business products and services that relate to their clients' activities can have social and environmental impacts. The office-operational related processes have direct internal impacts that are generally related to employee relations and energy efficiency. Another area of direct impacts of financial services institutions is related to economic and social impacts resulting from their clients' hardship due to the former's lack of responsibility in the qualification of clients. Adequately ascertaining and managing borrowers' risk, and maximising the probability of repayment are the responsibility of financial services institutions. This requires the use of qualifying policies/criteria to ensure that selected borrowers are at low risk of defaulting on loan repayments to minimise the likelihood of problems for both them and the financial services institutions (Prior & Argandona, 2009).

The adoption of a broad or narrow CSR view can also imply the type of impact an organisation has on the society and environment. Table 2.1 below summarises the elements of both the broad and narrow views of CSR, as outlined in the above literature relating to financial services institutions.

**Table 2.1: Narrow and broad views of CSR in financial services institutions**

	<b>Narrow View</b>	<b>Broad View</b>
Type of impacts	Direct impacts	Direct and indirect impacts
Focus of managerial attention	Mainly internal – on office operational-related support and discretionary activities, such as philanthropy, that have discernible economic, social and environmental impacts	Internal and external - Additional to direct impacts, includes the impacts of core business products and services (e.g. economic, social and environment impacts caused by clients or users of products and services)
Drivers	Business-case related drivers (increasing profits, reducing cost, pre-empting and responding to competition, and enhancing reputation and image)	Overall economics, societal and environmental wellbeing as a key driver
Intended beneficiaries	Shareholders as main beneficiaries	All stakeholders as potential beneficiaries

It is unlikely for financial services institutions to be concerned with only one type of impact exclusively but the predominant concern appears to be for direct impacts, including office operational-related impacts. The focus here is mainly internal and drivers are often business-case related. The broad view of CSR requires financial services institutions to take actions and be accountable for both direct and indirect impacts (Jeucken & Bouma, 2001; Shaw & Barry, 2001; Porter & Kramer, 2006; O'Sullivan & O'Dwyer, 2008). Indirect impacts of financial services institutions are those social and environmental impacts caused by their clients through the usage of core business products and services. Although the linkage between the financial services institutions and their clients' impacts is indirect, the number of clients is large and therefore the aggregated social and environmental impacts can be substantial. The drivers related to the broad view of CSR concern overall social and environmental well-being, where all stakeholders are potential beneficiaries.

Both the processes and core business products and services can have direct impacts on the costs and profitability of the business. The processes can directly affect how employees relate to the latter function, and the core business products and services can directly affect the well-being of clients. Additionally, the core business products and services can have economic, social and environmental indirect impacts through their clients' activities.

Financial services institutions are often large and powerful with the impacts of their lending, investments and underwriting stretching far and wide. Scott and John (2002) provide an example where a bank's financing of a dam project can have social and environmental impacts that affects many stakeholders. The power includes making demands of clients, for example, borrowers have to supply evidence to their bankers about their positive corporate sustainability impacts such as through their social and environmental assessment reports by independent authorities to support their loan applications (Coulson, 2002). Financial services institutions can demand their clients comply with certain thresholds regarding social and environmental impacts. However, Scott and John (2002) found that banks are slow to include responsibilities such as indirect social and environmental impacts in their reporting.

In a March 2009 report, an international NGO, Global Witness, examined corporate activities' contribution to resource exploitation, corruption and human rights. It reported that many international banks that claim to be committed to CSR had facilitated corruption by dealing with dubious customers (Banktrack, 2009). That financial services institutions should be selective in their choice of customers is beginning to be demanded by some stakeholders as evidenced by legal suits against the Royal Bank of Scotland by environmental and human rights groups, World Development Movement, Platform, and People and Planet, for lending money to Vedanta Resources. Vedanta Resources is a mining company whose activities are considered to have a very negative impact on the environment and climate change (Global Witness, 2009). Although they were unsuccessful, the intention highlighted the increasing concern about who financial services institutions select to be their clients. Matthew and Gelder (2001) also found some stakeholders were unhappy with loans extended to clients that caused pollution. Yet, the extent to which a demand for financial services institutions to consider the social and environmental impacts of client activities exists, whether this demand occurs across multiple stakeholder groups, and whether this demand is perceived by the financial institutions themselves, remains unclear.

There is an indication that the 2008/9 global financial crisis may have prompted some changes in the thinking about CSR of financial services institutions. Anne Sogaard Melchiorson, head of corporate responsibility at Danske Bank, argues for a stronger social contract between financial services institutions and society by highlighting the responsibilities related to core business:

Beforehand [i.e. before the 2008/9 global financial crisis], you could have some 'nice to do' projects - perhaps some microcredit projects, some investment screenings, etc – but now responsibility is about the core business, and this means responsible lending, and how banks act as advisors (Wagg, 2010, p. 5).

It is argued that the main social function of financial services institutions is to provide intermediary services that include lending, investment, inter-financial transactions, for which they are accountable (Cuesta-Gonzalez, Munoz-Torres & Fernandez-Izquierdo,

2006). Prior and Argandona (2009, p. 352) propose that the specific responsibilities of financial services institutions include ensuring “availability of liquidity, adequate ascertainment and management of borrowers’ risk, and maximizing the probability of repayment”.

Richards, Palmer and Bogdanova (2008) provide a perspective that condemns irresponsible business activities in the form of excessive or irresponsible lending,

Offering credit to all is justified by the credit industry by claims of widening people’s social choices, but can this be justified against human misery seen by the credit counselling services, which can lead to suicide? For example, the selling of a drink to an alcoholic would be viewed as unethical and be roundly condemned. Is it not constantly extending credit to someone who eventually is unable to pay equally unjustified? (p. 510).

Cowton (2002) asserts that both lender and borrower have responsibilities in a loan contract, although the lender is less likely to suffer due to the collateral provided by the borrower. However, other stakeholders can be affected should they fail in their responsibilities and, in this respect Cowton and Thompson (2000) provide examples of banks being called upon to recognise the indirect environmental impacts of their lending. After considering the numbers of borrowers who had repayment problems during the 2008/9 global financial crisis, the financial services institutions seem to have failed in their corporate responsibilities of ensuring the suitability of sub-prime borrowers (Prior & Argandona, 2009), who are by definition, already a second-rate category of borrower. Although the shortage of funds, or lack of liquidity, is indirectly caused by the collapse of the financial services institutions themselves rather than as a direct cause of poor customer screening, it is still the responsibility of financial services institutions. According to Prior and Argandona (2009, p. 352), “availability of liquidity” is a specific social responsibility of financial services institutions.

Financial services institutions have contested the CSR linkage between their core business activities and negative economic, social or environmental impacts that involves their customers. Although there are indirect environmental impacts as a result of their clients’ activities, the financial services institutions have earlier been reported as

stating they should not interfere and, as a consequence, are reluctant to take the indirect impacts into account as part of their social responsibility (Jeucken & Bouma, 2001).

The indirect environmental impacts of financial services institutions are acknowledged in the GRI's Financial Services Sector Supplement:

The indirect environment impacts associated with financial products and services are an area of intense interest to many stakeholders. These impacts can be significantly greater in scale than the direct impacts of financial institutions' operations, such as the amount of energy consumed or volume of waste generated (GRI, 2007b, p. 3).

As discussed earlier in the chapter, CSR has many facets and one model used by Carroll (1991) includes the dimensions economic, legal, ethical, and philanthropy. The findings by Whitehouse (2006) from 16 UK-companies, five of which are financial services institutions, reveal that philanthropic activities were considered an integral part of their CSR activities. Generally, philanthropy is a non-core business activity of financial services institutions that has economic, social and environmental impacts. However, as noted, Schwartz and Carroll (2003, p. 505) redesigned their earlier model to exclude the philanthropy dimension as they maintain that philanthropy, as a non-core business activity, "is not considered a duty or social responsibility of business, but something that is merely desirable".

Internally, financial services institutions are considered to be 'clean' of any adverse environmental impact but, despite this, earlier initiatives have been implemented to measure consumption of electricity, heat, water, paper, and CO<sub>2</sub> emissions (Jeucken & Bouma, 2001). Jeucken (2001) reports some specific actions on the part of some financial services institutions. For example, Triodos Bank had adopted renewable solar energy to support its operations, and, in 1997, the UK Co-operative Bank introduced the first biodegradable credit card to reduce its carbon footprint. Jeucken (2001) asserts that these measures were driven by a desire for cost efficiency. However, the result is still positive in terms of the environmental impacts.

Financial services institutions still mainly pursue the maximisation of profit as priority in their business model (Thompson & Cowton, 2004), and mostly “philanthropy is not supported unless there is a business case” (Lindorff & Peck, 2010, p. 48). When considering the ethical dimension of financial services institutions, the “focus was also generally restricted to business issues, rather than societal ones” (Lindorff & Peck, 2010, p. 58). Financial services institutions could be considered amoral organisations (Gray, Bebbington & Walters, 1993).

## **2.5 Chapter conclusion**

The traditional expectation of business organisations is predominantly to maximise returns on shareholder investment. Proponents of systems theory purport that the activities of business organisations have effects on the community and environment. There is an increasing expectation for business organisations to embrace and be accountable for greater social and environmental responsibilities.

CSR has many facets that include accountability for direct and indirect economic, social and environmental impacts. The broad view of CSR expects business organisations to be accountable for the impacts of all their business activities, including products, services and processes. This accountability includes economic, social and environmental impacts, and both direct and indirect impacts. The narrow view of CSR, on the other hand, focuses on responsibility that is predominantly business-case related, where the shareholders’ expectations are prioritised. The broad view of CSR aspires to meet the expectations of a wider range of stakeholders.

Forces influencing business organisations to undertake CSR activities can come from both governmental and non-governmental stakeholders. The former use regulations while the latter pressure business organisations to become more accountable. Business leaders themselves are a further force for change. Moral, reputational and competition related rationale appear relevant.

For financial services institutions, CSR may involve responsibilities for the economic, social and environmental impacts caused by the organisations themselves and their clients. Providing a vital intermediary service, financial services institutions are seen as ‘clean’ offices, but are powerful business organisations that can influence their clients’ behaviour on social and environmental impacts if they choose to do so. Financial services institutions, in general, have been reluctant to focus on broader social and environmental impacts through influencing their clients, preferring to focus on other facets of CSR such as philanthropy and office operational related environmental impacts. Although the 2008/9 global financial crisis appears to have provoked some changes in thinking about CSR, the effect remains to be seen.

## CHAPTER 3: CSR REPORTING

### 3.0 Introduction

*It is remarkable how little the general public knows about publicly traded corporations today. Regulators require voluminous financial data, but they have done little to help us understand the basics of how corporations affect daily life in other ways. We know a company's turnover, its cost of goods sold, its interest expenses, and its accounts receivable. But we do not know its workplace safety records, its greenhouse gas emissions, its records on promotion of women and minorities, or the nature of its environmental policies and practices.*

*(Lydenberg, 2005, p. 58)*

Tepper-Marlin (2003) separates CSR reporting into three significant periods. During the 1970s, CSR reporting consisted mostly of add-ons to the annual financial reports and was undertaken by relatively few organisations. From the late 1980s to the early 1990s, in response to several high profile corporate disasters, some regulations were introduced relating to CSR practices and the reporting of them. From the late 1990s to early 2000s there were CSR-specific movements that promoted initiatives such as CSR reporting. Antal, Dierkes, MacMillan and Marz (2002) state that CSR-specific movements, such as the Global Reporting Initiative (GRI), the Global Compact, and the Green Paper presentation by the European Commission, were initiated in 1997, 1999, and 2001 respectively, and made high profile statements about CSR reporting. CSR reporting was further fuelled by the introduction of the triple bottom line heuristic by Elkington in his book titled *Cannibals with Forks: The Triple Bottom Line of 21<sup>st</sup> Century Business*, first published in 1997<sup>8</sup>.

This chapter reviews the different aspects of CSR reporting that are presented in the academic literature and professional practice-oriented guides. The chapter is organised

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<sup>8</sup> The version referred to in this thesis is the paperback which came out in 1999.

into five major sections followed by a conclusion. Section 3.1 presents background on CSR reporting and includes definitions. Section 3.2 covers the evolution of CSR reporting, and includes voluntary CSR reporting, the guidelines and standards for voluntary CSR reporting, including those specifically relating to financial services institutions. Section 3.3 examines literature with regard to motivations for voluntary CSR reporting. Specific internal motivations include business-case driven, and moral-value driven. External-pressure driven motivations are also discussed. Section 3.4 discusses three theoretical explanations relating to motivations for CSR reporting - institutional, legitimacy, and stakeholder theories. Section 3.5 examines literature relating to stakeholder engagement and CSR reporting. Section 3.6 concludes the chapter.

### **3.1 Background to CSR reporting**

A much cited definition<sup>9</sup> for CSR reporting by Gray, Owen and Adams (1996) describes it as:

the process of communicating the social and environmental effects of organisations' economic actions to particular interested groups within society and to society at large. As such, it involves extending the accountability of organisations (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 to make money for their shareholders (p. 3).

The focus on the process dimension of CSR reporting is also evident in Holliday Jr., Schmidheiny and Watts (2002), who describe CSR reporting as producing reports that reflect what companies want to say about issues that cover financial, environmental, and social progress of sustainable development. Bouma, Jeucken and Klinkers (2001) identify that CSR reporting is also as a process or a form of stakeholder communication. KPMG (2005) suggests that CSR reporting is about communicating the organisation's environmental, social and economic performance in an integrated manner.

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<sup>9</sup> Cited by Mathews (1997), Hooghiemstra (2000), and Snider, Hill and Martin (2003).

Some definitions focus more on the content of the CSR reports (such as reported performance). Burchell and Cook (2006) found that information on the social and environmental impacts of business activities is highly demanded. Elkington (1999), drawing on his triple bottom line (TBL) heuristic<sup>10</sup>, suggests that CSR reporting should include economic, social and environmental issues. Guthrie and Mathews (1985, p. 253) state that CSR reporting is “the provision of financial and non-financial information relating to an organisation’s interaction with its physical and social environment, as stated in corporate annual reports or separate special reports”. Perks (1993) defines corporate social reporting as the disclosure of costs and benefits, that may or may not be quantifiable in money terms, resulting from the economic activities of the organisation and substantially borne by the community at large, or other organisational stakeholders. Adopting a dual process and content focus, KPMG (2005) notes that CSR reporting is about communicating the organisation’s environmental, social and economic performance in an integrated manner.

Mathews (1993) like the second part of Gray et al’s (1996) definition cited above, focuses on the rationale for CSR reporting. Mathews (1993, p. 64) defines CSR reporting as “voluntary disclosures of information, both qualitative and quantitative made by organisations to inform or influence a range of audiences”. As to why companies voluntarily do CSR reporting, Cerin (2002) suggests that it is corporate self-interest, where the company perceives a net benefit for reporting. This, Cerin sees as the main reason, even when the financial benefit of reporting has not been clearly established. Another reason offered is pressure from and demand by external stakeholders (KPMG, 1999), because of concern about the impacts of organisational activities on the environment and social conditions (Bennett & James, 1999), and due to a growing distrust for organisations in general (Wheeler & Sillanpaa, 1997; Elkington, 1999).

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<sup>10</sup> Elkington (1999) argues that companies need to take a triple bottom line (TBL) approach to business rather than just a single bottom line (financial returns); i.e. they need to address, measure and report on the business’ impact on all three dimensions, environmental, social, economic.

The Global Reporting Initiative outlines social and environmental pressures, and business benefits as two major sets of driving forces that motivate organisations to carry out CSR reporting (GRI, 2002). Mathews (1993) identifies that the motivations for CSR reporting can be to inform or influence which suggests that organisations can be morally and/or strategically inclined. Voluntary CSR reporting can be the result of external pressures which are combined with the organisation's internal desire to benefit from such an endeavour.

Other definitions of CSR reporting are essentially a combination of and/or variation on those by Guthrie and Mathews' (1985), Perks (1993), Gray et al (1996), Elkington (1999), and KPMG (2005). This thesis combines the first part of the Gray et al's (1996) definition with part of that from Guthrie and Mathews' (1985), focussing particularly on the non-financial information in dedicated standalone CSR reports. In essence, CSR reporting is about communicating the social and environmental impacts of organisational activities in specific CSR reports.

### **3.2 Evolution of CSR reporting**

CSR reporting is not a new phenomenon. Some kind of CSR information has been communicated in some way, at some time, since organisations first existed. In a study of US Steel's corporate reports, Hogner (1982) finds that some environmental disclosures appeared before the 1960s. Lewis, Parker and Sutcliff (1984), in their review of corporate financial reports, observe that there were disclosures about employees dating as far back as 1919. The following three sub-sections present the evolution of CSR reporting as distinct from financial reporting. Voluntary and mandatory CSR reporting, as well as international protocols for voluntary CSR reporting, are discussed.

### 3.2.1 Financial reporting and voluntary CSR reporting

Although basic accounting principles and practices have existed for centuries, standardised financial accounting and reporting came into being only after the US economic collapse of the 1930s (Crowther, 2000). A decrease of more than 80 percent of the market value of all securities on the New York Stock Exchange, between 1929 to 1932, prompted US regulators to enact legislation (such as The Securities Act 1933 and The Exchange Act 1934) to increase business accountability (Crowther, 2000). For consistency, the US Security and Exchange Commission directed the Financial Accounting Standards Board to develop the Generally Accepted Accounting Practices (GAAP) so that all companies could report financial information in the same manner (White & Zinkl, 1999).

However, standards for reporting on the impacts of a business organisation's activities on the environment or on society are not so well entrenched, according to Crowther (2000). Crowther (2000) considers the initial reporting orientation to be influenced more by classical liberal ideology, where business organisations concentrate on seeking to satisfy their own needs and, as such, are inward looking rather than focussing on their external impacts.

Bennett and James (1999) and Tepper-Marlin (2003), identify three waves or phases of CSR reporting. Bennett and James (1999) report that the first wave of CSR reporting took place in the early 1970s by only a handful of companies. One of those companies is Abt & Associates, and according to Gray et al (1996), and Tepper-Marlin (2003), the report was an add-on to the financial statements and the concept of social responsibility was strictly related to air and water pollution. Gray et al (1996) identify that throughout the early 1970s the idea of social responsibility was very general, as evidenced in the report of Eastern Gas and Fuel Associates 1972 and the Deutsche Shell 1975 report. The UK's Accounting Standards Committee published the 'Corporate Report' in 1975, that related social and environmental issues to accounting (Gray et al, 1996). One of the basic assumptions made in the Corporate Report was that all organisations are accountable to the general public and external reporting disclosures should include

### CHAPTER 3: CSR REPORTING

information to satisfy those who had reasonable rights to those information. However, CSR reporting did not develop much further during this period, and, by the end of the 1970s, it appeared to 'fall out of fashion', arguably because CSR reports were basically used for public relations rather than changing actual business culture (Bennett & James, 1999).

The second wave of CSR reporting occurred in the late 1980s and early 1990s when there were several major disasters involving business organisations and the environment. For example, in the 1980s there was the release of poisonous gas from Union Carbide's fertiliser plant in Bhopal, India, the Exxon Valdez oil spill in Alaska, and the release of radiation from the nuclear plants at Three Mile Island and Chernobyl. These events raised public awareness of the need for corporate responsibility and accountability (White & Zinkl, 1999). During this period there was a renewed interest in CSR reporting, particularly environmental reporting (Mathews, 1997).

In relation to regulated CSR reporting, White and Zinkl (1999) argue that the Bhopal disaster prompted the US to enact The Superfund Amendments and Reauthorisation Act 1986, creating the Toxic Release Inventory, a regulatory requirement for businesses to disclose toxic emission data annually to a centralised database. Similar initiatives followed in Canada, the European Union and some member countries of the Organisation for Economic Cooperation and Development (OECD). Although such disclosure is legally required, Wheeler and Elkington (2001) contend that during this period, business organisations in Europe and the US were also pressured by their stakeholders to report on their environmental impacts.

The third wave of CSR reporting, or sustainability reporting, began in the mid to late 1990s with CSR reporting often being linked to business organisations' impacts on economy, society and environment. The CSR reports from this period tend to be more encompassing, and often certified by third parties such as the Social Accountability International (SAI), International Social and Environmental Accreditation (ISEA), and other consultants and auditors (Tepper-Marlin, 2003). Not only has there been an

increase in the volume of CSR reporting, but as KPMG declares “a dramatic change has been in the type of Corporate Responsibility reporting which has changed from purely environmental reporting up until 1999 to sustainability (social, environmental and economic) reporting” by 68% of the top 250 companies of the Fortune 500 in 2004 (KPMG, 2005, p. 4). However, a report by SustainAbility notes that the number of companies producing CSR reports increased at a much slower rate and suggests that part of the reason could be because “the hurdles for new entrants are constantly increasing” (SustainAbility, 2006, p. 13). First-time reporters would find that the standard of reporting has been raised in terms of quality and cost.

During this period one of the earliest and most comprehensive stand-alone CSR reports was produced by The Body Shop, a business organisation that issued CSR reports (known as ‘Values Reports’) in 1995 and 1997, partly to justify its claim of being a leading proponent of corporate social responsibility (Lydenberg, 2005). The 1997 report was acclaimed as a model of comprehensive CSR disclosure, spanning more than two hundred pages. However, The Body Shop did not produce another CSR report for five years after this, apparently because of financial problems (Lydenberg, 2005).

### **3.2.2 Moves towards mandatory CSR reporting in some countries**

France became the first country to enforce a CSR reporting system on publicly traded companies through its New Economic Regulation Act 2001, where approximately 40 indicators that involve environmental performance, community initiatives, and employee relations, must be reported on (Lydenberg, 2005). However, there was no mandatory requirement for non-listed companies in France to provide such information. In the UK, there was an attempt by the government in April 2005 to introduce the mandatory Operating and Financial Review (OFR, an extension of ‘Company Law’ that requires disclosure by listed companies to include all business risk, both financial and non-financial), but the legislation was repealed in January 2006. According to Grant (2006), the UK government decided to reduce the bureaucratic burden on business organisations by replacing the mandatory OFR with a business review that significantly reduced the amount of detail required for more serious and comprehensive CSR

### CHAPTER 3: CSR REPORTING

reporting. The content and kinds of requirement can vary significantly between countries and even regulatory bodies.

In the European Union, the early 1990s also saw some development of environmental policies by national governments, business organisations and professional accounting bodies to address reporting about corporate interactions with the natural environment (Gray et al, 1996). The idea was to encourage signatory nations to preserve, protect and improve the quality of the environment and there was no mandatory rule for business organisations to comply. Then in 1993, the European Union's Environmental Management and Audit Scheme (EMAS) was offered as a way for business organisations to demonstrate their accountability for environmental impacts. One of the principle features of EMAS is the requirement to disclose assessments of all the significant environmental issues relevant to the business. EMAS also requires adopters to have external verifiers or auditors certifying the environmental disclosures.

In the US, various regulations require companies that meet certain criteria to provide reports that include information on their environmental impacts. The disclosures requirement under Toxic Release Inventory Act, for example, provides transparency so the public can hold organisations accountable if there is irresponsible management of toxic chemicals. Specific to the financial industry, US regulations such as the Financial Institutions Reform, Recovery and Enforcement Act (1989) and the Community Reinvestment Act (1995), require financial services institutions to disclose information on lending (for single-family, multi-family housing, small businesses and farming) in order to improve social responsibility in bank lending programmes.

In addition to France, the UK and the US, KPMG (2005) and Elkington (1999) identify other regions and countries (European Union, Australia, Belgium, Canada, Denmark, Finland, Germany, Japan, Norway, Spain, Sweden, The Netherlands) where CSR reporting, in some form, is mandatory. Each country has different requirements, with regards to issues to be reported and type of companies required to report. The Netherlands and Scandinavian countries have had regulations that require business

organisations to disclose both financial and non-financial information about their impacts on the environment since the mid-1990s (Gray et al, 1996).

Mandatory CSR reporting was introduced to reduce the inconsistent and poor quality of information reported in voluntarily produced CSR reports. For example, after the introduction of the section 299 (1) (f) of the Corporations Act in 1998, Australian companies were required to disclose details about environmental impacts (Frost & English, 2002). Since 1995, Denmark's law on green accounts required companies to describe their environmental policy, goals and results (Holgaard & Jorgensen, 2005). The Netherlands had a similar requirement and both countries required reporting to the authorities as well as to the public. Since 1999, companies in Sweden and Norway were required to include environmental information in their annual financial reports (KPMG, 1999). KPMG, UNEP and GRI (2010) found that of 140 countries, approximately two thirds have some form of mandatory CSR reporting. The report concludes "governments have increasingly started to make sustainability reporting mandatory" (KPMG, UNEP & GRI, 2010, p. 86). CSR reporting is not mandatory in the New Zealand context.

### **3.2.3 Voluntary CSR reporting guides**

CSR reporting guides, that include indicators to be reported on as well as the reporting processes and principles, have been introduced and promoted by several national and international bodies. Similar to the variable understandings and interpretations of the CSR concept, there is no single interpretation of what CSR reporting means, thus resulting in the development of a variety of CSR reporting frameworks and guidelines (Guthrie, Cuganesan & Ward, 2008). Two popular process/reporting guides include the ISO 14000 standard on environmental management, and the GRI guidelines (Adams & Narayanan, 2007). While the ISO 14000 standards embrace the procedural approach to environmental management, the GRI guidelines address not only the process but also the content of CSR reporting. A social accounting standard, SA8000, developed by Council for Economic Priorities Accreditation Agency (CEPAA), a US based organisation, focuses on organisational issues relating to human rights, health and

safety, and equal opportunities. SA8000 is an auditable standard on performance against the principles of the UN Declaration of Human Rights, the International Labour Organisation conventions and the UN Convention on the Rights of the Child (Social Accountability International, 2011). Another standard, AA1000, relating to processes of accounting for social and auditing of the process, was set up by the Institute of Social and Ethical Accountability (ISEA). The ISEA website clearly spells out its core auditing principles which are ‘inclusivity’, where people should have a say in the decisions that impact on them, ‘materiality’ where decision-makers should identify and be clear about the issues that matter, and ‘responsiveness’, where organisations should be transparent about their actions (ISEA, 2011). All these guides and standards are voluntary (Adams & Narayanan, 2007).

There are also CSR reporting guidelines that have been specifically designed for financial services organisations, such as the United Nations Environment Programme – Finance Initiative (UNEP FI), GRI Financial services sector supplement (GRI-FS sector supplement), EPI-Finance (2000) indicators, SPI-Finance (2002) indicators, the Equator Principles, Collevocchio Declaration and the VfU. Once again, the use of these CSR reporting guidelines is not mandatory. These voluntary guidelines are each discussed next.

### *UNEP FI*

UNEP FI is a unique partnership between the United Nations Environment Programme (UNEP) and about 200 financial services institutions that voluntarily declared their intentions with regards to the UNEP FI statements (UNEP, 2011). The UNEP FI requires financial services organisations to sign the UNEP statements of commitment relating to sound management of the environment and sustainable development. Signatories to the UNEP FI statements are required to not only focus on activities involving internal operations such as energy consumption, resource efficiency and waste recycling, but to identify and quantify environmental risks in assessing their clients, and also to manage their clients’ environmental behaviour. In relation to disclosures, the signatories are also encouraged to engaged with the public and report their strategies and actions taken to integrate environmental practices in their core

business. The statements also encourage the development of products and services that will actively promote environmental protection (UNEP, 2011).

Tarna (2001) reports that approximately 150 financial institutions worldwide have signed the UNEP on the environment and sustainable development, even though the direct impacts of financial services institutions are small, relative to manufacturing industries. However, “the indirect effects through lending, insurance and investment decisions can still be substantial” (Tarna, 2001, p. 149). Burchell and Cook (2006) found in their surveys of 73 business corporations and NGOs in the UK that there were general pressures for more detailed disclosures on their social and environmental impacts. However, according to Thompson and Driver (2005), disclosing such information can be tricky because the information deemed important to the organisations may not be viewed similarly by their stakeholders reading the CSR reports.

#### *GRI-Financial Services (GRI-FS) sector supplement*

A study by Milne and Gray (2008) noted that the GRI database held 2145 reports in 2007 but there was no figure available for those who use the GRI guidelines but are not captured in the GRI database, or those who partially use the GRI. There was also no figure available for those CSR reporters who have not used the GRI guidelines for their CSR reporting. So the true popularity of the GRI guidelines cannot be ascertained accurately in the absence of such data, except that it appears to be on an increasing upward trend but still a very small proportion relative to the existence of the aggregate number of registered companies or organisations. According to the GRI (2011), there are reporters who just utilise the framework for their CSR reporting without declaring the source. Levy, Brown and deJong (2010, p. 89) reported that “in the US and the UK, the uptake and diffusion of GRI guidelines to new organisations is stagnating”. Although the GRI has made some contribution to CSR reporting in terms of providing a framework, it fell short of the original intention which was “to shift the balance of power in corporate governance toward civil society” (Levy et al, 2010, p. 89). Some reasons cited include the failure to generate data that is comparable across organisations, and the failure to attract a sizeable audience for CSR reports. Levy et al

(2010) also noted that the GRI was used as a strategic tool to validate CSR by both the NGOs and business organisations; NGOs attempt to use the GRI to promote more accountability to business organisations who view it as an opportunity to self-regulate, accommodate external pressures and to present themselves as responsible.

Nevertheless, the GRI guidelines had made progress since its first reporting guide G1 was published in 2000. The second (G2) and third (G3) versions were published in 2002 and 2006 respectively, with the G3 further revised to G3.1 in March 2011 to include reporting guidance on Human Rights, Gender and Community impacts (GRI, 2011). The GRI guidelines were developed through a process of systematic, consensus-seeking dialogue with representatives from stakeholder groups including business, civil society, academia, labour and other professional institutions from over 60 countries (GRI, 2011). In addition to a generic reporting guide, the GRI developed sector-specific reporting guide supplements. The five most popular sector supplements are electric utilities, food processing, mining and metals, NGOs, and financial services. The financial services sector supplement came out with two pilot performance guides, one for social and another for environment in 2002 and 2005 respectively, both to be used with G2. Then a revised and consolidated version, Indicator Protocols set and Financial Services Sector Supplement (GRI-FS) was published in 2008 for use with G3.1 (GRI, 2011). The GRI-FS sector supplement was the most popular of the five sector supplements used with 150 reported usages compared with 100 for the mining and metals sector (GRI, 2011).

The intention of the GRI-FS sector supplement is to provide unique indicators relevant to the core business of the financial services organisations that are not explicit in the GRI generic reporting guide. The GRI-FS sector supplement focuses on internal corporate responsibility with regard to environmental and social impacts resulting from core business activities of financial services organisations. One core indicator under the 'Product and service impact' category stresses the importance of financial services institutions' policy and implementation that can have social and environmental impacts resulting from their products and services. There is also an indicator that requires adopters to report the processes used to monitor clients' implementation and compliance

with social and environmental requirements as established between the financial services institutions and their clients. Another core indicator requires the reporter to describe the actions or interactions taken to influence the behaviour of clients in relation to environmental and social risks and opportunities. A specific environment related indicator calls for disclosures about initiatives used to mitigate environmental impacts of products and services, including the extent of the impact mitigation. Specific to social impacts, GRI-FS also requires disclosures on financial services institutions' practices in relation to clients' criminal activities, such as money laundering and terrorism. GRI (2011) notes that the indirect impacts associated with the actions of clients may be more significant than the direct impacts of financial services institutions and interactions could be a key opportunity for managing impacts.

*Environmental Performance Indicators for financial industry (EPI-Finance-2000)*

The EPI-Finance-2000 guide is an effort by 11 financial services institutions to provide guidance to the industry on reporting and measuring environmental performance. It proposes four categories of financial services: commercial banking, investment banking, asset management, and insurance. Each category has indicators that are relevant to its particular environment. For example, in the commercial banking category, product and services provided to corporate clients, along with their associated environmental relevance, should be included in the CSR report. There is a view, mentioned in the Environmental Performance Indicators for the finance industry, that the implementation of the guidelines and the measurement of their impacts can be problematic. It is considered to be the responsibility of the clients, rather than the financial services organisations, to document and manage the social and environmental impacts of the client's activities (Schmid-Schonbein & Braunschweig, 2000).

*Social Performance Indicators for the Financial Industry (SPI-Finance-2002)*

A follow-up effort to the EPI-Finance-2000 initiative is the Social Performance Indicators for the Financial Industry (SPI-Finance-2002). The objective of the SPI-

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Finance is to provide guidance on reporting social performance indicators particular to financial services organisations. The SPI-Finance (2002) indicator is the result of a group process among 14 financial organisations and 50 stakeholders. However, the indicators were not expected to be fully utilised due to the differences of social standards and regulations that applied to different countries (Schmid-Schonbein, Braunschweig & Oetterli, 2002).

The SPI-Finance-2002 indicators cover eight areas of social performance (management system, internal performance, suppliers, society, retail banking, investment banking, asset management, insurance) which relate to the management and operations of financial services institutions. Within the context of retail banking (one of the eight indicator areas), there are three CSR indicators to be reported on. The first CSR indicator is Retail Banking Policy (RB 1) that requires the organisation to report on socially responsible policies for financial products and services that are offered in retail banking and covers the basic requirements for living in a modern society. For example, retail banking includes loans for mortgages, issuing of credit cards, and bank accounts for direct credit of salary/wages. The second and third CSR indicators in this area: RB 2: Lending profiles, and RB 3: Lending with high social benefit, focus on lending activities that have specific social relevance. The RB 2 CSR indicators include reporting on the composition of customer profiles based on industry, individuals, corporations (small, small-medium sized enterprises (SME), large sizes), as well as loan exposures relating to different industries, and so on. The RB 3 indicators relate to innovative products or services that meet particular social needs or create social benefits. Some examples of social needs that relate to the core business of the financial services institutions include mortgages to young families, and special loans for female business owners, and start-up companies (Schmid-Schonbein et al, 2002).

The EPI-Finance and SPI-Finance and other reporting guides designed by the financial services institutions themselves for their industry sector do not appear to have any monitoring system with regard to uptake or mode of implementation.

*The Equator Principles*

The Equator Principles (EP) were developed by a group of international banks with the World Bank's International Finance Corporation and were launched in 2003 with 10 adopters. The EP were revised in 2006 with an additional tenth principle that required annual disclosures of performances of the adopter (The Equator Principles, 2011). The Equator Principles (2011) website reported the 72 adopters from 27 countries. The EP were to be used as a guide when financing a project so that the environmental and social impacts of the projects were taken into consideration. The globally-recognised guidelines were designed to help in assessing and managing risk in those projects where capital cost exceeds US\$10 million (The Equator Principles, 2011). The EP also impose obligations on both financial services institutions and their clients with regard to independent impacts assessments and compliance monitoring.

The overall objective of the EP was to ensure that a borrower meets certain pre-borrowing conditions that relate to the environmental issues/impacts resulting from their business activities. For example, as required by the eighth principle of the EP covenant, the borrower must ensure that the agreed level of environmental impacts is maintained and does not increase. Such a requirement is directly related to the core business of financial services institutions and it addresses the environmental impacts of their clients, implying the concern for financial services institutions' indirect impacts. Specifically, the CSR issues to be reported in this context include providing evidence of the type of environmental impacts and whether these impacts comply with the host country's social and environmental laws and regulations. Reporting on the impacts and the loan criteria or policies that are used is, according to Stihle (2004), the banks' responsibility of demonstrating transparency to stakeholders. The tenth covenant or principle requires EP adopters to publicly report on the experience and implementation of the EP guidelines, such as how the environmental impacts are managed by the borrower. Macve and Chen (2010) found in their study that it is difficult to measure the impacts on the environment that can be attributed to the implementation of the EP.

As a general CSR practice, for any loan that is not covered by the Equator Principles, Coulson (2001) proposes that banks should specially commission a study to ascertain/estimate the environmental impacts of their clients' business activities in order to assess the indirect impacts from the use of the extended loan. It may take some convincing for this to happen as even those project loans under the EP were implemented less convincingly by some adopters of the EP. O'Sullivan and O'Dwyer (2009) found in their studies that in the current state of adoption of the EP, implementation is seen by NGOs as generally less than satisfactory and even bringing the legitimacy of the EP into question. They also relate the perceived unsatisfactory implementation of the EP to the lack of accountability by EP adopters. The lack of accountability could be due to the EP adopters' claims to "client confidentiality and legal constraints" and weak pressures from NGOs (O'Sullivan & O'Dwyer, 2009).

*The Collevocchio Declaration (CD)*

Created and endorsed by more than 100 NGOs, including Friends of the Earth, Greenpeace, Social and Environmental Entrepreneurs, the intention of the CD is to influence governments to legalise and regulate the social responsibility of financial services institutions (Minor, 2003). The CD outlines six guiding principles<sup>11</sup> or commitments specifically for financial services institutions to adopt. The first principle requires a commitment to sustainability at the level of core business of the financial services institutions. An aspect of this principle requires the measurement of environmental and social impacts of the core business activities such as lending, investing, and underwriting.

The second principle requires a commitment to adopt a 'Do no harm' approach. Financial services institutions should create policies, procedures and standards that are based on the precautionary principle in order to minimise environmental and social harm, improve social and environmental conditions where they and their clients operate, and avoid involvement in transactions that undermine sustainability (Green@work,

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<sup>11</sup>Retrieved May 7, 2008 from <http://www.greenatworkmag.com/gwsubaccess/03julaug/special1.html>

2003). The implication of this principle is that organisations that are socially responsible ought to be responsible for the CSR of their clients.

The third principle requires the commitment of financial services organisations to bear full responsibility for the impacts of their transactions. The fourth principle requires the commitment of accountability to stakeholders by engaging with them through public consultation. Engaging with stakeholders is seen to assist financial services institutions to jointly identify relevant issues that relate to CSR. The fifth principle requires a commitment to transparency by publishing an annual sustainability report. The sixth principle requires commitment to sustainable markets and governance so that inappropriate financial practices, such as the use of tax havens and currency speculation, are not adopted (Lydenberg, 2005).

*VfU, the German Association for Environmental Management in Banks, Savings Banks and Insurance companies*

Another example of a CSR reporting guide specific to financial services institutions is the initiative by VfU, the German Association for Environmental Management, which produced guidelines for the content, structure and performance indicators, that are required for a well structured and comprehensive environmental report by banks, savings banks and insurance companies (Tarna, 2001). The VfU requires adopters to report on performance of seven internal environmental indicators such as business travel, paper, and water usage, treatment of waste, direct/indirect energy, and greenhouse gases. The 2005 up-dated version of VfU indicators encourages financial services institutions to be conscious of, and conservative in, their process activity or internal environmental performance. The focus here is not on the major impacts on the environment of core activities, such as lending.

All the above voluntary CSR reporting guides allow for voluntary adoption and interpretation can vary according to individual agenda. They operate as “soft law” and rely on peer pressure and NGOs’ encouragement for uptake, fuller compliance or to

even go beyond the current level of requirements of the guides (Macve & Chen, 2010). Business organisations appear to have willingly adopted CSR reporting to demonstrate their CSR but seemed less tolerant of a system that requires specific measurement and comparison of their social and environmental performances. They also “expressed their opposition to a mandatory reporting system or the extension of formal governance mechanism” (Levy et al, 2010, p. 111).

### **3.2.4 Performance of CSR reporters**

Since 1993, KPMG International Global Sustainability Services has conducted triennial surveys on CSR reporting. KPMG analysed the top 250 organisations identified from Fortune 500 companies, and the top 100 companies from each of the selected countries. It was found that between 1993 and 2005 there was an increase in CSR reporting (KPMG, 2005). Japan and the UK were found to be the top two CSR reporting countries and, in terms of industry sectors, oil and gas companies were the leading CSR reporters since the surveys began in 1993. This increasing trend continued in 2008, with 79% of the top 250 global companies producing CSR reports (KPMG, 2008).

Similarly in 2005, UNEP (2011) and SustainAbility (2006) reported the same trend of increasing mandatory reporting and mentioned that banking organisations, at the time, were new-comers and that there was an increase of non-OECD companies in their sample of the top 50 leaders. Clarke and Gibson-Sweet (1999) found that businesses in industries with high public exposure were more likely to do CSR reporting.

Where voluntary CSR reporting is concerned, the GRI and the AA1000 appear to be the most popular formats being adopted. KPMG (2005) notes that approximately 660 companies from 50 countries were using the GRI reporting guidelines, compared with only 42 companies that reported full compliance with the guidelines in 2004. However, Adams (2004) argues that the GRI and AA1000 frameworks are not as influential as a mandatory guide in terms of reporting CSR activities. The frameworks also have

inadequacies. As identified by Adams (2004, p. 749), they include “lack of completeness and lack of stakeholder inclusion in the reporting process”.

Reporters using the frameworks have the flexibility to collate issues for reporting according to their own agenda. For example, when Adams (2004) compared negative reports by third party sources with those CSR reports produced by a multinational chemical and pharmaceutical corporation for the period 1993 to 1999, she found that negative issues relating to the company, such as industrial and legal action, retrenchment exercises, accidents at work, and fraud that involved company losses, were either downplayed or omitted from the company reports.

Other earlier research also reveals that organisations are reluctant to report negative news. For example, Deegan and Rankin’s (1996) study of 20 Australian companies that were successfully prosecuted by the Environmental Protection Authority between 1990 and 1993 (i.e. bad publicity for the companies concerned), found only favourable or positive environmental issues were disclosed in their corporate reports. Guthrie and Parker (1990) analysed the 1983 CSR disclosures of organisations in the US, the UK and Australia and found that, of the organisations examined, none had disclosed anything negative.

Adams and Evans (2004) found many CSR reports do not include all the stakeholders, activities and operations which organisations are advised to include as CSR issues according to the GRI and AA1000 guidelines. Belal’s (2002) findings were also consistent with that of Adams and Evans’ (2004) where some issues were not reported. Swift, Owen and Humphrey (2001) found that the CSR reporting processes of UK’s business organisations were not inclusive and complete as stakeholders were not systematically included, and CSR issues were selectively identified. No appropriate reasons were given for the exclusion of either stakeholders or CSR issues (Swift et al, 2001). There are studies about why CSR reporting can be detrimental to CSR reporters. For example, Livesey and Kearins (2002) suggest there is a ‘Trojan Horse’ effect where CSR reporters can expose themselves to potentially damaging criticism concerning the reporting process as well as on the issues chosen to be written about in the report.

Other research examines the quality of CSR reports in relation to stakeholders. Deegan and Rankin (1996) found that the CSR information disclosed in the CSR reports was primarily meant for shareholders and employees rather than the other groups of stakeholders. Despite the emphasis in the GRI guidelines on the inclusion of all stakeholder groups, Morhardt, Baird and Freeman (2002) found, after examining the CSR reports of the 40 largest industrial companies from the Fortune Global 500 list, that there was low compliance with the GRI 2000 guidelines on this matter.

The quantity of CSR issues disclosed seemed to pre-occupy many researchers who use the number of pages, sentences, lines, words to measure the volume of disclosures. For example, Trotman (1979) examined a sample of annual reports from 100 business organisations operating in Australia and measured the extent of CSR disclosures in terms of the average number of pages dedicated to each CSR issue reported. In their research, Andrew, Gul, Guthrie and Teoh (1989) and Guthrie and Parker (1990) also measured the quantity of CSR disclosures in relation to financial reports. Most commonly, studies involve the examination of the CSR content disclosed in annual reports. Gray, Kouhy and Lavers (1995a) conducted a longitudinal study on a sample of more than 500 UK companies and found that employee-related issues were the most common, followed by community involvement, environmental, and customer-related themes.

An earlier comparative study was carried out by Guthrie and Parker (1990). They used 15 content categories to compare the similarities and differences of 150 companies in US, UK and Australia and found that human resource and community involvement were the most popularly reported CSR themes, followed by environment, energy, product and others. A later empirical investigation by Hackston and Milne (1996) on CSR reporting practices by a sample of New Zealand listed companies revealed that the CSR issues disclosed were focussed on human resource, environment and community matters.

New Zealand studies on CSR/sustainability<sup>12</sup> reporting reveal relatively low levels compared to some overseas jurisdictions. In a survey of over 800 business organisations in New Zealand, only 11% produced CSR reports (Collons, Roper & Lawrence, 2010), compared with 80% and 78% for Japan and the UK respectively (KPMG, 2005). Collins et al (2010) found weak external pressure on New Zealand businesses to adopt environmental and social initiatives, and cost was the top barrier against adoption. However, their survey over the period 2003 to 2006 showed that there was a general increasing trend in business organisations undertaking social and environmental initiatives. The most frequently noted environmental initiative by New Zealand business organisations in their study was recycling, while CSR reporting seemed to be at the lower end, especially for the smaller business organisations that represent the majority of New Zealand businesses (Collins et al, 2010).

In New Zealand, both the government and NGOs such as New Zealand Business Council for Sustainable Development (NZBCSD) and the Sustainable Business Network (SBN) have tended to use soft and business-friendly approaches to encourage CSR practices in New Zealand (Bebbington, Higgins & Frame, 2009). Although the NZBCSD claimed to have played a critical role in developing CSR reporting in New Zealand (Bebbington et al, 2009), Collins, Lawrence, Pavlovich and Ryan (2007) suggest that there are other influences such as managers' personal values and off-shore influences.

A study relating to several New Zealand industries, not including the financial services institutions sector, revealed that there were institutional pressures in "influencing the activity [CSR report production] rather than the content" (Bebbington et al, 2009, p. 615). Another study using discourse analysis of CSR/sustainability reports, again financial services institutions excluded, reported a "narrow, largely economic and instrumental approach to the natural environment" (Milne, Tregidga & Walton, 2009, p. 1211).

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<sup>12</sup> Sustainability reporting seems to be the preferred term in New Zealand. It is equivalent in terms of content to most CSR reporting.

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There have been few studies on CSR reporting specific to financial services institutions relative to other industries that have direct impacts on resources. Zaghal and Ahmad (1990) found that 82 percent of CSR reports by Canadian banks included human resource, product, and business practices themes. Environmental disclosures were less popular. Tarna (2001, p. 149) examined environmental reports from 12 financial services institutions and all reported issues about paper use, energy use, waste, recycling, transport, employee commuting, water use and carbon dioxide emissions, collectively called “direct effects”. Tarna (2001) identified that the impacts from lending, insurance, and investment decisions, or the indirect impacts, had not been clearly and/or explicitly reported.

Cowton and Thompson (2000) observe that, despite their influential status, financial services institutions have been less than convincing in their environmental disclosures. For example, “the consideration of environmental issues in bank lending operations is prompted mainly by a concern to manage risk rather than to exploit lending opportunities or as a means of fulfilling their social responsibilities” (Cowton & Thompson 2000, p. 215). In another study, Thompson and Cowton (2004) found that banks had not made use of their powerful positions to require their clients to disclose environmental information that could help the banks in their CSR reporting. Banks, through their core lending activities, could be “seen as facilitators of industrial activity which causes environmental damages” would appear to “need appropriate information if they are to factor environmental issues into lending decisions” (Thompson & Cowton, 2004, p. 99).

A study on social disclosures in the annual reports of six Irish and four international banks by Douglas, Doris and Johnson (2004) found that the Irish banks reported less information than the international banks. The social issues reported provided no quantifiable information, mainly addressed shareholders’ concern, ignored issues such as public complaints received, legal challenges and employee satisfaction were considered “at a fairly superficial level” (Douglas et al, 2004, p. 394). A notable difference between the Irish and the international banks is the disclosure on community involvement, where the Irish banks had the least information compared with disclosure

on corporate governance and human resources, while the international banks had disclosure on community involvement as priority.

In the examination of CSR reporting through media releases in four Australian banks' websites, Reinig and Tilt (2009) found that their primary focus of disclosure is related to community involvement and were aimed at the customers and the community. It was concluded that the four banks attempted to seek to satisfy the needs of two powerful groups of stakeholders.

### **3.3 Practical reasons for voluntary CSR reporting**

The discussion in this section is on motivation with regards to voluntary CSR reporting rather than the motivation to comply with any legal requirement to report social and environmental performance. There are potentially two main drivers that act as motivations to undertake CSR reporting. The first driver is internally initiated, and it includes business-case and moral-value driven motivations, where organisations prioritise CSR over other responsibilities. The second driver relates to pressure initiated by external stakeholders (Zadek & Raynard, 2004; Unerman, Bebbington & O'Dwyer, 2007). The external pressures to undertake CSR reporting are later explained using institutional, legitimacy, and stakeholder theories.

#### **3.3.1 Business-case driven**

CSR reporting that is motivated by the business-case rationale is when CSR reporters "view social and environmental accounting primarily from the standpoint of what's in it for companies and their shareholders" (Brown & Fraser, 2004, p. 18). However, this does not mean that it is solely or entirely related to self-interest but the intention and action are mainly geared toward activities linked to business profitability. Spence (2007) suggests that there are many motivations for business organisations to undertake CSR reporting but the business-case rationale seems to shape and constrain the

ideologies that are communicated through the social and environmental reports. Kurucz, Colbert and Wheeler (2008, p. 85) identify four reasons for motivation under the business-case: “costs and risk reduction, competitive advantage, reputation and legitimacy, and synergistic value creation”, all of which relate to prioritisation of self-interest.

There are few empirical studies that provide a convincing argument that business organisations have undertaken CSR reporting purely or even mainly out of self-interest. More often than not, the motivation for CSR reporting is driven by a combination of factors, such as not only to do good for the community but to also increase the organisation’s profit. It is not easy to categorically state that an organisation’s sole motivation for being socially responsible is for the purpose of making profit but there could strong evidence supporting the use of CSR for one purpose over another (Gray et al 1996). As commented by Gray et al (1996, p. 83), “motives are notoriously tricky to infer with any fairness or accuracy and to simply assume self-interest is both trite and, potentially, deeply offensive to the individual reporting organisation”.

O’Dwyer (2003a) presents empirical evidence from interviews with corporate senior executives and concludes that there is a tendency for managers to interpret CSR in a biased or narrow perspective that is consistent with the goal of shareholders which, as a stakeholder group, is to maximise wealth. This perspective is part of the business-case rationale. Kurucz, et al (2008) recommend the CSR business-case scenario requires a more integrative approach where value creation by organisations should include greater stakeholder engagement rather than having the shareholders as their main focus.

Unerman et al (2007) identify competitive advantage, also part of the business-case rationale, as a motivation for CSR reporting because organisations regard competitive advantage as giving financial benefits as well as improving organisational image. Another category of business-case motivation as identified by Unerman et al (2007) is related to moral and ethical duties owed to shareholders. Both of these categories of motivation (competitive advantage, and moral/ethical) are not well researched due to the

difficulty of isolating the true business intent of organisations or even being able to clearly separate each motivation from the other.

Where competitive advantage acts as a motivation, CSR reporting may be done as a marketing or public relations strategy for either short or long-term economic gain. In their study of nine Spanish companies, Larrinaga-Gonzalez, Carrasco-Fenech, Caro-Gonzalez, Correa-Ruiz and Paez-Sandubete (2001) concluded that CSR reporting was used to promote a favourable environmental image in order to gain business advantage. Gray et al (1995a) explain such motivation through economic agency theory, together with positive accounting theory, where the motivation for reporting is to enhance the content of the CSR report for a potential income bonus or as strategy to improve financial performance.

Gray et al (1996) claim that not only is it difficult to prove empirically, but could also be offensive to CSR proponents, for business to be accused of using CSR reporting for economic gain. Milne (2002, p. 369) argues “that positive accounting theorists have failed to find any substantive evidence whatsoever to support the view that firms’ management used annual report social disclosures in pursuit of their own wealth interest”. The task of deriving such evidence or admission of exclusive organisational wealth pursuit is no easy task, if at all possible. As a result, research to conclusively show that business organisations carry out CSR reporting solely to gain competitive advantage (in terms of wealth creation) is rare

An attempt by Jupe (2007), using content analysis on 177 CSR reports, found that the proportion of negative news reported was considerably less than that of positive news, and concludes that CSR reporting is used to manage stakeholders to the benefit of the organisation. The self-interest or business-case related rationale is implied as the motivation for CSR reporting. However, there is research about organisations undertaking CSR reporting to gain competitive advantage as an end in itself while projecting an image that is environmentally responsible.

Being selective of activities or issues for CSR reporting, especially those that can potentially enhance profitability can lead to being labeled as greenwashing. “Greenwash” is an expression used by Tilt (2007, p. 8) to denote the motivation to undertake CSR reporting by organisations as to “improve reputation without substantially changing practices, to placate and manipulate stakeholders and to gain competitive advantage, rather than out of any real concern for society and environment”. Similar meaning has also been attached to ‘greenwashing’ by Athanasiou (1996) and Beder (2000). Owen, Swift and Hunt (2001) refer to the business-case rationale relating to CSR reporting as a ‘corporate spin’.

A business-case driven motivation seems unavoidable in CSR undertakings of business organisations. It is also difficult to conclusively prove that it is the only motivation behind their CSR undertakings especially from mere examinations of documents, such as CSR reports and observations. Similarly, it is also difficult to justify that there is no business-case motivation at all in CSR reporting.

### **3.3.2 Moral-value driven**

Focussing solely, or predominantly, on profitability or on shareholders may be construed as a narrow application or view of CSR. A values-driven motivation, argueably, embraces a broader view of CSR. A values-driven motivation is based more on the personal morals of organisational leaders where all aspects of a business, including CSR reporting, can result in not only positive contributions to society and environment but also in minimising or eliminating negative impacts. It extends to a consideration of stakeholders beyond just shareholders. When a business is operated to benefit all stakeholders, with minimum harm, it is regarded by Hasnas (1998) as ‘true’ social responsibility. A values-driven motivation may be related to stakeholder theory where ethical and moral factors drive the organisation in the treatment of stakeholders who are considered equal, and treated fairly, rather than their treatment being dependent on the level of power or influence the stakeholder group wields (Deegan, 2007). Unerman et al (2007) suggest that when senior management views CSR reporting as

part of being held accountable for all their activities, then, the motivation to do so is related to being moral, ethical, or attempting sustainability. It is more common for organisations to prioritise selective stakeholder groups, instead of all stakeholder groups, in their CSR undertakings (see for example, Douglas et al (2004); Reinig & Tilt (2009)).

The motivation to be moral or ethical is difficult to prove in the context of CSR reporting and there is no known research that establishes this type of motivation as the exclusive driver for CSR reporting. The reason could be that it involves identifying the values of the people who are the key decision-makers of an organisation and, by implication, identifying those values through available physical evidence (such as policy statements) or verbal evidence may not actually reveal the true intention or motivation. What we do know is that most people probably want to be seen as moral or ethical actors, but it is harder in practice and compromises are often made. However, what is likely is that there is a combination of motivations (Zadek & Raynard, 2004; Unerman et al, 2007). Establishing a convincing and pure moral-based argument for adopting CSR is unlikely to be straight-forward (Jones, 1999).

Studies about the moral or ethical motivation of organisations undertaking CSR initiatives are limited so the motivation is usually indirectly derived. For example, Gray et al (1996), Owen, Gray and Bebbington (1997), and Bebbington (1997) claim that unless CSR reporting is about accountability and sustainability, it fails in its principal purpose. The scope, with regard to accountability, is usually related to meeting the expectations of both the community and environmental stakeholders in an even manner rather than treating shareholders as a priority who, because of their investment, expect a maximum return. It is difficult to exclude the profit motive from CSR initiatives unless the organisation is purely ethically oriented, for example, charities (Henderson, 1984). Having a profit motive is not immoral or unethical, but when an organisation uses it in an attempt to improve its image to manage stakeholders' perceptions about the organisation then the intention, or motivation for undertaking CSR, could then be construed as immoral or unethical (Hopwood, 1989; Adams & Harte, 1998; Woodward, Edwards & Birkin, 2001).

To argue that profit maximising organisations are immoral or unethical seems to contradict the view that a business organisation is accountable only to shareholders. Such a perspective, described as pristine capitalist and classical by Gray et al (1996), and Boatright (2003) respectively, is based on the assumption that the organisation exists in order to earn a profit for the owner(s) and, by doing so, makes a contribution to society. According to Suchman (1995, p. 575), such organisations seek “passive acquiescence” when they choose to indulge in “some unproblematic category of social activity”.

### 3.3.3 External-pressure driven

Another motivation for undertaking CSR initiatives, including CSR reporting, is because of external pressure or influence by third parties stakeholders. This external pressure is from stakeholders who have the power to legitimise or influence the organisation. The organisation responds to this external pressure because it benefits the organisation to do so and avoids the costs involved in ignoring these stakeholders. Although the next three sections separately cover theories that relate to external-pressure driven motivations (institutional, legitimacy, and stakeholder theories), these theories are closely related and overlapping. Gray et al (1995a) state:

It seems to us that the essential problem in the literature arises from treating each as competing theories of reporting behaviour, when “stakeholder theory” and “legitimacy theory” are better seen as two overlapping perspectives of the issue which are set within a framework of assumptions about “political economy” (p. 52).

While strategic legitimacy theory explains how organisations strategise to legitimate their position when their survival is threatened, institutional theory “explores how – at a broader level – particular organisational forms might be adopted in order to bring legitimacy to an organisation” (Deegan, 2007, p. 304). Stakeholder theories put the spotlight on the organisation-stakeholder relationships.

### 3.4 Theoretical explanations for CSR reporting

Three distinct theories have been commonly used to explain motivations for organisations' CSR undertakings. The three theories are also linked through the broad theory of political economy wherein social, political and economic issues are seen to affect each other (Guthrie & Parker, 1990; Gray et al, 1996). As stakeholders can affect the CSR reporting of organisations, so too, organisations can affect stakeholders. Institutional theory, legitimacy theory, and stakeholder theory have a common thread where organisational stakeholders exert some form of pressure on organisations to undertake CSR activities. The theories are discussed in the following three sub-sections.

#### 3.4.1 Institutional theory

DiMaggio and Powell (1983, p. 148) in their development of institutional theory state: “we ask why there is such startling homogeneity of organisation forms and practices; and we seek to explain homogeneity, not variation”. Institutional theory is a form of legitimacy where the industry sector's other organisations and structures generate cultural pressure on the organisation to follow or assume some kind of status (Suchman, 1995). Suchman labels this form of legitimacy as “institutional legitimacy theory.”<sup>13</sup> The isomorphism perspective of institutional theory is first discussed, followed by the decoupling perspective.

DiMaggio and Powell (1983, p. 149) define isomorphism as “a constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions”. Ball and Craig (2010, p. 283) call it “an explainer of similarity” where an organisation strives to conform to the institutional environment for survival. The forces or pressures driving isomorphism include coercive, mimetic and normative forms. Coercive isomorphism occurs when the organisation is forced by

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<sup>13</sup> Suchman (1995, p. 576) also considers the institutional legitimacy tradition depicts legitimacy as constructed by the external institutions in the industry sector and that “within this tradition, legitimacy and institutionalization are virtually synonymous”.

external institutions to change its practices (e.g. through regulation); mimetic isomorphism occurs when the organisation seeks to emulate the practices of the external institutions; and normative isomorphism occurs when the organisation is pressured to adopt particular formal practices (DiMaggio & Powell, 1983). DiMaggio and Powell (1983) argue that in practice it is not easy to isolate the three isomorphic forms and it is more than likely that some form of combinations are operating simultaneously, and they may not necessarily lead to organisational efficiency. Jennings and Zanderbergen (1995) propose that mimetic pressure is more likely to occur than normative pressure in terms of CSR adoption, especially if there is competitive advantage involved. CSR reporting is still in the process of institutionalisation (Larrinaga, 2007; Ball, 2007). Using a New Zealand sample, however not including New Zealand financial services institutions, Bebbington, Higgins and Frame (2009, p. 616) reveal a similar on-going institutionalisation situation where business organisations and institutions (governmental and non-governmental) influence each other, and so “shape the institutionalisation process”. Without regulation, there is less coercive pressure. Jennings and Zanderbergen (1995) suggest that coercive pressure could increase CSR practices but that compliance-driven adoption of CSR is likely to be superficial, unless the reasons for doing so are convincing.

Decoupling, another dimension of institutional theory, is when internal pressure to change is the catalyst for change and there may be differences between the actual practices of organisations and their systems or structure. According to Dillard, Rigsby and Goodman (2004, p. 510), “Decoupling refers to the situation in which the formal organisational structure or practice is separate and distinct from organisational practice”. The activities of organisations are seen to differ from their formally declared values and intentions.

Through the isomorphism process, DiMaggio and Powell (1983) offer the idea of powerful institutions imprisoning organisations in an iron cage within the institutional field or industry sector, which then leads to organisational homogeneity. Conversely, instead of the powerful institutions shaping the behaviour of organisations, Riaz (2009, p. 28) proposes the concept of “reverse-legitimacy” where an organisation, such as an

individual financial services institution, is actually more powerful than other organisations or institutions in the field or industry sector. This results in a situation where the power, or influence between financial services institutions and other institutions within the institutional field, flows fairly evenly in both directions.

Riaz (2009) relates the 'reverse-legitimacy' concept to the 2008/9 global financial crisis and finds that financial services institutions are powerful and able to influence the institutional field, including regulatory institutions such as The Federal Reserve, and The Securities Commission in the US, to the point of twisting and reshaping the 'iron cage' from the inside in order to suit their preferences. According to Riaz (2009), the ability of powerful organisations, such as financial services institutions, to:

carry out decoupling or concealment confers advantages to these few organisations over others, since they are able to derive legitimacy from the institutions in the institutional field, and at the same time keep their technical or substantive aspects free to perform as necessary for efficiency reasons (p. 31).

Powerful organisations, such as financial services institutions are able to use strategies that help to avoid and neutralise pressure from organisations in the institutional field. They can even reverse-legitimate or counter-influence these other organisations. Institutional theory, seen along the line of legitimacy theory arguments, is where an organisation conforms to external rules and norms in order "to increase stability, legitimacy, and access to resources" (Ball & Craig, 2010, p.283).

### **3.4.2 Legitimacy theory**

Suchman (1995) identifies two branches of legitimacy theory - strategic and institutional. Institutional legitimacy theory is discussed in the preceding section 3.4.1. This section focuses on strategic legitimacy where organisations are assumed to have a high level of control over the legitimisation process of responding to external pressures. Suchman (1995, p. 576) purports "legitimation, according to this view, is purposive, calculated, and frequently oppositional". The rationale behind legitimacy theory is the theoretically constructed phenomena known as the social contract. According to Gray

et al (1996), the social contract consists of explicit legal requirements and implicit terms expected by third parties - society and community groups. The third parties who exert pressures on the organisation to comply with the social contract may also be known as stakeholders. Gray et al (1996) posit that legitimacy theory is based on the concept of the social contract between society at large and the business organisations, whereby the business organisations are deemed to agree to perform various socially desired actions in return for approval of its objectives, rewards, and ultimate survival. Following Freeman (1984)<sup>14</sup>, stakeholders have commonly been referred to as groups that can be affected by, or can affect, the organisation. Examples of these groups are shareholders, employees, suppliers, government, NGOs. Each group has its own perspective or expectation of the organisation. One expectation could be CSR reporting.

Legitimacy theory is also analysed from a managerial perspective in that it focuses on the various strategies that business organisations can choose to implement in order to remain legitimate. Lindblom (1994) defined 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 (p. 2).

Organisations exist in a social system that is interrelated. The legitimacy concept, therefore, assumes that organisations can both influence and be influenced by stakeholders within that social system. Suchman (1995) suggests that CSR reporting can be used by organisations as a tool to influence the perceptions of stakeholders. If there is a difference of perception or values between stakeholders and the organisation, the legitimacy of the organisation will be questioned and its survival will be threatened (Dowling & Pfeffer, 1975; O'Donovan, 2002; Deegan, 2007).

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<sup>14</sup> Freeman's later writing (Freeman, Wicks & Parmar, 2004) suggests his original 1984 formulation of a stakeholder theory of the firm was instrumental in that it ultimately allied to the enhanced performance of the firm.

### CHAPTER 3: CSR REPORTING

The fear of a value disparity or legitimacy gap widening (Deegan & Unerman, 2006) may lead business organisations to undertake CSR activities in order to minimise or close the gap. Hopkins (2003) suggests that business organisations, as an interdependent force operating in the social system (whether by positive or negative contribution), gives society the legitimate right to examine their role in society. Successful performance of the social contract provides evidence that the business organisation's goals are congruent with society's goals, thus providing legitimacy for the organisation to exist.

To attain legitimacy, business organisations must take action and society must know what actions were taken (Cormier, Gordon & Magnan, 2004), and hence, the importance of communication with the public. Activities such as CSR reporting are a means of communication. Legitimation management and strategies rely heavily on communication to meet the "three general challenges of legitimisation – gaining legitimacy, maintaining legitimacy, and repairing legitimacy" (Suchman, 1995, p. 586). Although the challenges of seeking legitimacy are differentiated, the strategies for each may be similar.

According to Lindblom (1994), the first way of gaining legitimacy is to inform stakeholders. She offers three other tactics concerned with the "strategy" of what to communicate. By informing and educating the 'relevant public' (the stakeholders involved) about changes in business operations, organisations can align with society's expectations. Another way to seek legitimacy is by altering the public's perceptions to accept the current activities of the organisation. Diverting attention away from the unacceptable behaviour can also be a strategy. The final tactic is through realigning the public's expectations with the standard or level of activities. However, when these tactics are not effectively carried out, they can misrepresent, nullify and even tarnish the effort of CSR activities and CSR reporting. Gray et al's (1995a) interpretation of the content of UK company annual reports over a period of 13 years from 1979 suggests the use of the tactics described by Lindblom. Where CSR reporting is done to mystify stakeholders through deceiving and/or deviating attention from real issues or impacts,

Hopwood (1989), Adams and Harte (1998), Woodward, Edwards and Birkin (2001) deem such intention immoral or unethical.

O'Donovan (2002) claims that it is difficult to establish a 'legitimate' business as societal values and perceptions of business activities can change over time and the activities can be interpreted differently. Legitimacy theory posits that businesses are created by society and that society can withdraw legitimacy when the actions of the business organisation are not congruent, or not perceived to be congruent with society's values and expectations as related to the social contract.

Cormier et al (2004) claim that legitimacy theory provides the basis for studies that examine the relationship between social responsibility and CSR reporting through the use of annual environmental reports. These studies include examination of a single business organisation over time (e.g. Hogner, 1982; Guthrie & Parker, 1989), a comparison of business organisations (e.g. Cormier & Gordon, 2001), and how a single event can influence CSR reporting (e.g. Patten, 1992). Patten's (1992) study found that when the Exxon Valdez oil spill occurred, oil companies increased environmental disclosures in their annual reports. In his study of U.S. Steel Corporation, Hogner (1982) found a link between social disclosure and the community's expectations about the former's social performance. Studies on social and environmental reporting by Deegan and Gordon (1996), Deegan, Rankin and Voght (2000), and Deegan, Rankin and Tobin (2002) support legitimacy theory in this context. O'Donovan (2002) conducted in-depth interviews with six senior managers of three multinationals to ascertain the motivation for dealing with societal issues and concluded that legitimacy theory was the impetus for CSR being included in the annual reports. O'Dwyer (2002), who interviewed 29 senior managers from 20 listed Irish companies to establish the motivation (based on managerial perceptions) behind CSR reporting, found legitimacy was not the only reason for CSR reporting. However, it cannot be inferred from the results of the studies that legitimacy theory absolutely underlies CSR reporting as other reasons were not discounted.

Deegan et al (2002) in their study on BHP, an Australian mining corporation, report a correlation between CSR reporting and community concerns (as evidenced by media attention) over a 15 year period from 1983 to 1997. In Guthrie and Parker's (1989) study on Australia's BHP corporation's annual reports for a period of 100 years to 1985, they compared CSR reporting contained in the annual reports with social events of the time and the issues relating to BHP and concluded that there was no evidence to support legitimacy theory. However, Deegan et al (2002) in their re-examination of BHP reports, found evidence that managers disclosed information to legitimate the organisation's place in society and that the greater the media attention the more disclosures were made by the organisation. Deegan et al's (2002) findings are therefore consistent with legitimacy theory.

The contradiction between the findings could be attributed to the different media publications, and the content chosen for examination. It is not conclusive that legitimacy theory underpins the motivation for CSR reporting as there is evidence both for and against.

### **3.4.3 Stakeholder theory**

Stakeholder theory is used to understand CSR in a way to highlight organisations' other stakeholders' concerns from those of the shareholders whose concerns have been centrally focussed most of the time (Carroll, 1997). According to Kaler (2006), one of the main functions of stakeholder theory:

is to enable the argument for an enhancement of distributive justice within the confines of a basically capitalist structure for companies by means of a more extensive serving of non-shareholder interests relative to those of shareholders than would be the case with a shareholder value approach to running companies: an alternative which, is generally seen as contradistinctive from a stakeholder approach, and defined by a requirement that serving the interest of shareholders (and, in particular, making as much money as possible for them) be the ultimate purpose of companies (p. 250).

Clarkson (1995, p. 106 and 107) categorised stakeholders into primary and secondary stakeholders; a primary stakeholder is “one without whose continuing participation the corporation cannot survive as a going concern”, and a secondary stakeholder is one whose “influence or effect, or is influenced or affected by the corporation but they are not engaged in transactions with the corporation and is not essential for its survival”. Mitchell, Agle and Wood (1997) use three attributes, power, legitimacy and urgency, to group stakeholders into types described as latent, expectant, and definitive stakeholders according to the various combinations of the attributes. They described latent, expectant and definitive stakeholders as those that possess any one, any two, and all the three attributes respectively. The more attributes the stakeholder has, the higher will be the salience where the organisation places a higher degree of importance to any demand from that stakeholder.

Proponents of the broader moral or ethical branch of stakeholder theory tend to apply the secondary stakeholder idea of Clarkson (1995) where all concerns of all stakeholder groups are considered irrespective of whether the stakeholders are considered powerful or not, and whether there were any requests or not. Berman, Wicks, Kotha and Jones (1999, p. 492) suggest that “managerial relationships with stakeholders are based on normative, moral commitments rather than on a desire to maximise profits”. Hasnas (1998, p. 32) states that “management must give equal consideration to the interests of all stakeholders and, when these interests conflict, manage the business so as to attain the optimal balance among them”, and that only this form of stakeholder theory could be construed to “imply that business has true social responsibilities”. Since business organisations’ activities impact a broad range of stakeholders, it should be responsible and accountable to all stakeholders, including shareholders (Gray et al, 1996; Berman et al, 1999; Hendry, 2001; Deegan, 2007). Although the broad concept of stakeholder theory seems ideal, Krick (2005, p. 14) states “it is important to acknowledge that, given the diversity of stakeholder expectations and interests, agreeing and responding to all stakeholders’ concerns is close to impossible”. Despite the various classifications of stakeholders and the challenges of acceding to their every need, a broad or normative stakeholder theory requires organisations to “treat their stakeholders as ‘ends’ with the implication that moral principles should drive stakeholder relations” (Kobeissi & Damanpour, 2009, p. 330).

Proponents of the managerial branch of stakeholder theory would typically embrace the primary stakeholder concept where the degree of power of the stakeholder groups is likely to determine the degree of attention that they will get from the organisation concerned (Donaldson & Preston, 1995). The managerial branch of stakeholder theory is also considered “organisation-centric” (Gray et al 1996, p. 45), “instrumental” (Freeman, 1999, p. 233), and “strategic” (Berman et al, 1999, p. 492) all of which imply that organisations will not respond to all stakeholder groups equally, but will respond or manage those groups that are more powerful or influential and, as such, provide greater benefit to the organisation. In their study, Kobeissi & Damanpour (2009) found that organisations do indeed prioritise their relationships with stakeholders that are more powerful or those that are deemed to contribute potential benefits to the organisation. Berman et al (1999) also found from their sample of top 100 Fortune 500 list that organisations favoured the instrumental stakeholder approach because of the positive impacts on profitability.

Where the powerful stakeholder group is the shareholders, it is a common expectation that a business organisation should consider profit to be the reason for its existence. In order to legitimise its existence to shareholders the organisation must prioritise, synchronise and manage profit making activities. Using legitimacy theory, researchers have found overwhelming evidence of the profit-making motive. For example, empirical testing by Berman et al (1999) suggest that businesses are motivated to adopt stakeholder management practices because of the positive impact on the bottom line. The bottom line motive serves to legitimise their position in the eyes of the shareholders. Owen, Swift and Hunt (2001) concur and describe this type of management practice as a ‘soft’ form of accountability when priority is given to the profit motive. When certain stakeholder groups are preferred over others, the application of CSR may be considered narrow.

Adams (2002) and Owen, Swift, Humphrey and Bowerman (2000), in studies of UK companies, describe the poor quality of stakeholder involvement and the unwillingness by organisations to implement any feedback received. Poor quality stakeholder involvement or communication, especially involvement of non-shareholder groups, can

indicate that organisations are not concerned about, or may not need to legitimise the organisation's existence with stakeholder groups such as NGOs. Stakeholders are, in a sense, selectively picked by organisations.

Using the AA1000 CSR reporting standard guidelines, Belal (2002, p. 24) evaluated the CSR reports of 17 UK companies and concluded that the stakeholder management approach where the companies used CSR reporting “as a legitimization device for managing stakeholders effectively” prevailed over the rationale of stakeholder accountability to all stakeholders. It is perhaps inevitable that organisations have to deal with multiple demands and expectations from multiple stakeholders. Organisations have been found to be more responsive to demands for information from shareholders and regulators compared to those from the environmentalists (Neu, Warsame & Pedwell, 1998; Kobeissi & Damanpour, 2009). As a result, these researchers consider that organisations are more obliging with their powerful stakeholders. Powerful stakeholders need to be managed by organisations, and be responded to when the legitimacy of the organisations is in doubt.

It is difficult to discuss institutional, legitimacy, and stakeholder theories exclusively without using ideas from each theory because, as noted earlier, they tend to overlap. Deegan (2007) considers institutional, legitimacy, and stakeholder theories as complementing each other and of particular use in the context of voluntary reporting.

A key reason why institutional theory is relevant to researchers who investigate voluntary corporate reporting practices is that it provides a complementary perspective, to both stakeholder theory and legitimacy theory, in understanding how organisations understand and respond to changing social and institutional pressures and expectations (p. 305).

### 3.5 Stakeholder engagement and CSR reporting

As cited by Unerman, Bebbington and O'Dwyer (2007, p. 86), a key point highlighted by judges of the ACCA UK Sustainability Reporting Awards for 2003 was "the poor quality of stakeholder identification and involvement in the submitted reports". The importance of stakeholder engagement was also emphasised by the Institute of Social and Ethical Accountability's (ISEA) framework where guidance is provided for CSR reporters on how to identify stakeholders and establish a systematic process of stakeholder engagement in order to produce effective indicators and measurements that reflect the sustainability impact of the activities of the organisations in their CSR reports (AccountAbility, 2007).

The GRI has a stakeholder-oriented approach as it describes CSR reporting as "a way that provides stakeholders with reliable information that is relevant to their needs and interests and that invites further dialogue and enquiry" (GRI, 2007a, p. 1). In relation to the principle of stakeholder inclusiveness, the GRI reporting guidelines acknowledge the potential of a wide variety of stakeholder groups and caution that "failure to identify and engage with stakeholders is likely to result in reports that are not suitable, and therefore not fully credible, to all stakeholders" (GRI, 2007a, p. 10). CSR reporting can be viewed as a process for which business organisations need to invite stakeholder involvement. For example, Litovsky (2005, p. 51) explains that "any report is a lens through which an organisation is assessed and simultaneously an invitation to others to participate in its programmes".

The importance of stakeholder engagement between financial services institutions and environmental stakeholder groups is highlighted by Coulson (2009) who advocates the need for serious engagement between the two parties to debate and agree on some environmental impacts or threshold indicators that financial services institutions could report on, including on their borrowers' performance, notwithstanding the current legal constraints in relation to the client's privacy issues.

Despite the importance of stakeholder engagement, it has been inconsistently practised in the financial services sector. A study by Cumming (2001) across different industries, including financial services institutions, revealed the lack of widespread stakeholder engagement being conducted for joint agenda setting, issues identification and implementation in relation to CSR by 29 personnel involved in CSR reporting. It is widely recognised that different stakeholder groups “have different interests in CSR and in the disclosure of information about it” (Prado-Lorenzo, Gallego-Alvarez & Garcia-Sanchez, 2009 p. 95).

Owen et al (2001) reveals a mixed response about stakeholder engagement where NGO respondents interviewed were in favour of engagement while two respondents from financial services institutions were less favourable. One of the two responded that it would be problematic to attain a higher level of transparency and the other opined that CSR reporting can be effective without stakeholder engagement. There appears to be some practical fear about engaging with stakeholders for CSR reporting, and that stakeholder engagement can be a redundant activity in CSR reporting.

It is generally agreed that business organisations are responsive and demonstrate more accountability to selective groups of stakeholders who are powerful and influential (Bailey, Harte & Sugden, 2000; Buhr, 2002; Friedman & Miles, 2002). Owen, Shaw and Cooper (2005) found, after interviewing 11 managers from 11 UK corporations, two of which were listed in the FTSE 100, including one financial services institution, that shareholders, were considered to be the most important group in relation to CSR reporting.

Holistic accountability resembles the true social responsibility as proposed by Hasnas (1998) where all stakeholders have rights to information regardless of whether or not it is asked for (O’Dwyer, 2005b), and business organisations are held accountable and are responsible for providing accounts of CSR actions or non-actions (Gray et al, 1996). Raynard (2005) declares that:

Stakeholder engagement goes beyond paying lip service to consultation or appeasing the most powerful stakeholders. It is about empowering previously voiceless stakeholders by enabling them to input into the governance of processes that affect them. In this light it becomes clear that stakeholder engagement cannot be thought of in terms of the best sort of focus group, survey, hotline or meeting to reach an agreement or gain feedback, but must start by considering the power relations of stakeholders, as well as the structures and incentives that can help them to influence the decisions that matter. Otherwise, stakeholder engagement is simply talk that ignores the systemic weaknesses of large parts of a global society that perpetuates their marginalisation (p. 4).

The fundamental importance of stakeholder engagement, aside from being part of the process of CSR reporting, is implied in the definitions of CSR that are presented in Chapter 2 of this thesis. Stakeholder engagement helps in identifying issues of importance to stakeholders that underpin and are critical to true social responsibility and subsequent CSR reporting. Correctly identified CSR issues through stakeholder engagement and dialogue (Owen et al, 2001; O'Dwyer, 2005a; Thomson & Bebbington, 2005) can potentially make CSR reports more effective and also guide a business organisation to be more accountable for its actions.

Stakeholder engagement and dialogue can have impacts on the content of CSR reports. Whereas Roberts (1992) found that the level of social disclosures were affected by stakeholder power, Adams (2002) relates power to stakeholder engagement and content of CSR reports by stating that due to the power differences between an organisation and its stakeholder groups, it is difficult to produce CSR reports that reflect all key issues of importance to all stakeholders without conducting stakeholder engagement. When stakeholder groups are treated differently, it indicates a narrow view of CSR where stakeholder engagement is akin to stakeholder management, strategic, instrumental and, as such, is organisation centred (Gray et al, 1996; Berman et al, 1999; Freeman, 1999; Deegan, 2007). The ideal is when all stakeholder groups are equally engaged, as implied in the broad view of CSR.

Stakeholder salience is a concept defined as “the degree to which managers give priority to competing stakeholder claims” (Mitchell, Agle & Wood, 1997, p. 854) and is a refinement for identifying and choosing stakeholders for engagement. As noted earlier,

### CHAPTER 3: CSR REPORTING

Mitchell et al (1997) identify three relationship attributes between a business organisation and its stakeholders. The first attribute is related to the stakeholder's power to influence. The second attribute, is about the legitimacy of the stakeholder's relationship with the business organisation, and the third is the urgency of the stakeholder's claim.

Although the three relationship attributes provide organisations with means for identifying and selecting stakeholders for engagement, the results can be subjective and can lead to bias, particularly if only the business organisation's perspective is taken into account. Mitchell et al's (1997) model provides organisations with a framework for deliberating about the ranking of stakeholder groups. However, the ranking of stakeholder groups would not be required if organisations were to treat all stakeholder groups as equal, which as previously mentioned, fits with the broad view of CSR, or true social responsibility (Hasnas, 1998; Unerman, Bebbington, 2007; Deegan, 2007).

Despite the academic and practical issues discussed that surround the concept of stakeholders, some business organisations have made the effort to attempt some form of stakeholder engagement for the purposes of CSR reporting. Research conducted by Thomson and Bebbington (2005), Swift, Owen and Humphrey (2001), and Unerman and Bennett (2004) uncovered different methods or dialogue mechanisms used for stakeholder engagement. They include postal surveys, phone surveys, interview/questionnaire, workshops, invitation to comment or provide feedback attached to the CSR report, and internet web-forums attached to corporate websites.

Three major issues affect the validity of dialogue mechanisms. One relates concern about the low stakeholder response rate which can be due to lack of initiative, awareness, ability, or availability of hardware. Another issue relates to the imbalance of power between the organisation and the stakeholders which may not be conducive for giving. A third issue is the motivation of the business organisation in relation to stakeholder engagement for CSR reporting. As observed by Owen, Swift and Hunt (2001) in their investigation into managerial attitudes toward stakeholder engagement,

there was some recognition of the importance of stakeholder engagement in CSR reporting but

the views of many of the corporate respondents give rise to some suspicion that their commitment to stakeholder engagement is largely confined to a desire to manage expectations and balance competing interests, whilst leaving much scope for the exercise of managerial discretion (p. 270).

This observation lends credence to the belief that in some cases the practice of stakeholder engagement seems to relate to a business-case motivation where the profit motive is high and the stakeholders are strategically managed so that they offer less of a threat to the organisation. O'Dwyer (2005a) found that some stakeholders in his case study sample regarded their relationship with business organisations as antagonistic. Krick (2005) also notes that many stakeholders are "impacted by organisations' activities which, given the existing structures and power asymmetries in today's world, are not in a position to exert considerable influence over such activities".

Unerman et al (2007) argue that it is not possible in practice to achieve the perfect situation for stakeholders to speak as not all stakeholders can be present to express their views, some may not be sufficiently articulated to express their views, and there is likely to be a range of values among stakeholders. The implication of failing to engage with stakeholders in a satisfactory manner is that the effort put into the CSR reporting process and output of the CSR report can "amount to little more than a corporate spin" (Owen et al 2001, p. 264). Therefore, care needs to be taken when identifying which stakeholder groups to engage with, as well as the method used and climate for the actual engagement. Thomson and Bebbington (2005) suggest that for effective stakeholder engagement to take place the organisation has to give practical consideration to creating an equal-power situation between the organisation and its stakeholders, and accept all stakeholder points of view.

### 3.6 Chapter conclusion

CSR reporting is about communicating social and environmental effects of organisational activities to stakeholders. Although CSR reporting by organisations is usually voluntary, many countries have made disclosure of some form a mandatory requirement; however, the actual content and kinds of disclosure required vary significantly. Most CSR reporters rely on generic guidelines from a variety of initiatives such as the GRI, AA1000, or industry-specific initiatives such as those for financial services institutions, discussed earlier.

Surveys, such as those by KPMG (2005) and GRI (2011) show an increase in CSR reporting among the world's largest organisations which often separate issues into the three main dimensions – i.e. economic, social and environmental impacts of organisational activities. The CSR themes which appear to be most commonly reported include human resources, energy, environment and community-related issues. Literature reviewed about the motivation for CSR reporting suggests there is a mix of reasons. Studies about motivations for CSR reporting can generally be classified as business-case or profit driven related, moral-values driven, and external-pressure driven. Institutional, legitimacy, and stakeholder theories are commonly used to explain these phenomena.

Stakeholder engagement is an activity that is highlighted as being important by the various CSR reporting guides and academics, although many studies reveal that it is poorly done as some stakeholder engagement activities are conducted with a limited number of select groups, and the modes and conditions may be less than ideal.

## CHAPTER 4: CSR AND THE 2008/9 GLOBAL FINANCIAL CRISIS

### CRISIS

#### 4.0 Introduction

*In terms of social responsibility, the crisis also shows that no other profession [than financial institutions] has a comparable ability to privatise gains and socialise losses.*

*(Decker & Sale, 2009, p.136)*

Financial services institutions were widely implicated in the economic and social calamities of the 2008/9 global financial crisis. It is argued that due to their irresponsible policies and practices, financial services institutions caused widespread economic and social suffering (Valancia, 2010). Some of the economic and social impacts include bankruptcies, unemployment, stress and health-related problems. Environmental impacts, to date, have largely gone unreported.

This chapter provides insight into the crisis. Section 4.1 discusses the economic impacts of the 2008/9 global financial crisis. Section 4.2 reveals how the crisis unfolded by highlighting three commonly-cited causes: sub-prime mortgages or loans; collateralised debt obligations or securitised mortgages; and inadequate governmental policy and regulation. Section 4.3 reviews the literature about lessons that may be learnt, and precautions that should be taken to prevent, or at least reduce the risk of similar crises in the future. Section 4.4 discusses CSR practices by financial services institutions linked to the 2008/9 global financial crisis. It is followed by the chapter conclusion, Section 4.5.

## 4.1 Impacts of the 2008/9 global financial crisis

Crises involving the failure of financial services institutions, such as banks and insurance companies, have been relatively common in many countries but the 2008/9 global financial crisis seems to be unprecedented in terms of the size of its impacts (Valencia, 2010). The economic impacts are usually the first to be highlighted and exposed by media, with the social and/or environmental impacts taking second place.

In a Bloomberg report, Pittman and Ivry (2009) portray the 2008/9 global financial crisis as:

the worst financial crisis in two generations [that] has erased \$14.5 trillion, or 33 percent, of the value of the world's companies since Sept. 15; brought down Bear Stearns Cos. and Lehman Brothers Holdings Inc.; and led to the takeover of Merrill Lynch & Co. by Bank of America Corp (p. 1).

According to these commentators, the expensive bailouts and stimulus packages amounting to US\$9.7 trillion required to address the 2008/9 global financial crisis in the US, would be

enough to send a \$1,430 check to every man, woman and child alive in the world. It's 13 times what the U.S. has spent so far on wars in Iraq and Afghanistan, according to Congressional Budget Office data, and is almost enough to pay off every home mortgage loan in the U.S., calculated at \$10.5 trillion by the Federal Reserve (p.1).

Some of the financial services institutions that were directly affected required closure or bailouts by governmental bodies. There were also indirect effects felt by countries through the loss of GDP, institutions with limited credit availability, and individuals with decreased net worth and spending power. The credit market disruption, aside from negatively affecting the financial services institutions, also had indirect impacts on the US economy and other connected countries (Greenlaw, Hatzius, Kashyap & Shin, 2008). The financial crisis impacted not only US financial services institutions directly affected by the sub-prime mortgages bailout or closures resulting in non-availability of funds for customers, but indirectly other stakeholders' liquidity was affected. For

example, the Reserve Bank of New Zealand reported that despite the non-involvement by NZFSIs in US sub-prime mortgages and collateralised debt obligations, the 2008/9 global financial crisis put significant pressure on both the cost and availability of funding in the financial services sector with an approximate 10% contraction of credit availability for the period (Reserve Bank of New Zealand, 2009). There would inevitably be trickle-down effects, particularly in an economy of mainly small and medium-sized enterprises. In the US, Wagg (2010, p. 3) revealed that “several top Wall Street banks actually slashed their small business loans portfolios by 9% between 2008 and 2009, more than double the rate at which they cut their overall lending”. In New Zealand, the Reserve Bank of New Zealand (2010) reported a real GDP contraction from +4% to -2% during the period 2008/9.

The 2008/9 global financial crisis highlighted an aspect of the core business operations of financial services institutions. It was the financial services institutions’ aggressive supply of sub-prime loans and collateralised debt obligations that contributed to the crisis and its subsequent social impacts. Payment defaults on sub-prime mortgages resulted in the forced-sale of homes and the US foreclosure authority. RealtyTrac (2010) reports that US Banks took over 92,858 properties in July 2010. This was an increase of nine per cent in a month and six per cent for the year but slightly below the peak of 93,777 homes in May 2010, compared to approximately 100,000 for the whole of 2005 (RealtyTrac, 2010). Some studies have reported increases in unemployment (Mortished, 2009) and political unrest (Jolly, 2009; Maltezou, 2009; Schwartz & Levy, 2009).

In the US, the combined failure of Washington Mutual Bank and IndyMac Federal Bank alone amounted to 2.4 percent of the US’s GDP in 2008, with those two institutions holding US\$307 billion and US\$32 billion in assets respectively (Gaffney, 2009). The collapse in value of US\$5 trillion worth of assets owned or guaranteed by the Federal National Mortgage association, Fannie Mae, the Federal Home Loan Mortgage Corporation, Freddie Mac, and the May 2008 bankruptcy of Lehman Brothers, alone valued at US\$639 billion, as well as the combined US\$500 billion

write-down and credit losses in the failure of many smaller banks, contributed to the crisis (Gaffney, 2009).

Insurance companies, such as AIG, suffered huge losses through their involvement in insuring the collateralised debt obligations that were identified as one of the causes of the crisis (Valencia, 2010). Greenlaw, Hatzius, Kashyap and Shin (2008) estimated a loss of US\$400 billion, about half of which was borne by financial services institutions in the US, and the balance by the rest of the world.

In Europe, it is claimed that the first casualty of the 2008/9 global financial crisis was the UK's Northern Rock Bank which collapsed in 2007 (Minford, 2010). As a result of excessive indulgence in sub-prime mortgages, the collapse of Northern Rock Bank caused the inter-bank market to close in August 2007, about a year before the 2008/9 global financial crisis unfolded in the US. Aside from the effect of sub-prime mortgages in the US, there was collateralised debt obligation or securitisation deals that impacted on the European banks. For example UBS, the largest bank in Switzerland lost US\$34 billion (Valencia, 2010).

Some countries, such as the UK, Germany, Iceland, Norway, Korea, and Thailand (Jiangli, Unal & Yom, 2008; Kern & McGuigan, 2009) were more affected by the sub-prime mortgages and collateralised debt obligations than were other countries such as China, Japan, India, Peru and Australia (Ali, Dadush & Falcao, 2009), and New Zealand. The ripple on effect from those countries where there were high stakes in sub-prime mortgages and securitisation deals was felt globally, even in countries where financial services institutions were less involved in sub-prime mortgages and collateralised debt obligation deals. Valencia (2010, p. 10) maintains that "the perils of a sudden evaporation of liquidity" were just as fatal as insolvency. In the midst of the 2008/9 global financial crisis, the Australian bank Westpac (2008) reported that even in the less affected countries of Australasia, the financial systems still experienced the consequential impacts of higher funding costs, weaker global investment markets, and a

weaker credit environment. The follow on was a lesser amount of funds available, more restrictions, and more expensive borrowing.

The Reserve Bank of New Zealand reported that despite the minimal direct exposure to the US mortgage market, the indirect effects resulted in a higher cost of borrowing and liquidity tightening (Reserve Bank of New Zealand, 2008), both of which created uncertainty for businesses and individuals. Borrowing for business and personal use became tighter, and the property market experienced devaluation as a result of liquidity problems.

New Zealand's Finance Minister, the Honourable Bill English, announced in a media release on 11 November 2009, that the global financial crisis had had a minor impact on the New Zealand financial sector (Scoop, 2009). The 2009 performance of banks was considered resilient, considering the turbulent economic and financial situation in New Zealand and internationally. There was no reported case of a collapse of a New Zealand registered bank or insurance company as a result of the 2008/9 global financial crisis, and the number of New Zealand registered banks remained stable. However, many of New Zealand's smaller lending and mortgage companies got into difficulties or failures, prior to and during the period of 2008/9 global financial crisis, for example, Geneva Finance, Hanover Finance, Bridgecorp, and Capital & Merchant. The reasons cited for the failures include overly excessive growth strategies, and poor control and management. Such was also admitted by Allan Hubbard, the Chief Executive of South Canterbury Finance, the most recent New Zealand finance company to fail (Gibson, 2010). So, in terms of the 2008/9 global financial crisis, Australasian countries and institutions have been affected; however they were not as severely affected in comparison to some other countries such as the US.

## **4.2 Causes of the 2008/9 global financial crisis**

Many questions have been asked about what and who caused the 2008/9 global financial crisis in a bid to apportion blame and develop strategies for prevention or mitigation of future financial crises. With regard to 'what' is to be blamed, Gaffney

(2009) attributes the 2008/9 global financial crisis to the loss of liquidity, and the US as the epicentre. Loss of liquidity meant that individuals and organisations did not have funds to make obligated payments, or invest in activities that supported national and international economies. As to ‘who’ is to be blamed, Valancia (2010) focuses on two major parties. One is the financial services institutions that had policies and practices that led to a sharp rise and large increase in sub-prime mortgages (discussed in Section 4.2.1), and securitisation deals or collateralised debt obligations (discussed in Section 4.2.2). The second party is governmental regulators who encouraged home ownership through borrowing and did not ensure that the financial services sector was sufficiently regulated through legislation (discussed in Section 4.2.3).

An International Monetary Fund (IMF) report places emphasis on the important role that policy plays in enabling central banks and governments to intervene and prevent or mitigate financial crises (Vinals, 2010), and that, in future, financial services institutions should not be allowed to govern themselves. The action, or non-action, of these two parties led to increasing demand for loans facilitated by the financial services institutions’ more aggressive policies and relaxed criteria around lending (Nunes, 2008; Taylor, 2009; Schwarcz & Levy, 2009). The increase in loans led to an increase in demand for properties. Gaffney (2009) observes that this is not unusual during an economic boom and occurred in the years 1925, 1955, 1972, 1988, and 2005 when the expectation that property prices would continue to rise led to over-borrowing. As expectations of future increases in property prices “start to evaporate, as soon as it becomes evident that there is not another buyer willing to pay an extra percentage point over the last sale price, then prices fall” (Gaffney, 2009, p. 1017). When prices fall, they can fall rapidly, which is made worse by banks not only unwilling to lend but also calling for a lump sum loan repayment to cover an inflated property price. Where borrowers are not the most preferred type or do not meet credit standards, as in sub-prime mortgages, then repayment becomes problematic. Greenspan (2010, p. 5) reported that outstanding sub-prime mortgages in the US amounted to “US\$900 billion in the first quarter of 2007, a rise of more than six-fold since the end of 2001”. This combination of factors created an explosive situation where persistent defaults by borrowers had a disastrous impact on property industry stakeholders, financial services institutions and, ultimately, society at large. Once the situation unfolded in the US, the

world's largest economy, the damage was then felt by most of the other countries around the world.

#### **4.2.1 Sub-prime mortgages**

Sub-prime mortgages are not a new concept. They are defined as loans “extended to applicants deemed the least credit-worthy because of low credit scores or uncertain income prospects, both of which reflect the highest default risk and warrant the highest interest rates” (DiMartino & Duca, 2007, p. 2). The extension of loans to this category of riskier applicants may be interpreted as a form of CSR by financial services institutions. However, doing it over-aggressively, for example grossly compromising on the repayment capacity and capability of this category of applicants, has proven to have caused individual hardship that can cause organisational and national crises that affect society at large.

Greenspan (2010) likens sub-prime lending to being a socially responsible activity of financial services institutions. But that activity was then considered to be one of the causes of the crisis that was responsible for considerable damage to global financial systems and confidence in them. According to Greenspan (2010), sub-prime loans by financial services institutions had been:

small at about 2.5% of home mortgages in 2000, and served a relatively narrow part of the potential US homeowner population that could not meet the 20% down payment requirement of prime mortgages, but could still support the monthly payment amounts and less stringent loan origination requirements of a subprime loan (p. 2).

Analysis of the details relating to sub-prime mortgages could indicate what proportion of loans was for second or third homes that were purchased for investment, and whether the approved borrowers had any chance of even making repayment. Unfortunately, this type of analysis is beyond the scope of this project.

The policies, and practices used by the financial services institutions, as well as the products and services that were offered, were successful in stimulating demand for sub-prime mortgages and excessive borrowing up until 2008 when the global financial crisis unfolded. Labaton (2008) reports that in 2007 the five largest US investment banks (Lehman Brothers, Bear Stearns, Merrill Lynch, Goldman Sachs & Morgan Stanley) had an aggregate debt level of US\$4.1 trillion. A rapid increase of debt in the 4-year period between 2003 and 2007 indicates an aggressive effort by the investment banks to roll out loans to borrowers. A report by DiMartino and Duca (2007) identifies that sub-prime mortgages increased from nine percent, of total loans, in 2001 to 40 percent in 2006. Immergluck (2009) notes that US financial services institutions relaxed their lending policies in order to increase their debt level. Knox (2006) and Schwarz (2007) claim that the relaxed lending policies included recruiting clients who did not have the money for the initial upfront payment or who did not have a proven repayment capability. It gained momentum. Borrowing was easier, particularly for the purchase of residential homes. For example, in the UK there were home loan products that required sub-prime borrowers to merely state their income without the need to supply evidence of that income. Later, the necessity to even state the amount of income was removed (Connon, 2007). There were loan products used to tempt borrowers, sub-prime or not, such as incentives with low initial interest rates or interest-only adjustable-rate mortgages (Brooks & Simon, 2007). Aside from loans and mortgages, Korkki (2008) notes the huge increase in credit card debt that rose to a level of US\$962 billion in 2008 in the US, a result of attractive enticements offered by the financial services institutions that issued the credit cards.

This thesis examines New Zealand financial services institutions that operate in the Australasian financial services sector, as well as those Australian financial services institutions that are predominant in New Zealand. Since the 1980s, aggressive and competitive financial services institutions in Australia created an escalating trend in consumer debt, amid increasing concern about the risk of future loan repayment (Griffiths, 2006). The Reserve Bank of Australia (2005) reported a total consumer loan value amounting to A\$775 billion.

In the September 2009 Reserve Bank of New Zealand Bulletin, Alan Bollard, the Reserve Bank Governor commented that the global financial crisis 2008/9 had little impact on New Zealand's economic recession, "rather, it was drought, falling house prices and high petrol prices that dragged New Zealand GDP growth negative over the first three quarters of 2008" (Bollard, 2009, p.79). However, Bollard (2009) did observe that the indirect impacts of the crisis caused some general inflation and credit availability problems in late 2008. Although there were no obvious sub-prime mortgage problems, like in the US, the indirect impacts on New Zealand included a high unemployment rate and a "reduction in aggregate household wealth of about NZ\$90 billion, or roughly NZ\$80,000 per home-owning household" (Bollard, 2009, p. 79).

### **4.2.2 Collateralised debt obligations**

While the sub-prime mortgage market provided the foundation for the financial services institutions' lending policies, and innovative loan products attracted more borrowers, another innovative practice contributed to the 2008/9 global financial crisis. As previously discussed, the financial services institutions had aggressively, and some argue recklessly, provided loans that increased substantially in number and amount after the beginning of the twenty-first century and up to the start of the global financial crisis in 2008. For example, the annual growth rate for mortgage lending in New Zealand increased from 6% in 2001 to about 16% in 2005, and remained in the double digits until 2009 (Reserve Bank of New Zealand, 2009).

There must be funds available in order to extend loans to borrowers and one of the faster ways to access funds for lending is to package loans or mortgages into financial instruments such as collateralised debt obligations. The collateralised debt obligations, or securitisation of loans packages, were traded between financial services institutions and investors in the US and around the world. Although they were risk-assessed by rating agencies before they were sold or traded, Taylor (2009) asserts that the real risk had been underestimated through poor accountability, transparency, and the inherent difficulty in assessing such risk due to the complex nature of the loan products contained within each package. A further complication was the credibility of the risk

assessment itself as the rating agencies were paid by the very financial services institutions that issued the collateralised debt obligations (Valencia, 2010). This meant that the value could be ‘mis-quoted’ as there was an inherent conflict of interest. The collateralised debt obligations served as a mechanism to raise capital to fund lending activities, diversify risk, and to provide a money-making opportunity for the financial services institutions.

Collateralisation enables the financial services institution to repackage home loans or mortgages into a bundle or form, known as ‘collateralised debt obligations’ or ‘mortgage-backed securities’ and then to sell those collateralised loans packages or obligations to investors and other financial services institutions as a way of distributing the associated credit risk. Taylor (2009) argues that it was the ‘complexities’ and the sub-prime borrowers within each bundle of collateralised debt obligations that contributed to the 2008/9 global financial crisis. ‘Complexities’ arose from the different terms and conditions accorded to each borrower, with the scrutinising and understanding of 30,000-pages of documentation posing a huge challenge (Valencia, 2010). Promotion of home ownership in the US, using the country’s two mortgage giants Fannie Mae and Freddie Mac, “led the duo to binge on securities backed by shoddily underwritten loans” (Valencia, 2010, p. 4). They were reported to have had approximately 75% of sub-prime mortgages in their securitisation share in 2006 (Demyanyk & Van Hemert, 2008).

Although collateralised debt obligations, or securitisation of mortgages, are not illegal, there was panic when sub-prime borrowers defaulted on their loans or mortgages, and that loss of confidence was a significant factor in the global financial crisis (Taylor, 2009). In addition to the US financial services institutions and investors, non-US financial services institutions and investors were also involved in US collateralised debt obligations and so these parties were also affected by the default of sub-prime borrowers in the US. The amount of money involved in the collateralised debt obligations was large and mostly secured by sub-prime mortgages. For example in the first quarter of 2007, the amount was US\$900 billion (Valencia, 2010). Some of the economies of those non-US financial services institutions and investors, for example the

UK, Germany and other European countries, were badly affected through the dealings in the US collateralised debt obligations whereas Spanish banks that were not involved were, as a consequence, less affected by the global financial crisis (Xifra & Ordeix, 2009).

### 4.2.3 Governmental bodies

The previous two sub-sections highlighted two causes of the 2008/9 global financial crisis, sub-prime mortgages and collateralised debt obligations, both of which relate to the internal policies and practices adopted predominantly by US financial services institutions. This sub-section describes the roles of third parties external to the financial services institutions, such as central banks and government, and how they contributed to the financial crisis.

Whether Congress, or the Federal Reserve or other governmental bodies could, or should, have stepped in to do something about the sub-prime mortgages and the collateralised debt obligations dealing is debatable. Proponents for governmental regulation of financial services institutions argue about the long term risk associated with de-regulation along with anecdotal evidence of the cost of deregulation. A hands-off approach was taken, as observed by Souto (2009) who alleges that

the role played by the supervisory and regulatory authorities that underestimated the extent of the problem and short and long term consequences is questionable, instead of recognizing the real risk the financial system was supporting, the supervisory and regulatory authorities opted for further deregulation (p. 37).

In hindsight, the decision to further deregulate proved not to be a good one, and both the risk associated with failure of the financial system and the extent of the impacts seem to have been underestimated or ignored by regulators. Valencia (2010, p. 3) states “The idea that markets can be left to police themselves turned out to be the world’s most expensive mistake, requiring US15 trillion in capital injections and other forms of support”. With regulatory control, such as compulsory reporting of specified

information and the release of relevant and timely information to the public, restraint can be exercised on financial services institutions, for example through share prices, which could prevent excessive risk-taking (Beenstock, 2009).

Regulating the financial services institutional sector can take many forms, for example imposing capital adequacy ratios, transparency requirements, and lending risk management. During a hearing with the US Financial Crisis Inquiry Commission, Alan Greenspan, the former Federal Reserve Governor, asserted he did not have the authority to regulate sub-prime lending in order to prevent people from taking out loans they could not afford. Unimpressed with this statement, Phil Angelides, chairman of the commission, responded “You could’ve, you should’ve and you didn’t” (BBC, 2010, p. 1). It could be that Greenspan did not have the authority at that point in time, but authority to regulate can be sought and sanctioned by relevant authorities, and Greenspan had not sought that authority. Not only had governmental authorities failed to adequately regulate the financial services institutional sector, but generally speaking financial services institutions have not sought greater stringency.

Equally damaging was the US policy of aggressively promoting homeownership through government sponsored entities such as Federal Home Loan Mortgage Corporation, Freddie Mac, and Federal National Mortgage Association, Fannie Mae. Examination of collateralised debt obligations reveals that 75% consisted of sub-prime mortgages (Demyanyk & Van Hemert, 2008). Sub-prime mortgages increased not only because of the US government’s promotion of homeownership but also the maintenance of low rates of interest to encourage borrowing. It was the US Federal Reserve Bank’s policy of maintaining low interest rates for a considerable period, 2000 to 2003, that gave impetus to the US housing boom. The low interest rates could not be supported due to the huge increase in demand so by 2005 interest rates began to increase. This increase indicated the first sign of weakness in the US housing market (DiMartino & Duca, 2007). The market eventually collapsed when repayment problems began to surface because of overstretched borrowings (Cecchetti, 2009; Taylor, 2009). By 2007, financial services institutions had tightened mortgage credit standards in an attempt to arrest the situation. Further loan defaults and property foreclosures followed and in

2008 established and reputable financial services institutions, such as Bear Stearns and Lehman Brothers, began to exhibit difficulties.

In 2008, the uncertainties of the global economy impacted on New Zealand and brought a continuous 10-year growth period to a close with contraction in the economy. Reserve Bank of New Zealand (2008) states:

However, in many respects the economic expansion was unsustainable. Households have accumulated significant debt to finance both investment in housing, and ongoing consumption. With house prices now falling and financial wealth being eroded by domestic and global financial market developments, household balance sheets are under evident strain and debt-servicing capacity is being stretched (p. 14).

The slowing down of the New Zealand economy in 2008 was not entirely attributable to the financial turmoil in the US as some of the blame was due to New Zealand consumer habits and a preference for borrowing.

New Zealand's banks have not experienced the significant deterioration in loan quality seen by many of their international counterparts, nor have they had direct exposure to assets at the heart of the US financial crisis. However, global developments have severely affected the availability of external wholesale financing on which the banks are heavily reliant (Reserve Bank of New Zealand, 2008, p. 26).

Nevertheless, New Zealand governmental bodies stepped in to work with financial services institutions to mitigate and prevent further negative impacts brought about by both the internal circumstances and by external forces, such as those related to the US financial system. The November issue of the Financial Stability Report stated:

The recently announced wholesale guarantee scheme is expected to assist the banks in obtaining access to funds in global markets. In addition, the Reserve Bank has continued to work to ensure banks have securities suitable as collateral for Reserve Bank lending if wholesale funding markets remain dysfunctional for a prolonged period (Reserve Bank of New Zealand, 2008, p. 26).

Governmental intervention through the use of monetary policy tools, such as interest rates, seems to have been effective in prompting economic recovery in New Zealand during and after the 2008/9 global financial crisis, but Bollard (2009) was quick to emphasise that it might not have the same effect across different economies. Taylor (2009) has a different view on the effect/use of monetary policies and argues that, in hindsight supervision and regulation were clearly lacking, but there is lack of agreement about whether it was overly accommodative monetary policies between 2002 and 2006 that fuelled the build up to the global financial crisis that began in the US.

The CEO of the Federal Reserve Bank of New York gave reasons for the complexity of the origin or cause of the 2008 global financial crisis: “The origins of this crisis lie in the complex interaction of a number of forces. Some were product of market forces. Some were product of market failures. Some were result of incentives created by policy and regulation. Some of these were evident at the time, others were apparent only with the benefit of hindsight” (Souto, 2009 p. 37). The most commonly cited causes of the 2008/9 global financial crisis are sub-prime mortgages, and the mechanics of the collateralised debt obligations. However, there are also arguments that government policies and the lack of regulation also played a part as in hindsight.

### **4.3 Responses to the 2008/9 global financial crisis**

Given the widespread impacts of the 2008/9 global financial crisis there has been a multitude of suggestions about how to prevent such an occurrence in the future. Much discussion concerns the regulation of financial services institutions.

Although many types of regulation and control have been proposed since the 2008/9 global financial crisis, there are those who argue that regulations serve only to mitigate rather than prevent. According to Minford (2010), regulations, measures or ‘cures’ can only reduce the severity of impacts of a crisis rather than actually eliminating it because, as history has demonstrated, economic crises are inevitable.

BankTrack, an international network of NGOs that advocates socially and environmentally friendly banking practices was quick to express its view that there was a clear link between the crisis and the unregulated financial services sector due to the government's hands-off approach (BankTrack, 2008). BankTrack gives an example to highlight the huge monetary imbalance as a result of weak regulations that contributed to the crisis. "In 2007, the notional value of over-the-counter derivatives amounted to about US\$596 trillion, which is almost ten times larger than the world GDP, and this huge unregulated part of the financial services sector increased systematic risks and played a key role in creating the financial crisis" (BankTrack, 2008, p. 2).

In an International Monetary Fund (IMF) report on lessons learnt from the 2008/9 global financial crisis, Vinals (2010) proposes that central banks should play a key role in ensuring a nation's systemic financial stability through the use of "macroprudential tools that include capital requirements and buffers, forward-looking loss provisioning, liquidity ratios, and prudent collateral valuation". These tools are not new but Vinals (2010, p. 3), who recognises the cyclical nature of global crises, emphasises that a more prudent culture should be adopted by financial services institutions and they should be supervised by the central banks to ensure strict compliance to "mitigate the procyclicality of systemic risk and the build-up of structural vulnerabilities".

A press release after the 12 September 2010 meeting by 10 central bank governors, known as the Basel Committee of Banking Supervision, announced capital reform measures for banks, and presented these reforms at the Seoul Group of 20 (G 20) summit in November 2010. The Basel Committee proposal is that equity requirements for financial services institutions will increase from 2% to 4.5% in addition to a new capital conservation requirement of 2.5%, making an aggregate increase of 7% (Fallow, 2010). The proposed reforms have been accepted and will be implemented starting January 1, 2013 and fully phased-in by January 1, 2019. According to Fallow (2010), the 7% increase in capital requirement is intended to strengthen the banking system to avoid, or cushion, a future financial collapse. A partner of PricewaterhouseCoopers, Paul Skillender, maintains the additional capital requirement is less likely to be an issue for Australian and New Zealand banks, than those in Europe and the US, because

Australian and New Zealand banks were already increasing their capital buffer by paying lower dividends and retaining higher levels of earnings (Fallow, 2010).

At an operational level, regulation of lending standards/criteria is also proposed because the health of loans is critical if the financial system is to function efficiently, as evidenced by the failure of the collateralised debt obligations due to ill-advised loan investments (Valencia, 2010). This move is set to reduce the risk associated with sub-prime loans and a future global financial crisis. With few sub-prime loans being extended and secured there appears to be less likelihood of financial services institutions and investors involved in trading collateralised debt obligations getting into difficulties and affecting the community.

In the US there are already regulations to make decision-makers of financial services institutions accountable by linking the outcomes of their decisions to performance incentives and bonuses. As the rescue/bailout packages extended to the financial services institutions involved taxpayers' money, US President Obama proposed a 'claw-back' regulation where performance bonuses that have been paid must be returned to an institution that has been bailed-out so that the bail-out money can be repaid either to the bail-out fund or to taxpayers (City Diaries, 2010). The intention of the 'claw-back' regulation was to change the attitude of financial services institutions away from a focus on individual need towards a consideration of how their actions and activities translate into potential problems for the wider community.

The IMF suggested a radical proposal to the G 20 Ministers in April 2010. It involves a new type of taxation on financial services institutions to address any future crisis. The new taxation is to achieve two key objectives which are to "ensure that the financial sector pays for the expected net fiscal costs of direct support and to reduce the probability and the costliness of the crisis" (IMF, 2010 p. 7). The new taxation is intended to act as a deterrent for financial services institutions acting overly individualistically without giving consideration to the potential negative impacts of their actions on other organisational stakeholders.

Improvement in the supply of information by financial services institutions is also required in order to avert a future financial crisis. It seems that the lack of depth and scope of information supplied about sub-prime loans and the packaging of the collateralised debt obligations contributed to the crisis. Schwarcz (2009) maintains that although financial services institutions provided information that met regulatory requirements, the information they supplied, such as that about collateralised debt obligations, was insufficient given the complexity of those particular financial instruments. For example, Kern and McGuigan (2009) argue that disclosure about valuation and associated risk, with regard to the rating agencies, was inadequate. Valencia (2010) suggests that there should be a detailed specification of loans within each bundle of collateralised debt. Beenstock (2009) concurs and posits that the more information that is made available to the public would assist collateralised debt obligations investors in making informed decisions.

Being transparent and revealing all required information will not necessarily guarantee there will not be a future financial crisis because as Minford (2010, p. 44), notes “so while there can be no cure in the sense of preventing bank crisis, there can be some reduction of the taxpayer cost when crisis occur through regulation of risk taking and through the release of information about the risk takers”. With regard to transparency, BankTrack (2008, p. 4) claims that “It is no longer how much transparency banks can allow, but how much secrecy can they afford”. How to regulate transparency through reporting is an issue to be addressed.

As well as proposals for new regulation and improvements to existing regulation, there are issues about enforcement of the regulation. Comments made pre-crisis with regard to regulation were disregarded (Minford, 2010; Valencia, 2010). More transparency and stronger enforcement is required. Minford (2010, p. 44) cited an example where the UK Financial Services Authority defended its non-enforcement of regulations by saying there were instructions from government to do “light-touch regulation”. The quality of regulation enforcement is, therefore, a concern.

#### **4.4 Linking CSR to the global financial crisis**

This sub-section relates the previous discussions about CSR issues, such as transparency and adequacy of disclosure, commitment to all stakeholder groups, social responsibility in relation to specific core financial products or services and their indirect impacts, with the 2008/9 global financial crisis.

CSR involves organisations taking into account the economic, environmental and social impacts of their activities while making decisions, and also providing information for a variety of external stakeholders (Shaw & Barry, 2001; Lawrence et al, 2005). As previously mentioned, not providing full information, so other financial services institutions can make informed decisions about collateralised debt obligations dealings, has been cited as a contributing factor to the 2008/9 global financial crisis. Although the information supplied by financial services institutions was sufficient for regulatory purposes, the spirit of CSR requires organisations to do more than just meet regulatory obligations (Valencia, 2010).

As well as the regulation and enforcement proposed as a result of the crisis, there are also CSR issues that need to be considered. From a stakeholder theory perspective, financial services institutions in the US as revealed in the wake of the 2008/9 global financial crisis appear to have favoured some stakeholder groups over others. Souto (2009) considers that US financial services institutions, in their aggressive pursuit of revenue and profit, demonstrated bias by focusing on their economic responsibility to shareholders. They ignored the associated risks of their activities, which was to the detriment of other stakeholders that were affected by the 2008/9 global financial crisis.

As discussed in Section 2.2.2, financial services institutions' social responsibility includes accountability for both direct and indirect social, environmental and economic impacts, which occurs, for example, through the supply of core business products and services. Greater focus on the impacts of core business products was emphasised in a

post 2008/9 global financial crisis comment by Anne Sogaard Melchiorson, head of corporate responsibility at Danske Bank, who acknowledged the need for a stronger social contract between financial services institutions and society. As cited in Wagg (2010), Anne Sogaard Melchiorson stressed that the 2008/9 global financial crisis brought forth the critical responsibility of banks to include responsible lending, a core business product that should be highlighted as a major CSR platform for the industry.

The main social function of financial services institutions is to provide intermediary services that include lending, investment, and inter-financial transactions, for which they are held accountable (Cuesta-Gonzalez et al, 2006). Prior and Argandona (2009, p. 352) state the responsibilities of financial services institutions include “availability of liquidity, adequate ascertainment and management of borrowers’ risk, and maximizing the probability of repayment”. These responsibilities include the use of appropriate policies or criteria to qualify borrowers so there is minimal risk of default in loan repayments, to avoid problems not only for the borrowers, but also the financial services institutions (Prior & Argandona, 2009).

Sections 4.2.1 and 4.2.2 discussed ‘sub-prime mortgages’ and ‘collateralised debt obligations’ respectively, and how their rapid increase over the years, prior to the 2008/9 global financial crisis, indicated the adoption of aggressive lending strategies. With borrowers facing repayment problems, financial services institutions seem to have failed their responsibilities with regard to determining the quality and suitability of sub-prime borrowers (Prior & Argandona, 2009). By definition sub-prime borrowers are considered to be a second-rate category of borrower. Although limitation of funds or lack of liquidity is caused indirectly through the collapse of financial services institutions, rather than directly through poor customer selection policies or criteria, it is still, however, the responsibility of financial services institutions. According to Prior and Argandona (2009, p. 352), “availability of liquidity” is a specific social responsibility of financial services institutions.

Although, financial services institutions may contest the link between their core business activities and negative economic, social or environmental impacts that involve their customers, Richards, Palmer and Bogdanova (2008) condemn excessive or irresponsible lending by comparing the giving of loans to customers who are not able to afford the repayment to selling alcohol to alcoholics. They condemn these choices in the client-retailer relationship as unethical. Lenders may have a case that it is the responsibility of the borrowers to ensure repayment but it can also be argued that a responsible lender would be a wiser one.

Greenspan (2010) suggests that the US government's call for home ownership and its policy and financial instruments, such as collateralised debt obligations, are not illegal or irresponsible per se, but the modus operandi and motivations of some financial services institutions in the implementation of the policy and financial instruments is self-serving and at the expense of other stakeholders. Some US financial services institutions failed to comply with the specific CSR requirement of ascertaining the risks involved when lending to sub-prime borrowers, and so abused the process or standard of granting mortgages (Prior & Argandona, 2009). This failure by the US financial services institutions resulted in defaults by sub-prime borrowers which then led to a lack of liquidity or funds being available for other borrowers and the subsequent collapse of some institutions (Prior & Argandona., 2009).

This area of study of linking CSR (or the lack of it) to the global financial crisis is still conceptually underdeveloped, providing an additional potential area of contribution for the current study.

#### **4.5 Chapter conclusion**

The collapse of some US financial services institutions in 2008/9, such as Fannie Mae and Freddie Mac led to the failure/collapse of the US financial system which then led to the 2008/9 global financial crisis. The monetary loss was unprecedented. The

economic and social impacts were felt not only by the failed US financial services institutions but also by other financial services institutions in the US and around the world. Some countries, for example New Zealand, did not experience the full impact of the crisis as there had been dealing on only a small scale with the US financial market.

A variety of factors associated with the collapse of the US financial services institutions that led to the 2008/9 global financial crisis have been discussed. These factors were sub-prime mortgages, collateralised debt obligations, and regulation of the financial services institutional sector. The rapid and over-exposed sub-prime mortgages extended by the US financial services institutions are given as the reasons for loan repayment problems that then created liquidity difficulties in the US financial system, and later on a global scale.

The collateralised debt obligations had similar repayment problems and also contributed to the liquidity troubles. The call for more regulations for financial services institutions is in a bid to counteract the trend of the years prior to the 2008/9 global financial crisis of fewer regulations and lack of rules controlling financial services institutions. There are claims that if the relevant regulations had been in place and correctly implemented, the 2008/9 global financial crisis could have been avoided.

There are calls for greater transparency, particularly in activities related to the core business of financial services institutions, as well as special taxes that will act as deterrent against business failures and provide a pool of funds that will act as buffer in case of a future financial crisis. In relation to financial services institutions' exercise of CSR or the lack of it, the link to 2008/9 global financial crisis has not been explicitly made or widely exposed yet. The link between CSR and the 2008/9 global financial crisis seems to be pitched toward how financial services institutions conducted their core business. However, the irony is that, as Greenspan (2010) asserts products such as sub-prime mortgages and collateralised debt obligations are useful financial instruments that had served some minority groups or stakeholders by providing funding that otherwise would be difficult for them to obtain.

Another area that relates to CSR but has not yet been made explicit in academic literature is the social impacts, such as unemployment and poverty, as a result of the US financial services institutions core business of sub-prime mortgages and collateralised debt obligations that contributed to the global recession. Prior and Argandona (2009) maintain that social responsibility includes ensuring that borrowers are of good quality and are therefore unlikely to default on making repayment so that funds go back into the financial system, which did not happen prior to and during the 2008/9 global financial crisis.

## CHAPTER 5: METHODOLOGICAL UNDERPINNINGS AND METHODS

### 5.0 Introduction

*What you see and hear depends a great deal on where you are standing; it also depends on what sort of person you are.*

*(Lewis, 1970, p. 76)*

Methodological underpinnings are briefly described in this chapter for the purpose of later examining espoused understandings of CSR, the perceived motivations for CSR reporting by NZFSIs and the nature of their engagement with stakeholders for voluntary CSR reporting. The ontological and epistemological positions of a researcher explicitly and implicitly form the platform for the research methods chosen and utilised. The mainly qualitative approach adopted for this thesis stems from how the researcher views the world, and the kinds of research questions asked.

The first part of the chapter, Section 5.1, considers the research methodology, the implications of the researcher's philosophical assumptions, and the overall approach taken in this research. Section 5.2 discusses the sample selection in relation to the organisations and CSR reports, and interview respondents, and describes the methods used for content analysis of the CSR reports and the interviews. Section 5.3 concludes the chapter.

### 5.1 Methodological underpinnings

Ontology is concerned with how reality is perceived and there are generally two basic distinctions (Marsh & Furlong, 2002). First, there is a view or assumption that there is a

real world that exists independently of our knowledge. Second, there is a view or assumption that the world is socially and discursively constructed and hence it varies and is dependent on individual interpretations. From an ontological point of view, this thesis adopts a 'realist' stance that lies in between the first and second assumptions. Realism combines elements from both objective and subjective views of reality (Marsh & Furlong, 2002), where there is presumed, a certain existence of reality but it is part of the individual subjectivity that constructs it.

Epistemology is concerned with how knowledge is to be understood. Researchers' epistemological positions reflect the view of what they can know about the world and how they can know it (Crotty, 1998). Two distinctions are also made where the first view relates to the acquisition of knowledge 'objectively', independent of humans and where there is broad, universal acceptance of knowledge. The first position, taken by objectivists, is that knowledge "exists as such apart from any form of consciousness" (Crotty, 1998, p. 8). Knowledge is general to everyone and has existed all along, just waiting to be discovered without the necessity for human input. The second position views knowledge as acquired subjectively. Knowledge is seen as constructed from the interactions, rather than through imposition, and the co-creation of knowledge is the basis of constructionism (Schwandt, 2000). For subjectivists, knowledge requires human input and therefore it is dependent on the background, experience and skills of those people involved, and on time and context.

The epistemological position adopted for this thesis is mainly constructionist, where knowledge or meaning evolves from the researcher and the respondents (Crotty, 1998). In this understanding of knowledge, "different people may construct meaning in different ways, even in relation to the same phenomena" (Crotty, 1998, p. 9). The adoption of constructionism also requires the choice of qualitative strategies for data collection to reflect multiple realities where individuals actively engage in a sense-making process about their world (Denzin & Lincoln, 2000).

Another word closely linked to constructionism, and often used interchangeably (Burr, 2003), is constructivism. While constructionism focuses on making sense of meaning and constructing reality through individual thinking and focuses on “the collective generation of meaning”, constructivism is “primarily an individualistic understanding of the constructionist position” (Crotty, 1998. p. 58). Both require human input to acquire and construct knowledge. Whereas the constructionism perspective sees knowledge acquired and constructed through the interaction of individuals’ knowledge and experience, and the constructed meanings can vary depending who is involved, the constructivism perspective does not require human interactions to acquire and construct new knowledge. Again in the constructivist perspective, individually constructed meanings can vary according to individuals’ knowledge and experience, but the distinction here is that the knowledge is not actively co-constructed.

Constructivism could be a more appropriate position to describe the approach taken by the researcher in conducting content analysis of CSR reports as these reports were generated by the NZFSIs for purposes quite different from those associated with academic work of the type to which this researcher subjected them to. The individually constructed meanings on the part of the researcher do, however, rely on the content choices made by the NZFSIs. For this reason, and because of the emphasis in this thesis is on interviews as a major part of this research, it is sensible to frame the overall approach as constructionist. In relation to the interviews, it is the researcher and the respondents, who jointly constructed meanings around the research topics with the researcher by framing the questions and seeking clarifications, and then making sense of the ‘whole’, rather than the constructivist position which is more strictly about reporting interview respondents’ individual views, without (re)framing. Where meanings are jointly constructed, different views of a phenomenon can potentially construct richer variety of meanings. Therefore, the researcher’s theoretical beliefs and values are part of how he constructs a plausible account of respondents’ experiences and opinions, and individual organisational practices of voluntary CSR reporting. Knowledge obtained using the constructionist approach may be difficult to generalise from but it recognises the context and the localised nature of the knowledge gained.

In adopting a constructionist approach, the researcher must select methods that facilitate some form of discussions or two-way communication processes where meanings can be derived jointly with the respondents directly or through consequences of their actions such as in CSR reports to which they have contributed, or both. Content analysis of voluntarily produced standalone CSR reports with explanations from the decision-makers involved in producing them gleaned through semi-structured face-to-face interviews are the two methods used in this thesis. The next section describes and discusses these two methods, first offering an overview and then providing detail on sample selection and actual methods of analysis employed.

## **5.2 Research methods**

Content analysis of CSR reports and subsequent discussion in interviews about the choice of the issues in the reports implies a joint construction of meaning around understandings of CSR and selection of issues and espoused motivations related to CSR reporting. As noted in Chapter 3, CSR reports are a means of non-verbal communication used by organisations to report their CSR activities and their economic, social and environmental impacts. The issues selected for inclusion in the CSR reports are chosen by key decision-makers within each organisation. Litovsky (2005, p. 51) states that “any report is a lens through which an organisation is assessed and simultaneously an invitation to others to participate in its programmes”.

Content analysis of the selected NZFSIs’ stand-alone CSR reports was first conducted for the years 2004, 2005, 2006, and 2007. Content analysis of the stand-alone CSR reports was used to identify the extent of NZFSIs’ reporting on direct and indirect economic, social and environmental impacts as a result of their core business products, services and processes, and in relation to stakeholder engagement for CSR reporting.

A first round of interviews with eight key decision-makers of the selected NZFSIs and two expert stakeholders was conducted in the pre 2008/9 global financial crisis period.

These eight respondents consisted of key decision-makers and designers of three respective NZFSIs' stand-alone CSR reports. The purpose of the interviews was to gather information and discuss the NZFSIs respondents' understandings of the concept of CSR in the financial services sector context, the organisations' motivations for producing CSR reports, and the practice of stakeholder engagement for the purpose of CSR reporting. Additionally, interviews were also conducted with two expert stakeholders who are conversant with CSR reporting by financial services institutions in the New Zealand context to obtain and discuss their perceptions.

The 2008/9 global financial crisis occurred during the course of the research, so in order to gauge the impacts of the crisis in relation to CSR and CSR reporting by NZFSIs, further content analysis was conducted on the 2008 and 2009 CSR reports. Effects from the 2008/9 global financial crisis may not be reflected in the 2008 and 2009 CSR reports in view of the short time frame and the potential lag with reporting, so post-crisis interviews were also conducted. The impacts of 2008/9 global financial crisis were explored largely through the interviews, although discernable impacts in the reports were searched for. These additional interviews were undertaken with five respondents, one from each of the three NZFSIs, as well as the two expert stakeholders who had previously been interviewed.

*Sample selection – content analysis and interviews*

A sample is made up of some members of a population (i.e. a group or collection of people under consideration for research purposes) that is not biased and is generally representative of the population from which it is drawn (Collis & Hussey, 2003). Theoretical sampling, commonly used in qualitative studies, refers to the purposeful selection of a sample that allows the researcher to generate emerging theories from empirical data in the most efficient manner (Coyle, 1997).

Two categories of sampling methods are probability sampling and non-probability sampling. Robson (1993) proposes that probability sampling consists of methods of collecting samples (such as simple random sampling, stratified random sampling,

simple random cluster sampling, systematic sampling) in which statistical inferences about the entire population can be made, based on responses from the sample. Non-probability sampling methods (such as convenience sampling, purposive/judgmental sampling, quota sampling, dimensional sampling) are those from which statistical inferences cannot be drawn about the entire population. However, useful information can still be gained about the same population (Fink & Kosecoff, 1998).

This research uses purposive, judgmental sampling (a non-probability method) that involves the selection of a sample by the researcher on the strength of experience in the area related to the field of study (Coyle, 1997; Collis & Hussey, 2003). The idea of purposive sampling is to make a calculated decision, developed during the planning stage of the research, to sample a group according to specific criteria such as experience in the relevant field, identity, or availability. The researcher is required to make judgments to determine the actual sample. This combination of sampling methods, known as the sampling stratagem, is selected because the research required the selection of financial services institutions that voluntarily published New Zealand version CSR reports, and discuss them with decision-makers from NZFSIs and a couple of expert stakeholders who are familiar with those reports

Some of the limitations of this sampling stratagem include not being able to use the findings to make generalisations, limiting the range of respondents, and avoiding making judgmental errors. However, the advantages include being able to focus on the specific sample, limiting the scope (a broader scope would take too long and be costly to administer) and, according to Eisenhardt (1989), the provision of highly valid emergent theories because the researcher is able to probe for further explanations during the interviews. A further limitation is that interviewees may not want to say too much in formal interviews in view of their employment roles and seeing the topic as potentially sensitive. Anonymity provided some reassurance.

Statistical inferences about the population cannot be drawn when using non-probability sampling methods, but they are not the objective of this research project and would not assist in addressing the research questions outlined in Chapter 1. However, useful information can be elicited from the sample population which can indicate areas for

future research (Robson, 1993), using a different or larger sample and/or using a different methodology.

*CSR reporters and CSR report sample*

Modern financial services institutions can provide a broad variety of services and Jeucken (2001) describes them as complex and can as possibly being involved in a combination of services such as consumer credit, mortgage lending, leasing, treasury and insurance or specialised in one. One way of categorising financial services institutions is to group them as ‘banks’ and ‘non-banks’, as adopted by this thesis.

The ‘bank’ financial services institutions category, as at September 30, 2004, consisted of 16 New Zealand registered banks<sup>15</sup>. Six of the banks were incorporated in New Zealand (ANZ, ASB, BNZ, Kiwibank, Rabobank-NZ, TSB), and 10 were registered as overseas branches in New Zealand (ASB, Citibank, Commonwealth Bank, Deutsche Bank, HSBC, Kookmin, Rabobank-Nederland, St George, Bank of Tokyo-Mitsubishi, Westpac) (RBNZ, 2004). Each of those registered as an overseas branch in New Zealand was part of their respective bank’s global banking network. When this research began in 2004, the selected one from the 10 New Zealand registered as overseas branch banks started producing a New Zealand version of CSR report. Two others had global CSR reports with no New Zealand delineated CSR disclosures. The others did not produce CSR reports. The other selected bank came from the six New Zealand incorporated banks and its CSR report had New Zealand delineated CSR disclosures. The other five banks did not produce any CSR report.

The ‘non-bank’ category includes deposit-taking, credit, life and general insurance institutions. “The non-bank deposit-taking and credit institutions are finance companies, building societies, general financiers and credit unions” (RBNZ, 2004, p. 19). Although the numbers are significantly higher than the ‘bank’ category, the total

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<sup>15</sup> As at June 1, 2011, the total number of New Zealand registered banks was 20 (RBNZ, 2011). There were 10 New Zealand incorporated ones, and 10 registered as branches of their overseas based head offices. Of the 10 New Zealand incorporated banks, three had produced CSR reports. From the other 10 registered branches in New Zealand, six had now produced CSR reports.

asset size is relatively small at about 7% of the \$220 billion held by the New Zealand registered banks (RBNZ, 2004). There was no CSR report produced by these generally small sized 'non-bank' deposit-taking and credit institutions. An insurance company, that was a member of the Insurance Brokers Association of New Zealand Incorporation (IBANZ) and the Investment Savings and Insurance Association (ISI), produced a standalone New Zealand version of CSR report in 2005. IBANZ is a professional body that represents the interests of 180 members of the fire and general insurers in New Zealand, and ISI represents 39 members which were investment and life insurance companies in New Zealand (IBANZ, 2011).

This research focuses on New Zealand registered and incorporated NZFSIs that had produced either a New Zealand version of the stand-alone CSR report or had a separate New Zealand section in their group CSR reports at the commencement of this research. After the selection elimination process, the final sample of NZFSIs included two 'bank' and one 'non-bank' financial services institutions. RBNZ (2004) reported the significance of four New Zealand registered banks that accounted for 85% of the assets of the banking system and that failure in any one of them would result in adverse effects for the country. Two of those banks were selected for this research. At the time the research began, the selected NZFSIs were all members of the Sustainable Business Network (SBN) that promoted sustainable business practices in New Zealand, and also the New Zealand Business Council for Sustainable Development (NZBCSD) that promoted eco-efficiency, innovation and responsible entrepreneurship.

The CSR reports selected for this research are thus from financial services institutions registered and incorporated in New Zealand and either have a stand-alone New Zealand version of their CSR reports or a specific New Zealand section in their integrated stand-alone CSR reports. Having a New Zealand focus was advantageous in securing interviews with CSR reporters and expert stakeholders, who are better versed in the New Zealand context where the researcher is situated. The CSR report selection resulted in two banks and an insurance company taking part in the research. Of the 16 New Zealand registered and incorporated banks, only two produced stand-alone CSR reports at the time when this research commenced in 2004. One produced a full New

Zealand version in 2004, and the other produced an integrated group CSR report with a clear New Zealand delineation in its inaugural CSR report in 2005.

However, subsequent reporting formats incorporated disclosures about CSR related to the New Zealand operations throughout the report sections. In 2005, an insurance company began to produce an annual stand-alone New Zealand version of its CSR reports. In 2009, it adopted a very different approach to CSR reporting compared to the prior four reports. The 2005-2008 New Zealand stand-alone CSR reports came in booklet form and were also available in pdf format on the organisation's website, with commentary by the CEO and other narration and illustrations. This format was discontinued. The 2009 version uses a single page format that reports only on selected quantitative indicators under the headings of economic, social, and environment and is available only on the company website. Due to the drastic change in design and medium, the 2009 CSR report of this organisation was not used in the content analysis for this project in order to avoid distortion of the results.

The 16 CSR reports in the final sample from the three NZFSIs total 747 pages with an average of 46 pages per report. The highest number of pages found in a CSR report in the sample is 111 pages. The CSR report with the fewest pages was also published by the same NZFSI. Its 2007 report had only 20 pages which is 82% less than the 2004 report. The other CSR reports had at least 23 pages each. Every CSR report in the sample was a combination of text and colour illustrations such as photographs, charts, tables and graphs. Apart from one of the organisation's inaugural report in 2005, all CSR reports in the sample claimed to have used as a guide either the Global Reporting Initiative (GRI) or Accountability's AA1000. As noted in the anomalous 2005 CSR report, the organisation used internal resources and directive for both the content and design. All, except one of the 16 CSR reports analysed had been verified by an independent third party. The report that was not verified by an independent third party was the 2009 report of an organisation whose previous CSR report had noted verifications, but no reason was given for the deviation.

Each of the New Zealand financial services institutions in the sample is referred to using a code – NZFSI ■, NZFSI ▲ or NZFSI ●. The reason for doing so is to assist in

anonymising the reporting of data in this thesis. While anonymising is not so important in relation to the content analysis of publicly available reports, it does assist more in not revealing the identity of the interview respondents by linking them directly with the organisations for which they worked. Of note is that some interview respondents left or moved organisations between interviews, which again assists in hindering readers assigning the correct identities to the interview respondents. Care has been taken, as explained in the findings chapters (Chapters 6-8) to remove identifiers or information which reveals actual individuals' identity.

### *Interview respondent sample*

After establishing the choice of NZFSIs as the sample for this research, the interview respondents were identified. The most obvious criterion was that respondents had to be involved in CSR activities, especially CSR reporting in the New Zealand context. This was to facilitate discussion about CSR in the context of New Zealand financial services institutions. Another criterion was that respondents must have some decision-making capacity in terms of CSR reporting. The authority to make CSR-related decisions meant that pursuant interview discussions would entail the opinions and understandings of those who made decisions concerning CSR reports, rather than those merely carrying out instructions. The two criteria were ascertained through enquiries made with the respective NZFSIs' information centres, and then with the interview respondents directly. For this research, respondents' identities were coded as 'A', 'B', 'C', 'D', or 'E' for their respective NZFSI. Any effect of staff attrition over the intervening time between the two rounds of interviews was mitigated by complying with the two criteria for selecting the interviewee respondents. The criteria for selecting 'expert stakeholders' included the requirement for experience in CSR and being knowledgeable about CSR reporting in the NZFSI context, and the selections were justified through the seniority and relevancy of the respondents' occupations. Both the 'expert stakeholders' were identified by the 'ES' coding to retain anonymity. Anonymity provided for relatively frank discussions during the interviews.

The researcher feels comfortable that the key decision-makers relating to CSR reporting in the New Zealand context for the three NZFSIs were interviewed, and that further interviews would not uncover further significant data. There were also a couple of

interview respondents from who insisted that the researcher had already interviewed the key person who was involved in CSR reporting matters concerning New Zealand operations. Two interview respondents confirmed their decision-making roles and responsibilities to CSR reporting concerning New Zealand, while other respondents interviewed confirmed their joint responsibilities for CSR reporting.

The two expert stakeholders were included in this research as they were not only experienced and familiar with CSR reporting in New Zealand, but had previously been invited to give feedback to two of the NZFSI respondents about their CSR reports, one officially and the other on an unofficial basis. Given their role as respected and long serving CSR professionals, they serve as checkpoints or benchmarks for CSR reporting by NZFSIs. Both expert stakeholders had been active in the New Zealand sustainable business arena, so gaining access to interview them was straight-forward as they were enthusiastic and willing to share their opinions, albeit anonymously. These expert stakeholders needed to be familiar with CSR reports, so the discussion could be more meaningful than if they were people who paid little attention to CSR reports. Of two expert stakeholders selected, one is in a senior role promoting sustainable business in New Zealand, and the other has a senior role in CSR consultancy, policies and practices in New Zealand. Both actively promote CSR practices, and have reviewed numerous CSR reports, including those produced by the selected NZFSIs. Only two were selected because of the difficulty in obtaining qualified experts, with knowledge of FSIs and CSR reporting, from outside the immediate FSI context (ie where there were no apparent conflicts of interest).

The non-random sample selection of both the three NZFSIs and two expert stakeholders is based on the CSR reporters' experience of CSR reporting in New Zealand, and the willingness of the NZFSIs, their staff and the expert stakeholders to take part in the project. While there may be limits to the generalisability of the findings beyond the organisations involved and context analysed (Collis & Hussey, 2003), the findings can still provide useful insight into the issues under investigation (Fink & Kosecoff, 1998).

### 5.2.1 Content analysis of stand-alone CSR reports

#### *Background*

The use of content analysis for this research is consistent with previous research conducted on CSR reports, although it is the examination of annual financial reports that has been more common. Examples of the former include Gray et al (1996); Hackston and Milne (1996); Tsang (1998); Clarke and Gibson-Sweet (1999); O'Dwyer (2003a). This research focuses on stand-alone CSR reports, rather than annual financial reports, because the objective is to examine the state of CSR reporting which is unlike previous research that measures the extent of reporting on CSR issues compared with that of non-CSR issues, or volume of output (Unerman, 2000).

It is also common for organisations to do their CSR reporting electronically on their websites and, increasingly, studies have also been focussed on web-based reporting (Lodhia, 2006; Morhardt, 2010). However, there are also studies that formally avoided internet-based materials such as one by Vormedal and Ruud (2009) who claimed that paper-based reports are more stable whereas information posted on websites can be changed, added or deleted. Lodhia (2006) highlighted the need to move beyond merely analysing website information for more in-depth understanding of such reporting.

Krippendorff (2004, p. 18) defines content analysis as “a research technique for making replicable and valid inferences from texts or other meaningful matter to the context of its use”, and also to inform audiences about something that they may not have directly experienced. When using content analysis to analyse text, the researcher may assume that the greater the frequency or amount of space devoted to a particular issue then the more significant that issue is perceived to be by the decision-makers responsible for producing the CSR reports. Although this is a common assumption (Krippendorff, 2004), the researcher acknowledges it is not without limitations, as explained later.

Content analysis is used to identify common or contradictory issues, themes, patterns or codes for interpretation (Easterby-Smith, Thorpe & Lowe, 2002), and is advocated as a means of analysing qualitative data (Easterby-Smith et al, 2002). Mostyn (1985, p. 117) refers to content analysis as “the diagnostic tool of qualitative researchers, which they use when faced with a mass of open-ended material to make sense of” and so “is a way of systematically converting text to numerical variables for quantitative data analysis” (Collis & Hussey, 2003 p. 255). The measurement used, for example, percentage (%) is used to indicate the extent of reporting on the issues under investigation.

Variations in how text content is measured range from counting the number of designated words and/or sentences, to the proportion of pages or space attributed to some predefined disclosures, to the actual total disclosures. For example, Deegan and Rankin (1996) measured the number of words, Hackston and Milne (1996) measured sentences, Gray, Kouhy and Lavers (1995b) measured the proportion of pages devoted to different categories of disclosures, while Trotman and Bradley (1981) measured the proportion or volume of CSR disclosure, to total disclosure.

As well as identifying volume of reporting, content analysis can also be used for other research purposes. For example, Gray et al (1995b) collected data about whether a disclosure was quantified in monetary or non-monetary measurements, and whether the disclosure could be audited. Gray et al (1995b) also applied content analysis techniques in their interpretation of sentences and information in reports, for example, whether the information was good, bad or neutral. Such application is more subjective. Similarly, in this study, the researcher interpreted and made a judgment as to whether a sentence described the phenomena under investigation. In addition to issues identification from sentences, content analysis was used to assess the degree (volume percentage) of disclosure by NZFSI respondents about direct and indirect impacts of their core business products, services, and processes, and stakeholder engagement in relation to CSR reporting. The degree of disclosure of a certain issue was determined first at the level of the sentence, and then in terms of the space taken up in terms of the volume percentage of the page it occupied, and then aggregated for the whole report.

The advantage of measuring volume percentage of a page is that it eliminated the inconsistencies associated with differences in page-size, font, sentence-structuring style, use of pictures, graphs and other illustrations, which is in contrast to using the number of words as the measurement for content analysis (Hackston & Milne, 1996; Krippendorff, 2004). Krippendorff (2004) asserts that there is no one correct way of carrying out a content analysis because the objectives and texts that are used can be very different, so using a modified version or framework, albeit with a clearly defined scope and rules, provides justification for the choice of method that is used. According to Robson (1993), content analysis is recognised as a bona fide research method and is less expensive and time consuming compared to carrying out field research.

However, as alluded to earlier, there are limitations in the use of content analysis. Robson (1993) argues that the documents used for analysis are developed for a purpose other than the research motive, and, therefore, can affect the direction of the research. This risk is mitigated in this research by the combined focus on CSR reports as well as interviews with the decision-makers involved in the CSR reporting process. A stand-alone CSR report is a specialised document for the purpose of reporting the CSR activities and economic, social and environmental impacts of the reporter. Therefore, interviewing the decision-makers involved in CSR reporting provides linkages to the information contained in the report (such as to content choice and possible motivations for inclusion).

Mathews (1997) criticises content analysis methodology because it lacks reference to normative positions about what should be, as it involves the study of reports that currently exist or have existed. Neuendorf (2002, p. 15) argues “content analysis summarises rather than reports all details concerning a message set”. Thus some of the richness of the content is lost. As noted above, to make linkages and to address some of the limitations, content analysis was used in this research to summarise both the direct and indirect economic, social and environmental impacts of the core business products, services, and processes, and stakeholder engagement in relation to CSR reporting, as reported by the NZFSIs. This analysis is supplementary to the interview findings so that a more complete picture of phenomena can emerge.

Other concerns relate to content analysis include reliability and validity, the “two most important criteria for a sound content analysis” (Krippendorff & Bock, 2009, p. 345). Reliability is dependent on how reliable or consistent the data is throughout the process of analysis, while validity provides assurance that the claims that emerge from the content analysis are true (Krippendorff, 2004). Through discussions in interviews, the findings from content analysis were also addressed in attempt to validate their accuracy. Moreover as described below, a peer researcher was used to enhance validity of the coding procedures for the content analysis.

One of Unerman’s (1999) conclusions in his review on content analysis, is that there is little concurrence among those researchers who had undertaken CSR studies using content analysis about how content analysis should be done. However, there are some basic steps or processes that are commonly used. Those used in this research are: (1), establishing the sample that includes the selected NZFSIs’ CSR reports known as “sampling units” (Krippendorff, 1980 p. 23); (2), making the decision on “propositional coding units” (Krippendorff, 2004, p. 103) of which this project has two, that transform raw data into a structured format; (3), recording the data on a template for each report and transferring them to a consolidated coding framework that is used for further analysis.

The following sub-sections titled ‘*coding units*’, ‘*data-recording template*’, and ‘*coding framework*’ explain the mechanics of how relevant sentences were first identified in the current research, and then measured for the amount of space given to them in the CSR report as a volume percentage of disclosure. As previously mentioned, a key assumption of content analysis is that the volume of disclosure signifies the degree, or level, of importance attributed to the respective categories or themes being disclosed (Unerman, 1999).

#### *Coding units*

Instead of counting and tallying coded items, which is normally attributed to the

quantitative approach, Silverman (1993) explains how the content analysis method can be used to analyse text to gain a theoretical understanding of the substance of the text. It involves judgmental assessment of the text where the recorded units can be sentences, and the coding units can be “propositional” (Krippendorff, 1980, p. 106). The propositional coding unit can be an evaluation of whether a phenomenon fits a prescribed issue, theme or category (Krippendorff, 2004).

As opposed to physical and syntactical coding units that are insensitive to meaning, the propositional coding unit adopted in this research requires some judgment of meaning (Krippendorff, 2004). First, the qualitative assessment of each sentence in the CSR reports was made, as in Hackston and Milne (1996), then the space taken by those qualified sentences was correlated, by volume in terms of percentage of the page and subsequently aggregated for the whole CSR report. Examples of studies that correlate volume of CSR disclosures to annual reports include those by Adams, Hill and Roberts (1998), Deegan and Gordon (1996), and Deegan and Rankin (1996).

For this research, the guiding principle developed for coding the reports was the affirmative answer to two questions or coding units. Further discussion about the rules used in this research for judging the sentences and assigning codes in the standalone CSR reports is provided in Appendix I. The first question asked, ‘Does the sentence explicitly discuss or describe any specific and resultant economic, social, environmental impacts or consequences caused by the core business products, and services (lending, investing, underwriting) and/or processes of this NZFSI?’ As this research project also investigates the degree of reported stakeholder engagement by NZFSI in relation to CSR reporting, the second guiding question was “Does the sentence explicitly discuss or describe any process and result of stakeholder engagement relating to economic, social and environmental impact for CSR reporting?”

Prior to deciding on the final version of the questions used for the content analysis, not less than 10 variations were tested on the stand-alone CSR reports of the NZFSIs by the researcher. Subsequently, the two final questions or coding units were tested on each of

the NZFSI's inaugural CSR reports independently by the researcher, and then by a peer researcher for further refinement. The reason was that the finalised questions serve as a "coding instruction" that has been simplified and independently tested by a peer researcher, as a condition for generating reliable data (Krippendorff, 2004, p. 217). The peer researcher was a final year PhD scholar in CSR in the Islamic context, since graduated, who independently applied the two coding units to a CSR report from each of the three NZFSIs. His feedback was discussed and resulted in further refinement of the two questions, after which he did one more test on one CSR report and was comfortable with the final versions.

After the testing and discussions with the peer researcher, a guide (see again Appendix I) was designed to help in the analysis of each sentence in the CSR reports of the NZFSI respondents. The critical decision that had to be made for the first question was whether a sentence specifically described an issue that was caused directly or indirectly by the core business products, services and processes. The critical decision that had to be made for the second question was whether a sentence specifically described stakeholder engagement in relation to CSR reporting. The independent peer testing and subsequent discussions that led to the set of guidelines, was to mitigate, as much as was possible, subjectivity when categorising the sentences in the CSR reports. Consistencies were also generated from the content analysis being conducted solely by the researcher, as compared with one that is done by many researchers where there may be a higher risk in variation of interpretation, judgment made or application of the rules. Krippendorff (2004) argues that where coding units require judgmental decisions, particularly in qualitative research, there is likely to be multiple interpretations so absolute agreement among researchers is almost impossible to achieve. One way to mitigate this situation is to have only one researcher applying the coding units to all the CSR reports instead of using multiple researchers.

### *Data-recording template*

Once the coding units were determined, a data-recording template (Table 5.1) was designed so that the space taken up by sentences in terms of volume percentage could be recorded. The space taken up by each sentence that affirms each coding unit was

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measured using the volume the space it took up as a percentage of a page of the CSR report. Every sentence in the stand-alone CSR reports was evaluated in relation to the two respective coding units. Then all the respective spaces or sentences were aggregated to get a total space or volume that each coding unit occupied as a percentage of one page. The percentage for each page of the respective coding units was subsequently aggregated for the whole CSR report to get a total space volume occupied by the respective coding units as a percentage of the whole CSR report.

To measure the space taken by each sentence, a grid with 100 evenly spaced rows on an A4 sheet, each with a row representing one percent of a page, was first designed and then transposed onto an A4 transparency. The A4 transparency grid was then placed over a page of the CSR report as each sentence was evaluated with the coding units. When a sentence affirmed a coding unit, the space it occupied was counted using the A4 transparency grid that already had the space volume percentage imprinted. The A4 transparency grid was the same size as each stand-alone CSR report page except for one CSR report that was exactly half the A4 size. However, the A4 transparency grid could still be used to obtain consistent measurement by placing it over two pages of that report at the same time. Where the font size differed within each page or between CSR reports, the A4 transparency grid did not change but still measured whatever space a sentence occupied as a percentage of the whole page, and the whole report when aggregated. This method provided the required consistency of results even if the CSR reports were of different fonts or font sizes as the area taken up by the sentences was counted according to the amount of space or rows they took up in the A4 transparency grid, whether horizontally or vertically. The number of rows represented the percentage, or proportion, of the whole page (100 percent) and so comparing the aggregates of each coding unit per page gave the volume or proportion of disclosure of issues with regard to the impacts caused by both the core business product, services and processes as well as those issues that relate to stakeholder engagement in CSR reporting.

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The template in Table 5.1 was also designed and tested during discussions with the peer researcher.

**Table 5.1: Template for recording data for content analysis**

<u>CSR Report/Year</u>					
<u>Pagination</u>		<u>QUESTION #1</u>		<u>QUESTION #2</u>	
(Each page denotes 100%; and the whole report is the summation of all the pages)		Volume (%) of disclosure apportioned to ‘impact by the core business product, services and processes’*		Volume (%) of disclosure apportioned to ‘stakeholder engagement relating to CSR reporting’**	
(1)	(2)		(3)		(4)
<u>Actual page</u>	<u>Cumulative %</u>	<u>% Per page</u>	<u>Cumulative</u>	<u>% Per page</u>	<u>Cumulative</u>
1	100				
2	200				
3	300				
4	400				
5	500				
6	600				
7	700				
8	800				
9	900				
10	1000				
Sequence continues, depending on the size of the respective CSR reports.					
*The overall volume (%) of disclosure in relation to ‘impacts by core business products, services and processes’ is calculated by the aggregated values of column (3) divided by column (2) and recorded in the ‘% Per page’ column for each page, and column (3) will add subsequent pages volume (%) to give the total volume (%) for each report in the last page.					
**The overall volume (%) of disclosure in relation to ‘stakeholder engagement relating to CSR reporting’ is calculated by the aggregated values of column (4) divided by column (2) and recorded in the ‘% Per page’ column for each page, and column (4) will add subsequent pages volume (%) to give the total volume (%) for each report in the last page.					

*Coding framework*

The results, in terms of space or volume percentage for each CSR report occupied, recorded on the template were then transferred into the coding framework (see Table 5.2). The coding framework brings together the aggregated results of the two coding units as well as other measurements such as averages, highest and lowest disclosures, for each of the three NZFSIs to enable a statistical comparison to be made.

**Table 5.2: Coding framework for content analysis**

<u>CSR Reports</u>			<u>Coding units</u>		
Name of institution	No. of pages in report	Year of report	Coding unit number one: <u>economic, social, and environmental impacts</u>  from core business products, services, and processes	Coding unit number two: on <u>Stakeholder engagement</u>  for CSR reporting	Coding units number one & two combined
			Proportion (%) of coding units disclosure to total reporting		
NZFSI		2005			
		2006			
		2007			
Other indicators for period investigated:					
Average disclosure					
Highest disclosure					
Lowest disclosure					

As with Table 5.1, the final version of Table 5.2 was developed and refined during testing and consultation with the peer researcher.

### 5.2.2 Interviews

The aim of the interviews was to find out about the respondents' understandings of CSR, the perceived motivations for CSR reporting by NZFSIs and the nature of their engagement with stakeholders for voluntary CSR reporting, rather than primarily to test or prove a theory. Semi-structured interviews were used as basis from which to jointly construct meanings about issues in relation to the aim of this research. Easterby-Smith, Thorpe and Lowe (1991) posit that semi-structured interviews are appropriate when the following conditions apply:

- (1.) It is necessary to understand the construct that the interviewee uses as a basis for his or her opinions and beliefs about a particular matter or situation;
- (2.) One aim of the interview is to develop an understanding of the respondent's 'world' so that the researcher might influence it, either independently or collaboratively;
- (3.) The step-by-step logic of the situation is not clear;
- (4.) The subject matter is highly confidential or commercially sensitive; and
- (5.) The interviewee may be reluctant to be truthful about this issue other than confidentially in a one-to-one situation (p. 168).

The five conditions above resemble the ones for this research. In relation to condition 1, the interviews for this research requested the respondents' opinions about and understandings of CSR, the perceived organisational motivations for CSR reporting, and the nature of stakeholder engagement in relation to CSR reporting to jointly construct meanings. In relation to conditions 2 and 3, it is reasonable to suggest that through semi-structured interviews, the probing by the interviewer could have influenced the understandings of concepts and actions discussed. For example, when the respondents were asked about CSR in the context of the financial services institutions, the researcher further probed for other responsibilities not mentioned, such as indirect economic, social and environmental impacts of core business products and services. With regard to conditions 4 and 5, the respondents had sought confidentiality surrounding their identities prior to the interviews. It is accepted that financial services institutions are relatively conservative organisations in many respects and that there is a

good deal of commercial sensitivity surrounding individual accounts, policies and financial transactions. Moreover, there are likely to be a variety of views expressed in relation to CSR, and it is accepted that these views might not always be the ones of the organisations concerned. It was necessary to ask questions in such a way that the views elicited were clearly identified as personal or organisational in nature.

Where in-depth knowledge about the thinking and intention of the subjects is sought, O'Dwyer (2004, p. 392) opines it best "to 'get inside the heads' of the managers to hear them speak and reflect, therefore face to face interviews seemed the most obvious choice of method". A similar situation in relation existed in this research where respondents' views were sought during interviews.

Fourteen of the 15 interviews were conducted face-to-face at each respective respondent's office. One interviewee was based overseas at the head office of the holding company so the interview was conducted by telephone. All the interviews were conducted by the researcher. Of the 15 interviews, 10 were conducted prior to the 2008/9 global financial crisis. In those ten pre-crisis interviews, eight respondents were from the three selected NZFSIs and two were expert stakeholders knowledgeable, experienced and familiar with the CSR reporting of the selected NZFSIs. Five more interviews, one for each of the three NZFSIs plus two expert stakeholders, were conducted in 2010, post the 2008/9 global financial crisis.

The interview respondents from NZFSIs were all designated as managers or above. One was a director. The expert stakeholders were at least of senior manager capacity. The names of the NZFSIs respondents and expert stakeholders are, as requested, not divulged to ensure confidentiality. Respondents wanted to remain anonymous because some of the information discussed could be of a sensitive nature. There were concerns that personal opinions may differ with organisations' policies, and also about information revealed that could affect the organisations' competitive strategies. The identities of the interview respondents and their NZFSIs are coded to address this issue. The interviewees were briefed about provisions in the 'Participant Information Sheet'

and requested to sign the 'Consent to Participation in Research' form as part of the administrative procedure. All interviewees gave permission for their interview to be recorded. Notes were taken during and after each interview. The interviews were all personally transcribed by the researcher.

Eight interviews were conducted with NZFSI respondents from the three selected NZFSIs, pre the 2008/9 global financial crisis. There were two main decision-makers from two NZFSIs. One NZFSI had three respondents who claimed to jointly made decisions concerning CSR reporting in New Zealand. The remaining three respondents claimed to play supporting roles with some decision-making responsibilities for CSR reporting in New Zealand. With some organisational restructuring in the wake of the 2008/9 global financial crisis, three respondents, one from each of the selected NZFSI was interviewed. All of them claimed to be responsible for their respective NZFSI's CSR reporting in New Zealand.

*Interview questions design and development*

Two sets of open-ended questions were used for the semi-structured interviews pre 2008/9 global financial crisis - one set with the NZFSI respondents and the other with the expert stakeholders. The open-ended questions allowed discussions during interviews to be conducted in a transactional manner where there was potential for meanings to be jointly constructed. A copy of the questions (Appendix II) was sent by email to each interviewee once the date of the interview had been set. The questions were provided in advance so that the interviewees were aware of the topics of discussion for the interviews. It was made clear that the open-ended questions were meant to be used only as a guide for discussion where other relevant questions could be asked during the course of the interview. The first set of open-ended questions for the NZFSIs has three sections. The first section (Appendix II: Table II (a)) is related to CSR issues specific to NZFSIs. The second section (Appendix II: Table II (b)) relates to stakeholder engagement in relation to CSR reporting. The third section (Appendix II: Table II (c)) relates to motivations for CSR reporting.

The second set of open-ended questions was for the expert stakeholders. This set of open-ended questions is also separated into three sections. The first section (Appendix II: Table II (d)) is about CSR issues in relation to CSR reporting. The second section (Appendix II: Table II (e)) relates to the NZFSIs' stakeholder engagement in relation to CSR reporting. The third section (Appendix II: Table II (f)) relates to the stakeholder's perception about the NZFSIs' motivation for CSR reporting. Once again, sample questions were given to the interviewees prior to the interviews.

Another set of questions (Appendix II: Post 2008/9 global financial crisis) was developed in the wake of the 2008/9 global financial crisis. They were emailed to the respondents prior to the interviews. The global financial crisis provided an opportunity to discuss how or whether their understanding of CSR, and CSR reporting issues was affected, or not.

#### *Analysis of the interview transcripts*

A systematic approach was used to analyse the interview transcriptions. Table 5.3 on the next page shows Easterby-Smith's (2002) 7-stage model of data analysis and how it was modified and used as a guide to analyse the interview data.

**Table 5.3: Stages of data analysis process**

Stages Easterby-Smith (2002)	Modified Stages for this research	Application to this research
1. Familiarisation	1. Review/reflection <sup>16</sup>	Transcriptions, reading of transcripts/notes, memoing, reviewing literature
2. Reflection		
3. Conceptualisation	2. Conceptualisation, coding/matrix creation	Detailed reading/initial coding of transcripts/creation of matrix for each transcript
4. Cataloguing concepts		
5. Re-coding	3. Coding examination	Revisiting transcripts and recordings to double-check concept interpretation to confirm codings, or re-code
6. Linking	4. Developing a summary matrix	Integrating codes/matrices to develop a summary matrix
7. Re-evaluation	5. Categorising concepts	Exploring patterns, regularities, contradictions, themes and categories and selecting for discussion/conclusion

Each interview transcript was checked against the respective audio recording twice by the researcher, and then a third time by a third party. This check was to ensure that the interviews had been accurately transcribed. By personally transcribing the interviews, the researcher became more familiar with the data as well as remembering some of the non-verbal cues from the interviewees, which supplemented and enriched what had been said. For example, there were pauses between words, or sentences when interviewees made insightful comments or emphasised certain points. Throughout the interview data collection phase, there was ongoing analysis by the researcher with note-taking, mind mapping, and listening to interview recordings. Further notes were also made during transcription and coding of the data.

The process of coding reduced the quantity of data from the interviews. The condensed data permitted the opportunity for reflection from which comes deeper understanding. The initial codings or themes for each transcript were collated and organised in matrices so that the data was easier to compare. Careful, in-depth examination of the transcripts

<sup>16</sup> The three sub-processes of qualitative analysis proffered by Huberman and Miles (1994) are data reduction followed by data display, and conclusion drawing/verification. The data display sub-process is similar to the first three stages adopted in this research, and the data display and conclusion drawing/verification sub-processes are similar to stage four and five respectively.

and matrices enabled the identification of regularities, patterns, words and phrases used when describing certain phenomena or issues. Then the researcher reread the interview notes, relevant literature and listened to the recordings again to determine and then group similar issues. This led to the formulation of some higher level issues. Denzin and Lincoln (1994, p. 505) describes this stage as “thick description”. To illustrate the findings, quotes from the interview transcripts were selected to match their respective issues.

Some of the issues were modified because of regrouping or re-classifying of the earlier ones, and some were deleted and some new ones were added in the process. The coding process was done manually, instead of using software such as NVivo. This allowed for a deeper understanding of the data and was possible because of the relatively small number of transcriptions. The coding process reduced data to four major categories. Further revisits to recode or regroup seemed unable to improve or deviate from them to a great extent. A summary matrix of the transcripts showing the four major category of issues and sub-categories resulting from the interviews was developed. Although the number of interviews seems small, the research method is not about counting the most number of mentions about a particular topic within the categories. Rather, it is more about the views of the NZFSI respondents, especially the decision-makers of CSR reporting of the NZFSIs, as understood by the researcher from the discussions.

### **5.3 Chapter conclusion**

As previously discussed, the methodological approach for this research adopts the constructionist approach. First, content analysis to a sample of CSR reports was conducted. Then the joint construction of meanings between the researcher and the interview respondents was facilitated through interview discussions relating to how CSR was understood in the NZFSI context, perceived organisational motivations for CSR reporting, some report content and processes of stakeholder engagement relating to CSR reporting. The following chapters present the findings from content analysis of the CSR reports, and interviews.

## CHAPTER 6: RESULTS FROM CONTENT ANALYSIS

### 6.0 Introduction

*Our intention is to use content analysis to explore the reporting practices of corporations. We are not seeking to confirm any specific hypothesis, nor intending to make generalizations from this sample. Our analysis is intended to offer an overall view of disclosure which may only previously have been supposed.*

*(Adams, Coutts & Hart, 1995, p. 95)*

Content analysis was conducted on 16 stand-alone CSR reports from the three NZFSIs selected for this research. Specifically, the impacts of the NZFSIs' core business products, services, processes, and stakeholder engagement practices for CSR reporting were analysed. The 16 CSR reports are the only stand-alone CSR reports produced by the NZFSIs at the time this analysis was conducted between January 2005 and June 2010.

The chapter first presents the results in tabulated format for each of the NZFSIs which is supplemented by narration of some highlights in Section 6.1. Section 6.2 presents the aggregated results in tabulated format, where the results of all the NZFSIs are compressed into one table with further commentary. Then Section 6.3 concludes with discussion about the NZFSIs' reporting in relation to the impacts of their core business products, services and processes, and stakeholder engagement.

### 6.1 Results for individual NZFSIs

The following three sub-sections present the results of the content analysis of each of the three NZFSIs' CSR reports. The analysis of each NZFSI's CSR reports employs the

two coding units. Coding unit one relates to the direct and indirect economic, social and environmental impacts as a result of the NZFSIs' core business products, services and processes. Coding unit two relates to stakeholder engagement in the context of CSR reporting.

### 6.1.1 Content analysis of NZFSI ■'s stand-alone CSR reports

NZFSI ■ is known to have been first in the New Zealand financial services industry to produce a stand-alone, exclusively New Zealand version CSR report. This first report was produced in 2004 and NZFSI ■ then published a stand-alone CSR report annually until the last copy in 2008. The 2008 CSR report did not mention that it was to be the last one in this format for the company. NZFSI ■'s 2009 stand-alone CSR report is an integrated report that includes the activities of several business entities within the overall organisation with the New Zealand operation being one of them. The 2009 CSR report gave the reason for discontinuing the production of a separate New Zealand report as it being too difficult to separate CSR activities because the parent-company of NZFSI ■ is trying to embed sustainability both across operations and within all business processes and decision-making.

The number of pages for each of NZFSI ■'s CSR reports range from 20 in 2009 to 111 in 2004. Although the 2004 report has more than five times more pages than the 2007 version, the paper size is much smaller. Nevertheless there has been a consistent reduction in the number of pages for each CSR report since 2005. The 2009 integrated group CSR report consists of 49 pages, which is much more than the number of pages of the 2008 New Zealand-version. However, the 2009 report has fewer pages than not only the inaugural 2004 New Zealand report but also the two years that followed. The first five reports had all been independently assured. No reason is given as to why the integrated 2009 CSR report has not been independently assured.

Figure 6.1 summarises the results from the content analysis of the six stand-alone CSR reports of NZFSI ■. These are from the inaugural version in 2004 through to the 2009 version.

**Figure 6.1: Content analysis results for NZFSI ■**

CSR Reports			Proportion (%) of Disclosure to Total Reporting		
Institution	Year	No. of Pages	Coding unit one: <i><u>Economic, social, environmental impacts</u></i>  <i>as a result of the core business products, services, and processes.</i>	Coding unit two: <i><u>Stakeholder engagement</u></i>  <i>in relation to CSR reporting.</i>	Coding units one and two combined
NZFSI ■	2004	111	6.98	3.21	10.19
	2005	68	11.27	4.82	16.09
	2006	60	7.61	2.31	9.92
	2007	20	6.09	1.12	7.21
	2008	23	8.83	6.35	15.15
	2009	49	9.16	1.5	10.66
<b>Other indicators</b>					
Average disclosure			8.32	3.22	11.54
Highest disclosure			11.27	4.82	16.09
Lowest disclosure			6.09	1.12	7.21

The proportion of the CSR reports dedicated to coding unit one, which is reporting issues that relate to the economic, social, environmental impacts from core business products, services, and processes, ranges from 6.09% to 11.27%. Most of the disclosures in the reports are about office processes or operational activities, rather than the social and environmental impacts of core business products and services specifically, which account for less than 1%. Although there was an increase in percentage for coding unit one from 2004 to 2005, there was a decrease in this category of disclosure for the years 2006 and 2007, with only 6.09% disclosed in the 2007 CSR report. However, analysis of the years 2007, 2008 and 2009 shows an increasing trend, albeit very small, of reporting on the economic, social, environmental impacts from core business product, services, or processes. The average disclosure for coding unit one over the six reporting years is 8.32%.

The reporting in terms of percentage for coding unit two, that is issues about stakeholder engagement relating to CSR reporting, is similar to the results for coding unit one. Disclosure increases from 3.21% in 2004 to 4.82% in 2005 but, as with coding unit one, in the years 2006 and 2007 there is a decrease in disclosure. There is a range from 1.12% to 4.82%. There was a significant percentage increase from 1.12% in 2007 to 6.35% in 2008, the year the 2008/9 global financial crisis began, with a fall to 1.5% in 2009 which coincided with what we might conceive of as the tail-end of the 2008/9 global financial crisis. This could possibly be attributed to the CSR reporters' perception that stakeholders' concerns had diminished. The average over the six year period for the reports that were analysed is 3.22%.

Although the trend is similar for both coding units, it is unclear whether there is any link between the two. The data in Figure 6.1 shows that the proportion of reporting issues related to coding unit two, for each of the reporting years, is consistently less than 50 % of reporting for coding unit one. Since the 2008/9 global financial crisis, NZFSI ■ has steadily increased its reporting on the impacts of core products, services and processes. It is also identified that the main increase is in relation to economic impacts rather than the social and environmental impacts. The overall average for the two coding units is 11.54%.

In the final New Zealand version stand-alone CSR report published in 2008, the Acting Chief Executive commented that NZFSI ■ had no direct exposure to US sub-prime loans, but higher loss provisions were made to accommodate the potential indirect impacts of the 2008/9 global financial crisis. The independent sustainability assurance report, attached to the 2008 report, commented on NZFSI ■'s lack of systemic process of issue selection for reporting, and the absence of any measurement of the social and environmental impacts from sponsorship and volunteering activities. In the integrated 2009 CSR report, the Chairman commented that the region's financial system held up well against the challenges of the 2008/9 global financial crisis. However, the CEO reported a disappointing year for the New Zealand operations with a decrease in cash earnings attributed to the impact of the 2008/9 global financial crisis. These messages

suggest that the impacts of 2008/9 global financial crisis had a negative economic effect on NZFSI ■, but obviously not a severe one.

### **6.1.2 Content analysis of NZFSI ▲'s stand-alone CSR reports**

The stand-alone CSR reports of NZFSI ▲ are published by the parent company based in Australia. The reports have been produced since 2004 but are not exclusively pitched toward the New Zealand operations. They are a combination of reporting about CSR issues for NZFSI ▲'s different operations and offices around the world, with a delineated section reporting on New Zealand CSR issues in the inaugural copy. Subsequent reports have disclosures about CSR for the New Zealand operations incorporated into the various sections of the reports. The number of pages for each CSR report ranges from 69 in 2006 to 25 in 2007 respectively.

Figure 6.2 on the next page summarises results from content analysis of six CSR reports of NZFSI ▲.

**Figure 6.2: Content analysis results for NZFSI ▲**

CSR Reports			Proportion (%) of Disclosure to Total Reporting		
Institution	Year	No. of pages	Coding unit one: <i><u>Economic, social, environmental impacts</u></i>  <i>as a result of the core business products, services, and processes.</i>	Coding unit two: <i><u>Stakeholder engagement</u></i>  <i>in relation to CSR reporting.</i>	Coding units one and two <u>combined</u>
NZFSI ▲	2004	36	10.75	3.51	14.26
	2005	68	12.88	2.31	15.19
	2006	69	10.26	4.55	14.81
	2007	25	8.20	3.25	11.45
	2008	25	7.3	4.98	12.28
	2009	29	7.96	4.28	12.24
Other indicators:					
Average disclosure			9.56	3.81	13.37
Highest disclosure			12.88	4.98	17.86
Lowest disclosure			7.3	2.31	9.61

Over the six reporting years, the proportion of the stand-alone CSR reports of NZFSI ▲ dedicated to the reporting of issues relating to economic, social and environmental impacts resulting from core business products, services and processes, ranges from 7.3% to 12.88%, and averaged 9.56% per annum. Most of the disclosures were about the impacts of core business processes rather than the impacts of core business products and services which score less than 1%. These findings are consistent with those of NZFSI ■ reported above. Although there was an increase in the proportion of disclosures for coding unit one from the inaugural year of 2004 and the 2005 report, there was a consistent decrease for three years thereafter, to a low of 7.3% in 2008. However, in 2009 disclosures increased slightly to 7.96%.

The proportion of reporting for coding unit two, issues about stakeholder engagement relating to CSR reporting, shows a decrease from 3.51% in 2004 to 2.31% in 2005.

However, the proportion increased to 4.55% in 2006, which was the third year of reporting where an increase of 4.55% in the proportion of disclosure on stakeholder engagement was found. The following year, 2007, shows a decrease to 3.25%. In summary, the reporting proportion for coding unit two shows a decrease in the second year of reporting, followed by an increase in the third, a decrease in the fourth, an increase in the fifth, then a decrease in the sixth, which was the latest reporting year of 2009. NZFSI ▲'s reported stakeholder engagement is mostly related to customer surveys, and meetings with employees who volunteered their views. The proportionate amount of reporting for coding unit two ranges from 2.31% to 4.98%, and averages 3.81% per annum for the six reporting years.

It is again unclear whether there is any relationship between the two coding units. The data in Figure 6.2 shows that the proportion of reporting issues relating to coding unit two is consistently less than 50% of coding unit one for every reporting year. Once again, this is similar to the results for NZFSI ■. The combined proportions of coding units one and two averages 13.37%.

In relation to the 2008/9 global financial crisis, it appears that NZFSI ▲ increased reporting on stakeholder engagement in 2008 but then reduced reporting on it in 2009. In the 2008 stand-alone CSR report, the group's CEO acknowledged the potential challenges of the 2008/9 global financial crisis but reaffirmed the entity's commitment to stakeholders. The independent assurance report, included in the CSR report, observes that there were some positive practices such as improved collation of data relating to people, New Zealand complaints, processes, and stakeholder feedback. However, there were also negatives noted in the assurance reports such as metrics for supply chain data, and environmental data.

In the 2009 stand-alone CSR report, the group CEO commented that rebuilding reputation was the way to proceed after the 2008/9 global financial crisis, and that a change in perceptions would not happen overnight. The independent assurance reporter observed some improvement in the preceding year's report, but that consistency in

practice across all business entities of the group was required. One example given, as part of responsiveness to stakeholder engagement, was inconsistent implementation of the customer-complaint resolution target of five business days.

### **6.1.3 Content analysis of NZFSI ●'s stand-alone CSR reports**

NZFSI ● produced a stand-alone New Zealand version CSR report in 2005 and annually thereafter until 2008. The last edition of its New Zealand version stand-alone CSR report was in 2008 and was the last hardcopy produced and also the last that was available for downloading from the website. The report for 2009 is very different to those of the preceding years, both in terms of format and medium, and for that reason it has not been included in the analysis to prevent distortion of the results. For example, the 2009 report consists of only a single page format while the previous four years' reports ranged between 29 to 50 pages.

Figure 6.3 on the next page summarises results from content analysis of four CSR reports of NZFSI ● from 2004 to 2008.

**Figure 6.3: Content analysis results for NZFSI ●**

CSR Reports			Proportion (%) of Disclosure to Total Reporting		
Institution	Year	No. of pages	Coding unit one: <i><u>Economic, social, environmental impacts</u></i>  <i>as a result of the core business products, services, and processes.</i>	Coding unit two: <i><u>Stakeholder engagement</u></i>  <i>in relation to CSR reporting.</i>	Coding units one and two <u>combined</u>
NZFSI ●	2005	46	6.41	0.70	7.11
	2006	50	11.67	1.11	12.78
	2007	39	6.52	0.48	7.00
	2008	29	12.06	0.43	12.49
<b>Other indicators:</b>					
Average disclosure			9.16	0.68	9.84
Highest disclosure			12.06	1.11	13.17
Lowest disclosure			6.41	0.43	6.84

The number of pages for each CSR report ranges from 39 pages in 2007 to 50 pages in 2006. The proportion of the CSR report dedicated to coding unit one, issues that relate to the economic, social and environmental impacts resulting from the core business products, services, and processes, range from 6.41% to 12.06%. Again, disclosures are in relation to the impacts of core business processes, the office operational activities, rather than the social and environmental impacts of core business products and services which account for less than 1%. There was an increase of 82% in the proportion for coding unit one from the inaugural year of 2005 to that of 2006, which then decreased by 44% in 2007. The last stand-alone CSR report of 2008 is similar to previous years in that there was an increase of 85% from the preceding year for coding unit one. The average for the proportion of disclosure for the four reporting years is 9.16%.

The proportion of reporting for coding unit two regarding stakeholder engagement relating to CSR reporting, also shows a trend of increase from 0.70% in the first year to

1.11% in the second year as reported in their CSR reports. The third year shows a decrease to 0.48%, while in the fourth and final year of the stand-alone CSR report of 2008 there was a further decrease to 0.43%. The proportionate amount of reporting for coding unit two ranges from 0.48% to 1.11%, with an average of 0.68% for the four reporting years as per Figure 6.3. The stakeholder engagement was mostly related to customer surveys and discussions with employees.

The results in Figure 6.3 shows that the proportion of reporting issues relating to coding unit two is consistently less than 50% of coding unit one for every reporting year. The average is 9.84%, for combined coding units one and two, over the four reporting years that similarly designed stand-alone CSR reports were produced. No explicit reference is made about the impacts of the 2008/9 global financial crisis in the CEO's statement in NZFSI ●'s 2008 stand-alone CSR report. Although an independent assurance report is not included, there is one sentence that refers to it being available on the organisation's website.

## **6.2 Aggregated content analysis results**

Figure 6.4 on the next two pages provides an aggregated summary of the results of content analysis of CSR reports for NZFSI ■, NZFSI ▲, and NZFSI ●, where the averages for the years of reporting are presented.

**Figure 6.4: Aggregate results for NZFSIs disclosures**

CSR Reports			Proportion (%) of Disclosure to Total Reporting		
Institution	Year	No. of pages	Coding unit one: <i><u>Economic, social, environmental impact</u></i> <i>as a result of the core business products, services, and processes</i>	Coding unit two: <i><u>Stakeholder engagement</u></i> <i>in relation to CSR reporting</i>	Coding units one & two combined
NZFSI ■	2004	111	6.98	3.21	10.19
	2005	68	11.27	4.82	16.09
	2006	60	7.61	2.31	9.92
	2007	20	6.09	1.12	7.21
	2008	23	8.83	6.35	15.15
	2009	49	9.16	1.5	10.66
NZFSI ▲	2004	36	10.75	3.51	14.26
	2005	68	12.88	2.31	15.19
	2006	69	10.26	4.55	14.81
	2007	25	8.20	3.25	11.44
	2008	25	7.3	4.98	12.28
	2009	29	7.96	4.28	12.24
NZFSI ●	2005	46	6.41	0.70	7.11
	2006	50	11.67	1.11	12.78
	2007	39	6.52	0.48	7.00
	2008	29	12.06	0.43	12.49
Total		747	143.95	44.91	188.86
Average		46.69	8.99	2.80	11.79
Highest		111	12.88	6.35	16.09
Lowest		20	6.09	0.43	7.00
Average disclosure		2004	8.86	3.36	12.22
		2005	10.18	2.61	12.79
		2006	9.85	2.66	12.51

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2007	6.94	1.62	8.56
2008	9.39	3.92	13.31
2009	8.56	2.89	11.45
<b><u>Coding unit average disclosure (%)</u></b>			
NZFSI ■	8.32	3.22	11.54
NZFSI ▲	9.56	3.81	13.37
NZFSI ●	9.16	0.68	9.84

Coding unit one, as defined by the qualifying question ‘Does the sentence explicitly discuss or describe any specific and resultant economic, social, environmental impacts or consequences caused by the core business products, and services (lending, investing, underwriting) and/or processes of this NZFSI?’, scores an average of 8.99% for all stand-alone CSR reports in the sample. This means that less than one page in ten of each CSR report is devoted to discussion about the impacts of the NZFSI’s core business products, services and processes. Furthermore, most of the proportion of disclosure for coding unit one is related to core business processes with regard to office operational activities, rather than the social or environmental impacts of the core business products and services. There are only minor differences in this respect as the average for NZFSI ■, NZFSI ▲ and NZFSI ● are 8.32%, 9.56% and 9.16% respectively. The highest and lowest proportion of disclosure for coding unit one is 12.88% for NZFSI ▲ and 6.09% for NZFSI ■.

Since the publication of its first CSR report in 2005, NZFSI ●’s disclosure for coding unit one fluctuates over the four years. NZFSI ■ and NZFSI ▲, both of which have published four CSR reports since 2004, showed an increase in disclosure for coding unit one in 2005 but disclosure then decreased over the next two years to 2007. However, in 2009 there is a slight increase from 2008 when the global financial crisis began. The latest CSR reports for the three NZFSIs have only a single digit score for disclosure of coding unit one. For 2009, NZFSI ■ and NZFSI ▲ disclosure that relate to social, environmental or economic impacts by core business products, services and processes, is only 9.16% and 7.96% respectively. However, NZFSI ●’s CSR report in 2008 had an 85% increase in overall proportion of disclosure compared to 2007 when the proportion

was only 6.52%. The yearly aggregated average proportion of disclosure for coding unit one in the CSR reports was 8.56% in 2009, down from its peak of 10.18% in 2005. The variation is relatively small since stand-alone reporting was begun by these NZFSIs in 2004.

It must be noted that disclosure about issues related to the social, economic and environmental impacts of core business products and services is extremely low. The extent of disclosure, in relation to the scores outlined above, is mainly attributed to environmental impacts caused by the core business processes which include use of electricity in office buildings, vehicle petrol consumption, paper usage, recycling and business travel.

Coding unit two, as defined by the qualifying question ‘Does the sentence explicitly discuss or describe any process and result of stakeholder engagement relating to economic, social and environmental impact for CSR reporting?’ scores an average of 2.80% for all the NZFSIs’ CSR reports included in the sample. That means that one in 36 pages of each NZFSI CSR report is devoted to discussion about stakeholder engagement. Most of this category of disclosure is about customer surveys on the quality of services rendered, and engagement with employees, rather than engagement with other external stakeholders who are less directly involved with the NZFSIs. There are some differences in this respect as the averages for NZFSI ■, NZFSI ▲ and NZFSI ● are 3.22%, 6.81% and 0.68% respectively. The highest and lowest disclosure for coding unit two is 6.35% for NZFSI ■ and 0.43% for NZFSI ●. The average proportion of disclosure, in relation to coding unit two, for the years 2004 to 2009 is 2.8% which reflects a low rate of disclosure about stakeholder engagement for CSR reporting.

### **6.3 Chapter conclusion**

The results from the content analysis that are presented in this chapter reveal that the three NZFSIs have low proportions of disclosure when reporting on issues about the

## CHAPTER 6: RESULTS FROM CONTENT ANALYSIS

economic, social and environmental impacts from their core business products, services, and processes compared to other disclosures about philanthropic activities, and social and environmental intentions. In this regard, all the NZFSI reports have an average of disclosures for the years 2004 to 2009 of about 8.99%. The bulk of issues are related to economic impacts, rather than social or environmental impacts, of the core business products, services or processes. The proportion of reporting in relation to stakeholder engagement for CSR reporting is even lower with an average of 2.8% per CSR report for the years 2004 to 2009. There is also no conclusive trend when relating the 2008/9 global financial crisis to stand-alone CSR reporting using coding units one and two. As noted in the previous chapter, the timing of the 2008/9 CSR reports analysed in this sample and the 2008/9 global financial crisis may be too close to show any changes impacted by the crisis. These results, together with the interview findings presented in Chapters 7 and 8 which follow are further discussed in Chapter 9.

## CHAPTER 7: INTERVIEW FINDINGS – PART ONE

### 7.0 Introduction

*We interview people to find out from them those things we cannot directly observe. The issue is not whether observable data is more desirable, valid, or meaningful than self-reported data. The fact of the matter is that we cannot observe everything. We cannot observe feelings, thoughts, and intentions. We cannot observe behaviors that took place at some previous point in time. We cannot observe situations that preclude the presence of an observer. We cannot observe how people have organised the world and the meanings they attach to what goes on in the world. We have to ask people questions about those things. The purpose of interviewing, then, is to allow us to enter into the other person's perspective. Qualitative interviewing begins with the assumption that the perspective of others is meaningful, knowable, and able to be made explicit.*

*(Patton, 1990, p. 83)*

This chapter and the next one offer the findings from the two rounds of interviews, one round conducted before and the other one after the 2008/9 global financial crisis. These interviews were conducted with 11 decision-makers from three NZFSIs, and two expert stakeholders. This chapter presents the findings in two main sections. Section 7.1 presents NZFSI respondents' espoused understandings of the CSR concept in the New Zealand financial services institutions context, and compares them with the expert stakeholders' espoused understandings. Section 7.2 focuses on the information the respondents gave regarding the perceived motivations of their respective NZFSIs for CSR reporting. Section 7.2 also offers the expert stakeholders' views on possible NZFSIs' motivations for CSR reporting.

Although the evidence collected from interviews with the NZFSI respondents has been presented as noted above under different categories, it is assumed that the respondents' perceptions of CSR may not be limited to the respective category, and that there are occasional overlaps. However, the respective responses suggest that those categories predominate in the respondents' reported perceptions.

Within each of the four sections, the findings are presented using quotations from the interviews. The quotations are provided to illustrate points made, and with the aim of letting the respondents ‘speak for themselves’.

### **7.1 NZFSI respondents’ espoused understandings of the CSR concept**

NZFSI respondents were asked about their understandings of the CSR concept in relation to their sector context, whereas the expert stakeholders were asked to comment on their understanding of the concept in relation to the New Zealand financial services sector in general. A variety of comments were made by the interview respondents. Table 7.1 on the next page presents them in four categories, including comments made during pre and post 2008/9 global financial crisis interviews. The frequency or absence of contribution do not necessarily indicate the importance or the lack of it.

**Table 7.1: Summary Matrix of Interview Transcripts in relation to Espoused Understandings of the CSR Concept**

Category of issues relating to CSR from the interviews	Contribution of findings from the interview respondents <sup>17</sup> (* and '◆')				
	NZFSI respondents			Expert stakeholder respondents (ES)	
	NZFSI #1	NZFSI #2	NZFSI #3	ES #1	ES #2
<b><u>NZFSI respondents' understandings of the CSR concept</u></b>					
Activities related to office operations		**	****◆	*◆	* ◆
Activities related to suppliers and customers	◆	****◆	*◆		
Activities related to philanthropy	◆	**	*		
Activities related to core business activities (i.e. indirect impacts of core business products, services and processes)	**◆	****◆◆		****◆	* ◆

The concept of CSR as explained by the NZFSI respondents ranged from a narrow to a broad view. An example of a narrow view of the CSR concept only includes the emphasis on direct impacts of the NZFSI activities, such as the office operational impacts on the environment, and also the need to connect with the community.

I mean, we are a service based industry, so we don't have a whole lot of pollution issues but we do have the normal sort of office consumption issues that relates to the environment. I guess one of the things that we've realised as we have gone down the sustainability path is that, we are not separate from the community. We are members of the community, so CSR requires us to help the community, for example through sponsorships, etc (NZFSI #3, C).

<sup>17</sup> Each contribution is denoted by an asterisk (\*) and the symbol '◆' for interviews pre and post the 2008/9 global financial crisis respectively. Each contribution can be one sentence or several sentences used to describe the category of issue. Each contribution may also not be exclusive to each category because it may cover two or more categories. The count or number of responses is not critical for this research because the focus is on the content of the interviews and relative emphasis on different aspects, rather than frequency or the lack of response.

A broader view or understanding of the concept of CSR describes it as an all-encompassing corporate responsibility that is related to all decisions and impacts made by the NZFSIs. For example:

We look at it as being all about the inter-relationship between social, environmental and economic performances and about how we work across all those decision-making areas and we need to take all these into account so that we do the right thing. It is a concept that talks about bringing together all the facts and information that you need to determine what cause of action you should take. So, it's only right in the context of how much you have done to get to that point but it is not about right or wrong and it is not about legality or morality. And if you take all that into account, the world doesn't have black and white outcomes. So when we talk about doing the right thing, we mean in relation to social, environment and economic impacts and within the context we are operating, and we can only do what we can do which is right at the time (NZFSI #1, A).

In addition to the all-encompassing or broad view of CSR in the above quotation, there is also suggestion that it is a subjective concept. The next four sub-sections provide more specific insight on the CSR concept, in relation to the NZFSI in question, using the four categories identified in the above table. Some of the NZFSI respondents related the concept of CSR to one of the categories exclusively, others combined some or all the categories. Relevant views by the expert stakeholders have also been included, toward the end of each subsection.

### **7.1.1 Activities related to office operations**

CSR was understood primarily in the context of the NZFSIs as relating to office processes or operational activities as these were generally the first or main activities related to CSR mentioned in the interviews. The relationship between CSR and office operational activities was viewed by NZFSI respondents as those environmental impacts caused by the usage of resources such as stationery, water, electricity and petrol for company vehicles. The NZFSIs' concern for these office operational activities was directly related to the perceived direct impacts on the environment.

Our environmental impact involves our footprint in terms of water, energy, etc, and waste, and we are doing a lot of work in that area to characterise our footprint and looking at what we do to reduce that (NZFSI #2, A).

The following explanations were also offered by the NZFSI respondents. The first three quotes emphasise in-office activities and the final one extends beyond the office, more specifically to consider air travel and fleet vehicle fuel use and emissions.

We are a service based industry so we don't have a lot of pollution issues but we do have the normal sort of office consumption issues (NZFSI #3, C).

We have also supplied quite a bit of environmental data [for CSR reports] on the rate at which we use paper, power and electricity (NZFSI #3, B).

Obviously, we are not an industrial company that's putting out lots of pollution, waste or anything like that. On the other hand, we do have an environmental impact by having 6000 staff who are using resources such as paper, water etc. We are also using a lot of electricity, and obviously we have an impact on the environment in that sense, but it's not as adverse as a company in the industrial field (NZFSI #2, B).

We are an office-based business and therefore have an office based impact. And we have identified four major impacts: paper consumption, electricity consumption, air travel by staff, and fuel usage of our vehicle fleet, all of which are related to carbon dioxide emissions. And we have designed monthly targets for a 2.5% decrease from the previous period and duly reported it in our corresponding CSR report. Carbon dioxide emission is tied to 'climate change' which can lead to extreme weather events that can affect the community (NZFSI #3, A).

The environmental impacts of NZFSIs' office operations were the respondents' initial or instinctive responses about the relevance of CSR to their industry sector when the question was posed. So it seems that the CSR of the NZFSIs, as understood and espoused by the respondents, is fundamentally the consequence of the impacts of office operational activities.

It seems that the expert stakeholders were aware of this arguably narrow view of the concept of CSR held by the NZFSI respondents. They considered that NZFSI managers needed to be more concerned about their wider corporate responsibilities, in addition to office operational activities and their environmental impacts. Office operational activities were not seen by the stakeholders as the major area of impacts that the NZFSIs can have.

I actually have that conversation with NZFSI themselves who say, “I am just a service provider and service providers don’t have an environmental impact.” But that’s why I was saying, I think their biggest fear of impact isn’t just about what’s within the building envelope, which is what they’ve often been thinking about. I always think of them as having concern only on operational issues which is, you know, what is happening in our own organisations in terms of lighting, waste management, recycling programmes, you know, the classic stuff, but I think for these guys, they need to be looking at what their product delivery or offer is, in terms of sustainability. To me, it’s just a waste of time [that the NZFSI are concerned primarily or mostly about office operational activities]. In fact I am not interested in that stuff, but I am more interested in the big changes they can make. The big changes are the thing they are most scared of. For New Zealand, I think they have to have a really good look at the investment [lending] criteria, and the supply chain (ES #1).

The other expert stakeholder commented that the nature of the NZFSI’s office operations were generally clean, unlike some industries that were by nature more environmentally unfriendly, so NZFSI managers should be more concerned about other impacts of their operations, especially those that relate more closely to their core business products and services.

I think the key issue with the financial sector is not how much they, or how they operate in offices because it’s quite clean. You know, they are just in offices and you can do something in energy efficiency, waste management, and you know, environmentally responsible office practices, and things like community relations, sponsorships and things. But I think those things are on the edge. They are playing around the edges doing the stuff of looking after customers, you know, operating the offices with correct lighting, recycling paper, and all that is good. It’s fine but that is not the most important thing in terms of driving socially and environmentally practices (ES #2).

Both the expert stakeholders had strong opinions about NZFSIs' over-emphasis on office operational activities as key issues in relation to CSR. Each opined that NZFSIs could be more influential, by attending to the impacts derived from their products and services. Here, the behaviour of their large network of customers could arguably be influenced and directed to give a wider positive impact. Specific comments by the NZFSI respondents themselves, in relation to the impacts of the NZFSI's core business products or services are presented later in Section 7.1.4, as they appeared to have been given a lower priority of importance compared to the other CSR initiatives they described. The next sub-section presents interview findings about the CSR concept relating to suppliers and customers.

### **7.1.2 Activities related to suppliers and customers**

The NZFSI respondents regarded both suppliers and customers as key stakeholders, and suggested that their organisations' dealings with them were part of the way they exercised CSR. Examples of supplier cited included stationery and office equipment suppliers. The NZFSI respondents were aware of their organisations' commanding position over their suppliers, who are dependent on such highly credible clients. Their organisations seemed to have taken advantage of such a position to impose conditions for potential and existing suppliers. By imposing these CSR-related conditions, the NZFSI respondents reported a sense of exercising CSR in relation to their organisations' supply chains. The following quotations offer some examples of these CSR-related criteria that include pre-requisites for potential suppliers to have sound environmental practices to qualify as NZFSIs' suppliers, and good practices by suppliers in relation to treatment of employees and the environment, including proper disposal of wrappers from products supplied by suppliers.

The way NZFSIs perceive CSR in relation to their suppliers also plays a role in their understanding of CSR. For example:

We have supplied some information on the supply chain [for CSR reports] on our ability to require the major suppliers to satisfy us, and then have good environmental practices (NZFSI #2, C).

Another area is what is known as the supply chain. So our ability to have people who supply us with products and goods that we use in the business verify that they have good practices towards their workforce and towards the environment (NZFSI #2, B).

[NZFSI #3] has a supply chain procurement policy. As you know, when a supplier deals with us, it has potentially a huge contract. [NZFSI #3] uses the ‘Balanced Score Card’ system to rate suppliers, and the criteria includes cost of product/service and the sustainability issues related to the suppliers. For example, when one of our suppliers, Fisher & Paykel supplies fridges for [NZFSI #3], we look into their disposal procedures, and we not only make sure that they take away the cardboard boxes, plastic wrappers and the aero foam, we also ensure that Fisher & Paykel dispose of them in the proper manner and not just dump them into the landfill (NZFSI #3, A).

NZFSI respondents were very sensitive with regard to how customers perceived their organisations’ behaviour. They believed that customers saw CSR as related to ethical behaviour by the NZFSIs. Such behaviour included organisational transparency and honesty, and could even sometimes be perceived by customers to be lacking. Trust, though not mentioned, was also implied. ‘Customers’ was offered as an all-encompassing word that included all categories of customers.

CSR is about ethical behaviour, and we interpret the customers’ expectation about ethical behaviour as the bank’s willingness to deal frankly and truthfully with people, and willingness to disclose prices and fees and things frankly. Our survey reveals that the community expects us to be ethical or continue to be ethical. I mean we are already ethical. Well, I suppose it depends on how pessimistic you want to be (NZFSI #2, B).

CSR was also perceived as related to the need to serve customers well – to give them the quality and type of service they desired. In other words, CSR was interpreted as offering the best customer service in terms of the end products or services and good processes in delivering those products or services. The oligopolistic nature of the financial services institutions sector that NZFSIs belong to was seen as highly competitive, and customers are seen as a critical element for survival in the sector.

I guess our basic activities, which is people borrow money from us or they put money into banks, and by just doing that obviously, I mean it has a significant impact on the community. I guess we focus mainly on customers obviously and generally looking for ways to improve and look to see what's important to customers, using research as an example to look for new product and services or changes to interesting product and services (NZFSI #2, C).

There are more findings relating to customers in Chapter 8, where the issues concerning stakeholder engagement by NZFSIs are covered. Another key area relating to the concept of CSR, frequently brought up by the NZFSI respondents is related to their organisations' philanthropic activities.

### **7.1.3 Activities related to philanthropy**

Philanthropic activities mentioned by the NZFSI respondents included the NZFSIs' initiatives relating to voluntary services or efforts such as donations, sponsorships, allowing staff to take time off work with pay to lend a helping hand to the community, and other activities that were not directly related to the core business of the NZFSIs. A philanthropy-related view of the concept of CSR was common across the NZFSIs because of their organisations' involvement with the community directly and indirectly, and particularly where the people or causes supported attracted media coverage. The NZFSIs' philanthropic activities were normally high profile and reportedly their benefits were often felt by the recipients immediately. Some examples of philanthropy-related CSR activities are evidenced in the following quotations.

NZFSI #\*<sup>18</sup> assists the community through sponsorship of the fire service and community patrol who are the eyes and ears of the police, to prevent crimes from happening. And we also provide support for victims of crimes and sponsor non-governmental organisations such as the World Wildlife Fund, Sustainable Business Network, etc. Aside from that, we also support local community arts and sports, such as opera and cricket. Although such sponsorships may not be completely or directly aligned to sustainability, they enhance our credibility and goodwill. This is done to get profile (NZFSI #\*).

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<sup>18</sup> Where the content of a particular quotation is likely to identify the NZFSI respondent, then the labels are anonymised to preserve the level of confidentiality as agreed with the respondents. The NZFSI identifying number is removed and the respondent identifier is replaced with an asterisk.

Aside from supplying data relating to the environment, such as usage of paper, power and electricity, we also supplied quite a bit of data on what is known as ‘volunteering’. ‘Volunteering’ is when your staff is allowed to go and work at the community endeavour at the cost of our organisation. We are also the sponsor of a well-known New Zealand literature award (NZFSI #\*).

Another take on philanthropy is to locate it as not just in the organisation’s interest, but also as building legitimacy by association.

At another level, it’s in our interest to be known through the community through our sponsorships or through, I guess, just general involvement in reputable business associations (NZFSI #2, C).

The first three categories of ‘Office-related operational activities’, ‘Supply and customer related activities’, ‘Philanthropy related activities’, as presented above concerning the espoused understandings of the CSR concept by the NZFSI respondents do not strictly relate to the nature and delivery of the NZFSIs’ core business products and services. The next section presents some perceptions about the CSR concept that were more holistic, and reveals NZFSI respondents being aware of the direct and indirect impacts of their organisations’ core business products and services.

#### **7.1.4 Impacts related to core business products and services**

As mentioned in Sub-section 7.1.2, NZFSI respondents were highly concerned about their organisations’ customers, and their espoused understandings of the CSR concept were also strongly linked with this concern. The following example shows a perspective where an NZFSI respondent relates the availability and accessibility of the core business products and services to the various types of customers, including those with physical disability.

You have to break it into two areas, the social/ environmental, and there’s also the economic impact as well, that we can have. If we look at the social and economic impact, and if we communicate with our stakeholders looking at who uses our services, there will be an issue on financial exclusion. So we have to be

careful if we want to make sure that our services are available to everybody, and that certain segments of the community are not excluded, and that includes the physical exclusions. So we make sure that our banks provide access to people who might have physical disability, people with wheel chair access and those sort of things. To help to address some of that, we are looking at what you can do for the hearing impaired, like the deaf, etc. We are also making sure customers in remote areas aren't disadvantaged in terms of getting access to financial services (NZFSI #2, A).

In relation to the features of the core business products and services, there was also a perception that CSR is being exercised when these features are tailored or modified to assist customers with a certain level of financial constraint. The following example shows an initiative of an NZFSI to reduce or waive fees for products or services rendered to a specific customer group, as evidence of its CSR.

[It is] part of what we call contribution in the community because we also waive fees for rural people in remote areas to make sure that they are not getting charged for using the services that they do not have access to, like ATMs. If they can't get to a bank, then there's a whole social issue in terms of disadvantage. We have low fee or no fee accounts, micro credit lines for people who do not get access to credit to help them build a credit record. So that's some of the social issues, and they are more of a direct impact type. We are also looking in the area of affordable home loans to disadvantaged people, and yeah, that's the kind of direct impact of our services (NZFSI #2, A).

Another less commonly cited CSR related activity is offering NZFSI core business products and services, for example loans, to specific groups of clients for particular projects.

The environmental impact is also affected by our indirect impact through our lending, and we have credit risk processes in place to assess the risk of somebody who comes to us asking for credit and in terms of the likely impact that they have on the environment, and there are some social aspects to that too. So, if we are financing an activity, say a mining operation, it's important to us to understand whether the person asking for the finance has been consulting with the community and is actually managing the impact on the community because, for example, if someone wanting to build a mine and hasn't, and that will displace a community or affect the community in some ways that the community was unhappy about, that would affect our lending decisions. Ok, we are not a signatory to the Equator Principles, and I can explain why (NZFSI #2, A).

Two other respondents also referred directly to lending.

We are concerned about ‘Are our lending products being used to undertake business that we think might be socially or environmentally harmful?’ So we want to ensure, for example, that we are not lending for the purpose of, say, one of the very obvious ones would be the manufacturer of weapons (NZFSI #2, B).

If we are financing the activity, say a mining operation, it’s important for us to understand whether the person asking for finance has been consulting with the community and is actually managing the impact on the community (NZFSI #2, A).

On the other hand, there was a perception that the social and environmental impacts of the NZFSIs’ clients (for example borrowers or those being insured) caused indirectly by the core business products and services of the NZFSIs were not always seen as relevant to the NZFSIs.

Others may say this is not relevant to our business. It is an issue that stakeholders may care about, but it’s not relevant to us, so we can’t influence that. A stakeholder may raise an issue, and we all actually say, “Well, what is our degree of control or influence over that issue?” If it is too far removed from our ability to do anything, we will exclude it (NZFSI #1, A).

The espoused understanding of the CSR concept by one of the NZFSI respondent relates to ethics in the context of its operations.

So, it’s only right in the context of how much you have done to get to that point but it is not about right or wrong and it is not about legal or morality, and if you take all that into account the world doesn’t have black and white outcomes. So when we talk about doing the right thing, we mean in relation to social, environment and economic impacts and within the context we are operating, and we can only do what we can do which is right at the time (NZFSI #1, A).

The expert stakeholders were very aware of NZFSIs’ potential ability and power to influence their customers through their business policies, including through criteria for lending, investment and underwriting. Through such criteria, financial services

institutions can choose who they want to do business with or assert some influence on the CSR behaviour of their customers. Both expert stakeholders were critical of financial services institutions' lack of action on socially responsible investment or lending, and they see a huge potential for more responsible influence.

A lot of these organisations have investment portfolios and they put [lend] money to other organisations but they don't have sustainability criteria for their investment. They don't have criteria about supporting renewable energy, fair trade, you know, all those kind of broad issues that go with sustainability. So they could be investing in companies that are destroying the environment. Often they don't really know exactly what the investors are doing (ES #1).

I think the core area for financial institutions is their ability to influence their supply chain - customers and suppliers - and they are organisations that are funding big projects, and they are making decisions on ways to invest or lend their money. So it's their influence on the other organisations that is very very key, I think. And if they require these organisations to have sound social/environmental practices, they will be able to make a big difference to social and environmental responsibilities. I think it's their ability to influence that is the key. They need to get this understanding of what's important to the stakeholders and what's important about their activities that impact socially and environmentally. Like in the case of the banks, we talk about their influence on other companies and projects, so they need to get an understanding in that context. The thing about banks is how they can influence the market through the power of investment and the challenge to remain competitive at the same time, you know, so I think that's the issue that they should be reporting on (ES #2).

In addition to the potential ability for NZFSIs to exercise CSR through their products and services indirectly, one expert stakeholder added that such responsibility is not exercised, and NZFSIs should realise the significant role they can and should play.

I think the big factor now is what they do for climate change. I think it's a common indicator that we need to be talking about and the problem is so big that it impacts on everything. I think these guys [the NZFSIs] have got huge responsibilities in climate change and I think it's what they don't realise. They think that they don't impact on the environment, well they do (ES #1).

According to this expert stakeholder, another way NZFSIs can exercise CSR could be determined by the design of their products and services. With a design that includes

CSR related conditions that relate their clients' impacts on the environment and community, the product and services could attract or encourage existing or potential customers to take appropriate actions to comply with the conditions imposed by the NZFSIs. Again, this expert stakeholder would like to see this kind of detail in the NZFSIs' CSR reporting.

The way that they structure all the products have impacts on climate change and they could swing those around. They could have a really positive impact on climate change. It will be great if we had some agreement about carbon neutrality, so in their report, if their product was encouraging carbon neutrality and that somehow they will do, and I don't know how the hell they will do it, but if they look at the role they can play for making New Zealand housing stock more sustainable, say by insulation, I don't know, using environmental paints and getting rid of all the toxins in them, doing stuff to minimise transport etc. All those kind of things are really tangible product offerings that haven't been seriously looked at. I would like to see them reporting what their investment criteria is and make some clear decisions around supporting companies which they consider to be operating within the sustainability framework and not just avoiding the morally bad businesses but also trying to have portfolios that really start to develop the growth in the movement around the sustainable business (ES #1).

Comments from the expert stakeholders in relation to the understandings and practices of CSR by the NZFSIs suggest that although the current CSR related activities centre around office processes or operational activities, CSR related conditions for selection and retention of suppliers, bettering and ensuring customer services, and philanthropy related activities, NZFSIs have more important CSR roles in relation to the community and the environment, and for one, in relation to climate change in particular. NZFSIs should take up the responsibility to influence the large network of customers by imposing relevant criteria for their products and services, so that the behaviour of these customers could be guided along a path towards positive impacts for the community and the environment. Such perspectives from the expert stakeholders are not out of line with the NZFSI respondents' espoused understandings of the concept of CSR that embrace a broader scope of responsibilities, including the direct and indirect social and environmental impacts of core business products and services. They do recognise some problems, but they prefer to highlight the potential, and signal some possible ways forward.

### **7.1.5 Espoused understandings of the CSR concept in the wake of the 2008/9 global financial crisis**

NZFSI respondents' espoused understandings of the CSR concept remained broad, with citations of responsibilities to a variety of stakeholders as their first reactions during interviews, post the 2008/9 global financial crisis. The first quote below emphasises customers and the responsibilities of a good employer ahead of a broader responsibility to society. The second quote emphasises stakeholders in the first instance, but links it more to the focus on profitability. And the third quote explicitly turns the relationship on its head, putting financial stability first and the notions of best intention towards society and balancing impacts to the environment as supportive of that goal.

Essentially we understand it as being about three key things, and I have brought the framework to show you. The first is about getting the fundamentals right, so it's about our responsibility to our customers in the first instance, which is delivering clear value and quality services. So fair banking is the first thing. The second for us is about being a good employer. So whether we have the right processes and policies in place to ensure that we are employing New Zealanders in a fair and equitable way, and the third thing is then, we look at our broader responsibility to society. We then look at our responsibility to our community, our environment, and our supply chain (NZFSI #2, E).

CSR is about understanding the stakeholders of the industry and the issues they bring to our business. So, including employees, customers, the wider community, the government, media. You know all the challenges of running a business (NZFSI #3, D).

For us, essentially, it's our primary reason for being in business is to make money. So it's about financial stability and we do have the best intention to society and balancing the impact to the environment in mind (NZFSI #1, B).

It was also pointed out that CSR in the NZFSI context includes issues related to accessibility of services to rural areas, ethnicity, agricultural and tourism businesses, and the high volume of small and medium sized enterprises.

I think that when we put this lens over New Zealand, different things become important than in other countries. You know, potentially in the community space, it's around Maori, Pacific Islanders, and the environment space, around agriculture, and you know, businesses and farming, but fundamentally, the principles of being - you know a good product - a good employer, and the understanding of responsibility are the same globally (NZFSI #2, E).

I mean we do have issues here around people not being able to access banks, so if they live in rural communities, you know, visiting a bank is probably less available than if you are in urban areas. I think we've a really good local model here in New Zealand, you know, where we have local bank managers who do go out to visit customers in rural environments, so that sort of relationship is a lot more personal. And I think some of the issues around, and if you look at the economy, you'll see you've got tourism, you've got farming and these some of the key economic drivers and they are quite specific. So you are dealing with people who are just there to make a few dollars who don't really think broader than their own patch, and so, you know, we are sort of having to deal with people who are quite - I guess - rely on exporting as well, so these are the challenges there we have to meet on their behalf, lots of SMEs, small and medium sized enterprises here, so ... lots of those start-offs and failures, so we have some challenges to deal with those (NZFSI #1, B).

These kinds of statements support the earlier focus of CSR as related to a concern around customer needs. There is also more recognition of the extent of impacts of financial services institutions after the 2008/9 global financial crisis, especially on the indirect impacts of their core business products and services as a result of decisions made to recruit customers.

I mean the indirect [impacts] are probably the more major. I mean the direct we don't actually have a fat or bigger carbon footprint in comparison to manufacturing firms, or you know, an airline but I do think our indirect impacts, which are a little bit harder to measure are probably the major. I think, traditionally, we've been very much hands off in terms of, 'here's the money, off you go'. I think we are moving more now towards risk, I mean the risk side of our business is extremely important. Obviously we've just come through you know, the global financial crisis [pause] was based on very poor decision-making (NZFSI #1, B).

The following quote highlights the choice on which customers to support in one might assume is a tighter lending market.

So if we continue to finance coal fire, power plants, for example, we're two things. We are making negative impacts indirectly because (1) that company will continue to grow, and (2) a clean tech company won't get off the ground because they are not getting that money (NZFSI #2, E).

When prompted, one NZFSI respondent described how NZFSIs indirectly impacted the environment, but explained that such impacts were difficult to measure and would logically be part of a future phase of CSR.

We lend money to businesses, and the individuals, who then, so I guess indirectly, we do impact the environment, so the decisions the customers make with the money will obviously have a positive or a negative impact over time. It's hard for us to really monitor that but it's certainly, I guess if you look at, I mean, home-ownership, and you've got businesses who are, of various industries, and so, and yah, we do have an indirect impact. I mean the indirect are probably the more major. Yeah, they are hard to measure, I don't think we are that evolved yet. I think it might be CSR 3.0 (NZFSI #1, B).

The expectation of one expert stakeholder remained as reported in the interview prior to the 2008/9 global financial crisis, when offering the opinion that NZFSIs have a broad responsibility, and that they have power to influence the society and the environment.

I probably said this the last time. It hasn't really changed but I think financial services institutions have a big role to play, particularly lenders because they have an opportunity to evaluate companies and projects with respect to environmental and social performance before they make decisions to loan money. So they have financial influence, which in our western capitalist society, which I think is the most important influence to have (ES #2, 2010).

The other expert stakeholder commented that the 2008/9 global financial crisis had alerted banks to look at their lending in terms of ethics, but considered that NZFSIs had not been so keen to act in this area.

Particularly around the recession banks are really interested in how they are doing ethical lending. There's less from what I can see in New Zealand on investment strategies, on responsible investment. They seem to be doing the stuff they have always been doing with some really light ethical consideration around that (ES #1, 2010).

The expert stakeholders saw little change in the CSR activities of NZFSIs as a result of the 2008/9 global financial crisis, recognising that the potential for greater activity in this sphere remained unrealised.

The next section presents the findings on the motivations for CSR reporting, from the perspectives of the respondents.

## 7.2 Perceived motivations for CSR reporting

Table 7.2 below summarises the contributions from the NZFSI respondents, pre and post the 2008/9 global financial crisis, in relation to the motivations they perceived their organisations had for CSR reporting. The frequency or absent of contribution do not necessarily indicate the importance or the lack of it.

<b>Table 7.2: Summary Matrix of the Interview Transcripts in relation to Perceived Motivations for CSR Reporting</b>					
Category of issues relating to CSR reporting from the interviews	Contribution of findings from the interview respondents <sup>19</sup> (* and ♦)				
	NZFSI respondents			Expert stakeholder respondents (ES)	
	NZFSI #1	NZFSI #2	NZFSI #3	ES #1	ES #2
<b><u>NZFSI respondents' espoused motivations for CSR reporting</u></b>					
Business-case related	*♦	*♦	*	**♦	♦
Reputation/Image related	♦	*♦	*♦	*♦	*
Others (membership requirement)	*	***		**	

<sup>19</sup> Each contribution is denoted by an '\*' or ♦ for interviews conducted pre and post the 2008/9 global financial crisis respectively. Each contribution can be one sentence or several sentences used to describe the category/theme/coding. Each contribution may also not be exclusive to the category because it may cover two or more categories. Where a contribution has been decided for one category, it has not been counted again for other categories.

Interview findings relating to the perceived organisational motivations for CSR reporting by the NZFSI respondents are thus classified into three areas, namely business-case related, reputation/image related, and others, and each is discussed below.

### 7.2.1 Business-case related motivations

This category covers all the interview data that had profitability connotations when the NZFSI respondents explained their organisations' perceived motivations to undertake CSR reporting. It is about undertaking CSR activities for not just increasing profits or business activity but also to reduce costs and to be more competitive in the market. Some comments were direct while others were more subtle. The following examples talk about the importance of growing the business and infer the importance of impacting positively on the bottom line of the business. Another offers an instrumental rationale for sponsorship and raising the profile of the NZFSI in the community. Raising the profile or reputation<sup>20</sup> of the NZFSI is akin to a strategy with a business-case related motivation.

You obviously want to be seen positively by the community otherwise that affects our other goals, our goal in terms of growing our business and could have a social impact on our bottom line (NZFSI #2, C).

One way to enhance reputation is to hinder any negative issues that are related to the organisation, as the following quotes show. Interestingly the language is similar in both, referring to 'negative impacts on our bottom line'.

Obviously the community will be with us if we are helping the community. So it's a two way sort of thing, reporting negative social issues will of course have a negative impact on our bottom line (NZFSI #2, C).

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<sup>20</sup> Although reputation is discussed in this sub-section under the topic of 'Business-case related motivation', it is also discussed in Section 7.2.2 Reputation or image related motivation. Strategies relating to business-case and enhancing the reputation or image of a business entity seem to have a very similar intended outcome, that is to grow the business. Section 7.2.2 covers reputation from a perspective that is more related to advertising while this section relates reputation more explicitly to profit, cost and competition.

Reporting negative social issues could have a negative impact on our bottom line (NZFSI #1, A).

The business-case motivation for undertaking CSR activities was strong and the evidence for this motivation is also implied across the different sections of this chapter, for example when the NZFSI respondents discussed ‘costs’, there was a direct impact on the profitability of the NZFSIs. As can be seen, the concern for ‘costs’ was exhibited or implied in discussion ranging from practising philanthropy, building reputation to engagement with stakeholders. The following short remark from one NZFSI respondent further emphasises the importance of the ‘costs’ element that implicates profitability, as the business-case rationale for CSR.

It is one thing to spend money on sponsorships, but if no one is aware of you doing it, it’s not worthwhile (NZFSI #3, A).

Another business-case related motivation is also closely linked to the competition factor where the response to competitors’ actions or non actions, especially within the same industry sector is copied in order not to lose out on the market share, clientele base, and thus profit. In response to a direct question about what motivated the organisation to start CSR reporting, one of the NZFSI respondents said.

The whole banking sector has moved in that direction (NZFSI #2, A).

Another respondent put it this way:

It’s something to do with some competitors who started it [CSR reporting], and it’s becoming a common practice (NZFSI #2, C).

One illustration about how competitors within the NZFSI sector are influential, in terms of peer pressure, is when an NZFSI respondent reported a particular NZFSI’s stance taken to investing in an industry commonly considered to be the cause of heavy polluting emissions.

Some businesses [customers of other NZFSIs] don't meet those sustainability criteria, and the typical example of that is not all our power stations have emissions standards that equal the compendium of standards of the international standard of practice guidelines. Now, all the Australian banks and all the investment banks in the state still lend to the coal businesses or those involved in the coal powered energy industry, and so do we (NZFSI #1, A).

According to an expert stakeholder, the motivation for NZFSIs doing CSR reporting seems to be business-related. They apparently do not want to do more than what the competitors are doing in relation to CSR. It is perceived that should an NZFSI impose strict investment or lending conditions relating to broad view of CSR, thereby requiring its customers to conform to certain social and environmental behaviour, its existing or potential customers could move to other competing NZFSIs that did not have such lending conditions. Such fear has a strong leaning towards a business-case argument.

But certainly since ten years ago, banks were saying, 'look, we are aware of that, but it's a very competitive market, and we don't want to be asking our clients to go through the extra hoops and loops from an environmental social responsibility point of view because they might go and get their money somewhere else' (ES #1).

The same expert stakeholder also perceived that competitors within the NZFSI industry who had initiated CSR reporting had perhaps inadvertently put pressure on non-reporters to consider it. CSR reporting was seen as the current trend among competing organisations in this sector.

It's a bit of a global trend, and I also imagine they have pressure from their head office to do something here (ES #1).

An over-zealous attitude of NZFSIs in trying to grow business at all costs was also commented on by this expert stakeholder.

So, in terms of their environmental and social responsibilities, I mean banks are a classic in terms of trying to encourage people to have high debt, to get New Zealanders into high debt, which I think is an appalling practice. You know, helping driving up the real estate prices and the real estate market - and it is sucking people away from investing in their own businesses, and I think banks

have a responsible role to play, you know, to ensure a diversified portfolio in New Zealand (ES #1).

### **7.2.2 Reputation and image related motivations**

The reputation of, and image projected by the NZFSIs are important. And among the different public relations strategies used, CSR reporting is one that seems to be a focus for larger NZFSIs. There are conscious efforts put into the CSR activities by these NZFSIs, such that the effort can attract publicity. Evidence of concerns about building reputation and image by the NZFSI respondents as related to CSR reporting is shown in the following quote.

We set out building trust with stakeholders, and so disclosure is an important element. You have got to be transparent to people to be able to see what you are doing and to begin to trust you, there's also the financial analysts, Dow Jones Sustainability Index, and the stock exchange. I guess it's saying that transparency and trust building is really important to building our reputation, particularly after the foreign exchange incident [related to the 1997 Asian-led financial crisis] which impacted badly on the bank ( NZFSI #2, A).

Aside from using CSR reporting to enhance the reputation of the NZFSI, the above example also suggests that CSR reporting is used to repair a damaged reputation. The following comment implies that CSR activities are aligned to advertising to enhance reputation or image.

Sponsorship is part of our sustainability activity that enhances our goodwill. For example, the sponsors of the America's Cup have all got the intention to get something back from the money invested or their sponsorships. It is a form of advertising (NZFSI #\*).

The fear of damaging the organisation's reputation when it comes to CSR reporting was also brought up by one of the NZFSI respondents. The fear arose from the prospect of reporting something negative about the NZFSI.

To be perfectly honest with you, we haven't addressed internal frauds. You know, I think it is an issue within NZFSI industry. It does happen, I mean, I guess you know, on the one hand, I am saying it's important to talk about it [in the CSR report] but we were unsure how to go about talking about it. You know, it's one of those things where if you are kind of, you know, sort of afraid to put your hand up to say that that has happened in our business because it might alarm people more than you think. It's like a double edged sword (NZFSI #3, A).

One expert stakeholder provided another perspective on what the NZFSIs should focus on. It was opined that NZFSIs should take initiatives to present themselves as responsible so that customers would be proud to be associated with them, in relation to CSR.

They should be talking about how they can influence the market but still be competitive. So maybe they should be educating the market so that they seek, you know, maybe you can get to a point where if a company or a project had funding from an NZFSI, for example, that would sort of tick that they were a sound environmentally and socially responsible company because of their relationship with that particular NZFSI. Maybe an NZFSI could say, 'Well, actually we are not comfortable in taking you on as a client for these reasons, and we would like you to do these, and then we will take you on as a client.' Now, in the short term, you may lose some market share but in the long term, you will be much sought after (ES #2).

The other expert stakeholder emphasised another perspective of motivation where NZFSIs were motivated not to embrace CSR too closely for fear of being seen as losing the business plot. The loss of market share or business, whether in the short run or longer term, is not seen positively, especially when the loss is a result of a radical change in policy such as the shift to impose a fully compliant set of clientele, both present and future. Such fear of business loss is also reflected in the comment by the other expert stakeholder.

There's also a fear from corporate to be seen from being too green. So, if they did something that was you know, recycling paper, looked earthy, etc, then they perceived that people might think they have lost the plot. They are a business, thank you very much, and they need to be (ES #1).

NZFSIs need to be aligned with customers' concerns. Customers may not generally be as concerned about environmental performance of financial services institutions and could see it as an added cost that may translate into increased pricing of their products and services.

### **7.2.3 Other perceived motivations**

Other perceived motivations for CSR reporting include membership of the New Zealand Business Council for Sustainable Development (NZBCSD) which requires such reporting as part of its membership requirements, and the potential of reporting as a change management tool.

One way for an organisation to exhibit its support for CSR is to become a member of an association that promotes the ideals and practice of CSR, and the NZBCSD is an example of such an association. Again CSR reporting is seen as 'on trend' for progressive organisations, aligning with the reputational motivation.

I imagine there are a few drivers [of CSR reporting]. One is definitely that they are a member of the New Zealand Business Council for Sustainable Development, where members are required to produce CSR reports. And it's also being seen to be what the progressive companies are doing now (ES #1).

On a different platform, according to one NZFSI respondent, CSR reporting can be used as a change management tool. This view was also supported by a comment from one of the expert stakeholders who raised concerns about the current CSR reporting practices being a side or auxiliary activity, rather than being mainstream and integrated into the core business activity, thus fearing that CSR reporting may not last long. There was also a comment that CSR reports can be used by stakeholders to check on both the standards applied by, and activities of the CSR reporters.

If you CSR report and disclose in the public domain, and you make commitment to the public, then that actually changes management behaviour too, and that makes sure that they can manage to be able to make those commitment (NZFSI #2, A).

If it was not reported, it might not get done consistently. That's the value and strength of reporting, and it does allow for people to give input, and that's also the strength of it and what I get worried about is that these things are still not integrated enough throughout the business and there's still a fear that they might get dropped or watered down, minimised, instead of growing (ES #1).

Although there was a mention about competitors within the NZFSI sector leading or influencing the production of CSR reports, there was no compulsion as many others in the sector had not produced any New Zealand version of CSR reports. Instead, respondents saw it as more of a business-case related decision to do CSR reporting. Even the joining of associations like the NZBCSD, where publication of a CSR report within three years of joining is a requirement, is a voluntary initiative by the NZFSIs. The more commonly cited motivations for CSR reporting by the NZFSI respondents are related to competition, profitability enhancement and market share enlargement, all of which are grouped under the business-case related motivations. Reputation and image projection in relation to CSR were also motivations to do CSR reporting. Only one NZFSI respondent cited CSR reporting as a tool for corporate change management.

#### **7.2.4 Perceived motivations in the wake of the 2008/9 global financial crisis**

The perceived motivations for CSR reporting by the NZFSIs in the second round of interviews were still very much business-case embedded, as was the situation before the 2008/9 global financial crisis. The focus remained on customers and brand reputation.

We've got a new three year plan, so we have done a lot of work to understand the challenges as a business internally, so we are looking at our own processes and systems to make sure that, you know, our response time to our customers is improving, so customer service is actually been really low, historically. So we are looking at why that's the case because we believe our customers are number one, you know, they are at the heart of what we do. And if we are not looking

after them, then we are not really running a very profitable business and so, yeah (NZFSI #1, B).

The first is brand and reputation, sorry, now that we need people to deposit with us, we don't hold this much power, and they might start to compare us more, so being good will help together with brand and reputation. The second is cost efficiency, which is if you actually do less harm in community and do less harm in the environment, it'll save you money. You know in environment in particular, if you spend less energy you buy less energy. In the community, if you don't put people in financial hardship, you lose less money, so it's cost efficiency (NZFSI #2, E).

The business-case motivation of the NZFSIs even extended to that of potentially charging fees for acting as CSR advisors to their clients. The same respondent also related the practice of CSR to risk mitigation.

There's commercial opportunity like we really understand how to operate in a socially responsible way that does no harm to the environment, we provide businesses [clients] with that advice, and they'll be more likely to bank with us. You know, fundamentally there are some commercial opportunities there, being a really strong advisor. We can also use corporate responsibility to mitigate risk, which is really important in business (NZFSI #2, E).

One NZFSI respondent noted the importance of integrating CSR into business strategy.

We see it as fundamental to the way we operate and for the future of our business, and that it makes good business sense to invest in sustainability and it really is part of the fabric of who we are and where we are going, and that has not changed over the last five plus years. It's just something that we have grown and we are evolving (NZFSI #3, D).

There was also a response about the connection between CSR, employees and banks. Employees were seen to be more proud to be associated with banks who embrace CSR.

CSR around staff engagement and culture, and we have 5000 staff and love this stuff [CSR]. They connect to talking about all these things, and you know, we have this saying about the BBQ test, you know if you had a BBQ and someone says what do you do, people aren't always proud to say that they work in a bank

but people are more proud to say that they work in a bank that does all these things (NZFSI #\*, E).

Interview responses post the 2008/9 global financial crisis suggest that NZFSIs were still motivated to embrace CSR as before the crisis, predominantly by the business-case rationale.

### **7.3 Chapter conclusion**

The preceding sections presented the interview findings in terms of NZFSI respondents' espoused understandings of the CSR concept, and their perceived motivations for CSR reporting, before and after the 2008/9 global financial crisis. They also incorporated the two expert stakeholders' perceptions of the NZFSIs' development of CSR, and motivations to undertake CSR reporting.

The section on NZFSI respondents' espoused understandings of the CSR concept reveals that the NZFSI respondents were aware of the impacts of core business products and services, but seemed to place more emphasis on the impacts of office processes or operational activities that relate to usage of energy and resources such as stationery before the 2008/9 global financial crisis. During the post crisis interviews, when prompted, respondents recognised their sector's broader social and environmental direct and indirect impacts of their organisations' core business products and services but still did not see it as a priority for their organisations to report on. Both the expert stakeholders were aware of the high emphasis placed on the office related operational activities in the deployment of CSR by NZFSIs, and considered, as did the NZFSI respondents, that these activities have a relatively smaller impact compared with heavier industries whose operational activities can have a more serious impacts. The expert stakeholders continued to call for more emphasis on indirect social and environmental impacts, where through the NZFSIs' core business activities of investment and lending, their clients' activities' negative social and environmental impacts could be reduced.

The perceived motivations for NZFSIs' CSR reporting, as reported by the NZFSI respondents, reveal a high concern for the respective NZFSI's profitability, competitiveness, and reputation with minimal change post the 2008/9 global financial crisis. NZFSIs were also specifically influenced by their immediate competitors who undertook CSR reporting. Not wanting to be left behind or lose reputation as being among leading NZFSIs in this area, they were also motivated to follow suit. A similar trend of NZFSIs' CSR reporting continued during and beyond the 2008/9 global financial crisis. Another motivation, perhaps an incidental one, is where an NZFSI respondent also reported using CSR reporting as a change management tool, so that what gets reported, gets done. The expert stakeholders' impression was that the NZFSI respondents have a business-case motive as a priority for doing CSR reporting.

Further interview findings in relation to stakeholder engagement and the selection of issues to include in CSR reports are discussed in the next chapter.

## CHAPTER 8: INTERVIEW FINDINGS – PART TWO

### 8.0 Introduction

*The use of semi-structured interviews, with their open format, provides a valuable means to allow researchers to explore how far their own theoretical presumptions are reflected in the behaviour and perceptions of significant actors in the arena of accounting changes, and to enable new ‘grounded’ theorizing to be formulated.*

*(Horton, Macve & Struyven, 2004, p. 348)*

This chapter continues the presentation of findings from the two rounds of interviews conducted with the NZFSI respondents and the expert stakeholders before and after the 2008/9 global financial crisis. There are two main sections. Section 8.1 focuses on who the three NZFSIs reportedly engaged with, how their organisations engaged their stakeholders for CSR reporting, and how the expert stakeholders viewed stakeholder engagement by the NZFSIs. Section 8.2 presents other issues relating to CSR reporting that were brought up by the NZFSI respondents and the expert stakeholders during the interviews. Section 8.3 concludes this chapter.

### 8.1 NZFSIs’ stakeholder engagement for CSR reporting

Table 8.1 below summarises the findings of pre and post the 2008/9 global financial crisis in relation to the NZFSI respondents’ stakeholder engagement for CSR reporting. The frequency and absence of contribution do not necessarily indicate the importance or the lack of it.

**Table 8.1: Summary Matrix of the Interview Transcripts for pre and post the 2008/9 global financial crisis – Stakeholder Engagement for CSR Reporting**

Category of issues relating to CSR reporting from the interviews	Contribution of findings from the interview respondents (* and ♦)				
	NZFSI respondents			Expert stakeholder respondents (ES)	
	NZFSI #1	NZFSI #2	NZFSI #3	ES #1	ES #2
<b><u>NZFSI respondents' stakeholder engagement for CSR reporting:</u></b>					
Engagement with customers	*♦	***** *♦			
Engagement with employees	*♦	***♦	***	♦	♦
Stakeholder feedback and perceptions	♦	***♦♦	**♦	***♦	*

When asked about stakeholder engagement in relation to CSR reporting, all the NZFSI respondents mentioned undertaking customer surveys and getting employee feedback as their organisations' primary forms of stakeholder engagement. The response implicates the importance of the two stakeholder groups, customers and employees, as well as the common mode of engagement which appears to be surveys. This section is organised into four sub-sections. The first sub-section presents findings relating to NZFSIs' engagement with their customers, and the second sub-section is about NZFSIs' engagement with their employees. The third sub-section includes other issues relating to stakeholder engagement raised during the interviews. The findings of these three sub-sections were obtained in the first round of interviews before the 2008/9 global financial crisis. The fourth sub-section presents the findings from the second round of interviews which were conducted after the crisis.

### 8.1.1 Engagement with customers

The findings relating to the NZFSI respondents' statements that concern their organisations' engagement with customers are mostly to do with how the former engage with the latter to obtain feedback in areas of service quality and satisfaction, reputation

and more general comments about the CSR reports. One of the NZFSI respondents said the organisation had not engaged with its customers for the purpose of CSR reporting. However, this NZFSI engaged with the other community groups, besides the customer group, for its CSR reporting, and the information relayed is presented in section 8.1.3. Most of the reported engagement with customers has been through surveys. Examples of engagement with customers, using surveys but not to solicit input in relation to CSR reporting are evidenced in the following.

We also did a survey on our own, looking at what issues our customers feel important to them, social and environmental, and so on. We did that using our online panel, and nothing from that survey was included in the CSR report. It wasn't done with the report in mind. It's just getting or trying to get a customer's viewpoint in terms of what's important to them or what they think is important to them (NZFSI #2, C).

We actually look at our customer complaint and customer feedback, and what that is telling us. So, for example, we know social disadvantages are a particularly important area, fees and charges are also a particularly important area and that we get from customer complaint or feedback, which is a kind of engagement with our customers but not necessarily for CSR reporting (NZFSI #1, A).

I guess we mainly focus on customers, obviously. The objective, I guess is looking at what's important to the customers. We have lots of research around that. Then we have technical research, which is looking at, for example, new products or services, changes to existing products or services, and getting customers to feedback on those are stakeholder engagement (NZFSI #2, C).

The following example mentions feedback obtained from customers that relates to insufficient information being reported.

In the wealth management area, we were told last year that we hadn't said enough about how conflicts of interest are being managed with the advisors, so that is why that has been put into the report this year, and that was the feedback that we know we get through customers (NZFSI #2, A).

NZFSIs reportedly saw customers as one of their most critical stakeholders and communication with them was very important, especially in relation to matching the products and services to the needs of the customers. The NZFSIs were apparently also very interested in how the customers perceived them in relation to trustworthiness and their general reputation. It was common for NZFSIs to conduct research or surveys, in relation to trust and reputation as perceived by the customers about the NZFSI. For example:

For customers, there is a large number of customer research that helps us to find out what they think of us, whether they trust us, whether we are actually doing what we say we will do, all those sort of things, whether they feel the relationship we have with them that, you know, mutuality of control and we are not just telling them, that we are listening, engaging properly, and whether they are satisfied with that relationship (NZFSI #2, A).

We have done some quantitative research into customers' expectations about CSR. What we essentially did is that we gave them a series of potential areas where [NZFSI #2] might address its standing such as environmental performance, social performance, economic performance, social cohesiveness, use of resources, invest more into charities and sponsorships, and we gave them some potential areas of performance and asked them to tell us how they would prioritise those. 'So given a choice between these things, which one would you rate the highest, say, as [NZFSI #2]'s customer?' Given that we can't do everything, such ranking by customers will help us to decide what are CSR priorities for [NZFSI #2]. I can tell you the biggest single finding we found was that customers' biggest expectation of banks was ethical behaviour and a high level of integrity (NZFSI #2, A).

Since the collection of these data from customers by the NZFSIs was done via surveys, some interpretation was often needed.

We interpret ethical behaviour as the customers' expectation with regard to our willingness to deal frankly and truthfully with people, and willingness to disclose prices, fees and things frankly, and willingness to ensure that individuals, you know, staff members have high level of personal integrity, honesty, truth telling, willingness to uphold standards, etc (NZFSI #2, B).

Using internal resources to assist in third party survey to solicit feedback on customer service from customers as a form of engagement was also practised.

We do surveys on our branch service, and for that survey, we select samples for each branch where the criteria is that we take a random sample of people who have done over three transactions each over the last two months, and we pass it to a third party who actually phone up all those customers and run through the surveys (NZFSI #2, C).

In summary, NZFSI respondents deemed engagement with customers as very important but not necessarily specifically in relation to CSR. The preferred mode of organisational engagement is the use of surveys. Aside from engaging with customers, another aspect of NZFSIs' stakeholder engagement in relation to CSR reporting is their engagement with employees.

### **8.1.2 Engagement with employees**

All the NZFSI respondents spoke about engaging with their employees. The findings concerning NZFSI's engagement with employees are categorised into 'Why NZFSIs engage with employees' and 'How NZFSI engage with employees'.

Employees were seen as an important stakeholder group for their role in the organisation. Quotes relating to why NZFSIs engage with employees' include:

I guess when you think about it, one of the key stakeholder groups we considered is our staff who is very important, this year in particular, and so we did do a range of focus group meetings or workshops with them to get feedback, and perhaps that was the only formalised specific stakeholder engagement we did specific to this report. I mean, there is a huge number of stakeholders and it really depends on what you are specifically looking at, I guess. What we did for this report is we narrowed it down to a specific audience who we have intended this report for, and that was our staff, and the interested public, people who might like to know a bit about what [NZFSI #3] stood for (NZFSI #3, B).

We listen to what our employees say that are important to them [that] includes the concerns about the workplace flexibility, working conditions, etc (NZFSI #2, A).

In relation to how NZFSIs engage with their employees, there were various modes such as face to face work-shopping, online feedback, teleconferencing, and general internal surveys. A common policy applied by NZFSIs for engaging with their staff was that participation was on a voluntary basis. Some quotes relating to how NZFSIs engage with their employees are as follows.

I guess a lot of the surveys I do are around getting feedback from a particular team [within the NZFSI], or feedback on a particular programme that we are doing. For example, we do a series of surveys around personal banking, training etc, but probably most of the surveys are getting feedback from a particular team, say, the credit team may want to get feedback in terms of how they are doing, etc, or feedback on training such as, is there anything about training that we need to improve (NZFSI #2, C).

I have engagement workshops; one each in Auckland, Wellington and Christchurch, and the only criteria in selecting the staff stakeholder is that it did not include senior management, otherwise, it's voluntary (NZFSI #1, A).

Internally, we have a sustainability action team who meet or teleconference to discuss what or how to design the content. The sustainability action team consists of staff who volunteered their time to provide feedback on our CSR reporting, and they are from different regions around the country. There are about one hundred members but they come and go without any fixed criteria for membership, purely voluntary (NZFSI #\*, A).

The common engagement channels used by the NZFSI respondents to engage with their employees include surveys and workshops, and the participation of the employees was on a voluntary basis.

### 8.1.3 Stakeholder feedback and perceptions

Other issues relating to NZFSIs' engagement for CSR reporting that were raised during the interviews include remarks about the NZFSIs' engagement with suppliers and the community. There were also comments about engagement from the expert stakeholders about CSR reporting by the three NZFSIs.

An interpretation of engagement by an NZFSI respondent in relation to CSR reporting is that it occurs as part of a normal business engagement, such as that with suppliers. The engagement has no specific CSR agenda and is deemed sufficient for CSR purposes, such as CSR reporting.

Well, some of that is just normal business practice. So the way our procurement department is run for particularly large suppliers, and they have account managers, and so through their day-to-day relationships with the suppliers they will engage. It is also early days in terms of our engagement as you can see by our report. Across the group last year, we implemented the environmental procurement policy, so we had engagement at the stage of tendering process with suppliers, and we had engagement definitely at the contract stage, and depending on who they are and what issues they represent. Those are ongoing engagement but one of the things we are looking at - because at the moment we are going through a revision of our environmental policy to turn it into CSR procurement policy - is to bring in all the human rights and social issues (NZFSI #2, A).

One of the NZFSI respondents did report the organisation officially engage with a specific group of the community, and more specifically, with some external sustainability expert stakeholders in relation to CSR reporting. However, the engagement was done only after the first CSR report was completed.

For our second report, we invited eight external consultants or sustainability expert stakeholders to comment on our previous CSR report and to suggest ideas for improvement for our second CSR report (NZFSI #3, A).

The initiative by one of the NZFSI respondents to engage with some external CSR experts was also seen to be a commendable move by one of the expert stakeholders:

I think that was a really good strategy. I think it was really bold too. It is quite a brave thing to do, to get people who are considered to be the leaders in the practice of sustainability area in New Zealand together, and say what do you think [of our CSR report]? What do we need to do to make it better?

It was an open feedback, no holding back [pause] say what you want to say, but I think they [NZFSI] need to do a response [feedback to the stakeholders whom they had engaged with]. I think they need to pull people back together and tell them what they have done about the feedback. They wanted feedback. My feeling was they wanted to have open feedback on whether this was good or not, and they wanted to know if they were wanted to do another report, and should they do it the same or differently? What do we need to do to do it better? They are interested in the visuals as well as, you know, the details (ES #1).

The relevant NZFSI respondent noted that the opinions of the expert stakeholders were officially sought because there was lack of feedback from the public who could have voluntarily provided comments or feedback as stipulated in the CSR report.

Our CSR reports provide avenues for anybody to provide feedback. So far, we have not received any feedback for our first CSR reports. I do not think many people read them except for the staff. I use them for inducting new staff and hopefully people can see our sustainability values, beliefs, and philosophy and make up their minds as to what type of company we are, and make their decisions accordingly (NZFSI #3, A).

A similar lack of public engagement was mentioned by another NZFSI respondent.

Most of them [the public] don't comment. If there's an option for them to put something in, most of them don't, unless it involves them personally, for example suggesting photographs be included in credit cards brought in a few comments (NZFSI #2, C).

The expert stakeholders also shared similar opinion to the NZFSI respondents about the lack of feedback from the public stakeholders concerning the CSR reports.

I think asking people for written submissions doesn't work. I think you don't or you only get very few people who will sit down and try. I think talking to people is the best strategy, and making it as easy for them as you can (ES #1).

It is hard for organisations to get feedback because no one bothers to reply, so you need to be quite proactive, you know, buying people lunch, for example. When you devise stakeholder engagement processes, you have to put yourself in the shoes of the stakeholders and think, “ok, what’s in it for the stakeholders to spend their time to contribute their feedback?” Ok, so it’s the time plus maybe some intellectual property, ideas, you know, and I think a lot of companies don’t do that. They just bulldoze ahead with what they think is the perfect stakeholder engagement plan. They don’t think about what’s in it for the stakeholders. They don’t really get a lot of engagement, so it has been a waste of time (ES #2).

One expert stakeholder felt strongly that NZFSIs should take the initiative to engage with people who have pure environmental focus to get other perspectives on CSR activities and reporting.

I would like to see them get representatives on the environmental issues, representatives on key social issues, and representatives of economics, and customers, a reflection of their customer base, but I think what often happens is that the environmental people aren’t included enough. Maybe they are a bit lobbyish and it could be a problem. It was much heavier on the social side than the environmental side. Maybe they thought their business has not so much impact on the environment. I don’t remember any of them [expert stakeholders that were invited] particularly being environmental people. They are Sustainable Business Network people mainly, so I guess they were hoping that these people would cover all aspects of environmental, social and economic matters, but then, they had somebody who is a diversity specialist representing the Maori, and Pacific Islanders, and that was good, but I think since you pull in the social people, you need to pull in the environmental people (ES #1).

Generally, most of the feedback related to CSR reporting by NZFSIs had been from the employees and only one NZFSI had invited expert stakeholders to specifically give feedback on its CSR reports. The expert stakeholders were specially invited for a working lunch to provide feedback. All the engagements were initiated by the NZFSIs. For employees, the organised workshops, focus groups and surveys were voluntary. The reliance on external stakeholders’ own initiative for feedback in relation to CSR reporting has been unsuccessful across the board. The spectrum of stakeholders that NZFSIs had engaged with specifically for the purpose of CSR reporting seems to be narrow, and the suggestion from an expert stakeholder is to include others, such as environmentalists.

There are three other major groups of issues that emerged from the second round of interviews as presented in the next section, the fourth category of the interview findings.

#### **8.1.4 Stakeholder engagement and CSR reporting in the wake of the 2008/9 global financial crisis**

Stakeholder engagement by NZFSIs reportedly continued with the customers and employees stakeholder groups during and after the 2008/9 global financial crisis. One of the ongoing issues relates to apparent low readership of standalone CSR reports that is also evident in the electronic reporting format.

We captured the downloads and they weren't bad, I mean they were, I think you know for across the group there might have been 15 to 20,000 perhaps, so they weren't too bad, the downloads, but in New Zealand because we are owned by an Australian bank, pretty minimal. I would say, we would be lucky if 150 read them. I know that another bank has decided to stop reporting and put out a notice to stakeholders saying we are probably not going to do a report this year, and they didn't get any news back. I know [the decision-maker involved] quite well, so we often talked about this, and they didn't really get a lot of outcry, and so we kind of know that it's not hugely useful (NZFSI #\*, E).

I mean the most or majority of people that read our reports are at the shareholders, investor relations level, so we believe that, you know, the majority of our customers don't read the reports (NZFSI #1, B).

The interview respondent from the NZFSI that had decided not to do a report that year felt that CSR reports did not achieve the desired response that relates to the dissemination of its CSR activities.

Customers were still saying we don't rate you, we don't advocate you. Employees were saying, we didn't know we did all of this stuff. So we took a look at how we communicate, we invested more in, as I have said, other media channels (NZFSI #\*, B).

Whereas this NZFSI respondent related some increases in stakeholder engagement with the customer and employee groups, as a result of the crisis, to business survival, a second NZFSI respondent reflected that the crisis had broaden the organisation's view on stakeholders groups. However, the respondent from the third NZFSI opined that any direct co-relation may be difficult to justify.

Our customers are talking to us. We are going out talking to them a lot more. I think when things are going really well, people aren't really bothered about going talking to their bank, so we are getting a lot more, and our call centres, banks, you know, the local branches, and we are opening more branches in the communities to Auckland this year we launched ten new branches, and we want to reach out to customers more, so I think it's strengthening it. I think there's been a lot more focus on that, on employees. You know there were no pay increases as a result of the global financial crisis because we are aware that all our resources had to go into, I guess, keeping us afloat in order to keep our customers afloat (NZFSI #1, B).

I think the reason why that [increased concern for broader stakeholder groups] happened is we increased our stakeholder engagement, so, and stakeholders are becoming more and more educated, and we've broadened the stakeholder view. We used to think of stakeholders as the regulatory bodies, you know, your media, maybe your customers, and maybe your shareholders, employees, but when you start thinking of them as community groups that may experience financial hardship, and environmental organisations who are aware of your footprint. You know when you start broadening it, they start putting out for you what really matters (NZFSI #2, E).

One respondent said that the 2008/9 global financial crisis had caused business organisations an increased sense of accountability to all stakeholders, and for those who had not embraced CSR, the crisis could have aroused some initiatives to do so.

I don't know, you could argue that they have tightened or changed certain things because of the global financial crisis, but generally of course as we all know, working in business and in the financial sector, there has been a very rude awakening as a result of the financial crisis, and increased calls for transparency and accountability across all aspect of operations and engagement with all our stakeholders. Has that changed what we are doing in isolation? No. We certainly don't discuss we are doing this because of that. There's no direct linear link, I would imagine corporate and institutions or organisations that have never invested in CSR, there might be a rude awakening and they might be all of a sudden jumping on the boat (NZFSI #3, D).

There was also an observation that the crisis caused a shift in power from NZFSIs to the customers in terms of dictating the terms of CSR.

The [2008/9] global financial crisis probably has been responsible for an increase in consumer demand for socially responsible banks. With this power change, where the bank used to be the big lenders in New Zealand, now we are deposit seekers. And with this shift in power, reputation becomes incredibly important, and we are seeing consumer trends data that showed that consumers are caring more and more about socially and environmentally responsible banks. So the global financial crisis has probably lifted their expectations and therefore driving, I guess some of our motivations (NZFSI #2, E).

Through increased stakeholder engagement, the expectation of NZFSIs in relation to CSR has required more than philanthropic activities and their focus on internal operational activities, according to one respondent.

I think it made them realise that they are not going to accept window-dressing any more. You know, they are not going to accept philanthropy as you know, a social offset, so to speak, so I think that's quite important. They've started saying to us, it doesn't matter if you, you know, if you catch less planes, you have the ability to fund clean technology, you know, so they've really started to put I think more responsibility on us as a bank (NZFSI #2, E).

When asked about environmental stakeholders for the NZFSIs, this respondent revealed relatively weak pressure from this group of stakeholders.

Yeah, it's funny, I think, not as strong, not as strong. I think that we have environmental stakeholders like we talked to people like Landcare Research, and you know, the relevant Forest and Bird, Department of Conservation, we talked with the people who will tell us about what they want from us, what they expect from us but in terms of the environmental [aspect], we only really measure our carbon. You know we only measure our own impact on it, or we measure the entire greenhouse gas sort of emission but yeah, we don't really talk about what role we've had to play on the environment per se. It's quite abstract for us (NZFSI #2, E).

One expert stakeholder considered that stakeholder engagement had decreased during the 2008/9 global financial crisis because CSR reporting became less important compared to business survival.

You get quite a cut back in the scale of stakeholder engagement because the stakeholder engagement is one of the areas that is often not well-defined anywhere, in terms of contribution to the entity's performance and to the reporting, and it's expensive and time consuming. And the stakeholders, their attention may be diverted to elsewhere anyway (ES #2, 2010).

The other expert stakeholder considered that the 2008/9 global financial crisis prompted NZFSIs to reactivate their stakeholder engagement through their memberships in local associations such as the Sustainability Business Network, and through internal organisational restructuring.

I don't think they've responded to it [the crisis] as quickly as they probably should have, but they have been employing sustainability people again to start to look at that function [stakeholder engagement in relation to CSR], like [NZFSI #\*], they're advertising for more people at the moment into their sustainability team. So they had a team, the team disappeared, the team came back (ES #1, 2010).

Much of NZFSIs engagement with stakeholders may not have been specifically done for CSR reporting, and the number of groups of stakeholders engaged with could arguably be extended. The NZFSIs increased their engagement with some stakeholders, for example with customers, through the 2008/9 global financial crisis.

## **8.2 Other CSR reporting issues**

Table 8.2 summarises the contributions from the interview respondents, pre and post the 2008/9 global financial crisis, in relation to other issues that concern CSR reporting by NZFSIs.

**Table 8.2: Summary Matrix of the Interview Transcripts pre and post the 2008/9 global financial crisis – Other Issues**

Category of issues relating to CSR reporting from the interviews	Contribution of findings from the interview respondents (* and ♦)				
	NZFSI respondents			Expert stakeholder respondents	
	NZFSI #1	NZFSI #2	NZFSI #3	ES #1	ES #2
<b><u>Other issues</u></b>					
Costs of CSR reporting	*♦	**	*	**	
Decision-making	*	****	*		
Choice of CSR issues for reporting and GRI	*♦	**♦	**	♦	**♦

Other issues in relation to CSR reporting by the NZFSIs are classified into four subsections. The first is related to the cost of CSR reporting. The second is about the authority of decision-makers in relation to CSR reporting. The third relates to the approaches to CSR report design and the selection of CSR issues for reporting. The fourth subsection presents the findings from the second round of interviews conducted after the 2008/9 global financial crisis.

### 8.2.1 Costs of CSR reporting

The costs associated with CSR reporting, mentioned by the NZFSI respondents, included money, time and staffing. The concern about the cost of CSR reporting seemed to play an influential role in some of the decisions made pertaining to CSR reporting.

So you know there are significant efforts that you have to put in - significant people and time resources and dollars in doing this [CSR reporting] (NZFSI #2, A).

I think most people have underestimated how much work is involved in CSR reporting. We have spent quite a bit of time this year on getting the content to

be sent to head office in good shape, it's so much more work than we imagined (NZFSI #2, B).

The complexity increases with size of the organisation, like I have done CSR reporting in a small business of two hundred people and now doing it here. The added complexity [of CSR reporting] and time requirements throughout the business is significant. There are some costs and when your system is young, it's a hell of a lot of work. Actually when you think of things, like we had difficulties in getting some stats, and different parts of the business actually understood things in different ways, so we had to work hard to get shared definitions of some indicators. That takes a lot of time. There is an incredible investment, we believe, even though there is the cost [of verification] (NZFSI #2, A).

It is difficult to measure the returns or value of these reports. It could be a major money earner for NZFSI #3, or maybe it is just a huge expense for the company. It is not clear and there's no way of telling (NZFSI #3, A).

NZFSI respondents also specified stakeholder engagement in relation to CSR report as an expensive undertaking.

It's a practical thing, you know, you have got to get practical about reporting. You can't consult with everyone to do your report. Practically we have 1.3 million customers, and if we want to say, consult, who would you pick or not pick? So you randomly do it of course, but if you were to do a random selection, say a thousand, and that's a lot of work. This is not an industry that is just going to create reports, you know, it has to be interwoven into the way we do business. You know, corporate responsibility is not an overnight sensation. It is forever, and you've got to see it that way. So you can't put a huge amount of energy and resource into consulting everyone, you have to do it over time, it is too big (NZFSI #\*, A).

We did actually talk about talking to some of our suppliers last year but I guess we just ended up with time pressure (NZFSI #3, B).

The expert stakeholders were also aware and concerned about the costs involved for the NZFSIs in CSR reporting, which might detract from more substantive action.

What I get worried about these things is that the amount of investment that goes into producing them can take the energy away from the real change happening. I look at some of the businesses that I work with, and I see them, when coming to reporting time, and it takes them six months to collate altogether the information and then the report. So other projects that they might have been working on, that might be, you know, new sustainability products, will be shelved for six months while they write the report. It becomes a political nightmare internally, on what to report on, what gets put in and what gets taken out, and then the time that gets sucked into developing that stuff by people who are the change agents within the organisations. It seems to pull away from the energy of doing the real change (ES #1).

The pressure of cost, whether it is money, time or staffing resources, is apparently a major concern for NZFSIs when undertaking CSR reporting. The interview comments also mentioned an organisational expectation about potential returns from such investment. The expert stakeholders also share a similar view that stakeholder engagement is a costly activity.

### **8.2.2 Decision-making in relation to CSR reporting**

Although there are many people within the NZFSIs who collect and collate information or data for CSR reporting, the authority to decide the final inclusion or exclusion of issues, narration, photographs or graphs/charts in the CSR report, and the physical design appears to rest with a limited number of personnel.

The following two sets of interview comments show first the decision-makers interviewed confirming their status, and second, those who confirm the status of the decision-makers.

The first set includes a very affirmative comment. When asked about who makes the decisions about the choice of CSR issues and mode of stakeholder engagement for CSR reporting, there was a clear and short reply from one NZFSI respondents.

I do. I decide. It [CSR reporting] is not legislated. It is a choice thing about how we do it. I do it on the basis of what I can resource and what are my priorities (NZFSI #\*, \*).

A more collective effort by three respondents from one of the NZFSIs was apparent in their comments relating to decisions about the external design and content of the CSR reports.

We decide. We really reported on what we have been doing and what we saw as big issues. We also looked at some research around topical issues with the public. So, for example, a research company identifies the public's key issues of topical concern are things like weather disaster, crime, inflation, employment, petrol cost, traffic congestion and a spate of other issues, our team try to look at some of the things and try to relate them to issues for our (NZFSI #\*, \*).

We'll talk to our in-house research specialists and ask them to help us devise something, and also through the focus groups with our own staff, and they helped us to develop some of the, you know, specifics of what was going to be within our topics - those topics that were identified through the topical issues survey. We decide, it is not to say, by any means that we reported everything that came out from the research because it wasn't necessarily specific to us, but we did tailor what we felt like were our issues and we sort of blended it with some of those public perceptions we knew were there (NZFSI #\*, \*).

The second category of comments from respondents from a different NZFSI affirmed a mainly supporting role in the CSR reporting decision-making process for the stand-alone New Zealand version of CSR reports.

I don't know how they [head office people] choose or reject the issues. You are welcome to get in touch with the person in charge if you like. The answers would be interesting about why some things have not been reported. I don't know how they make those decisions. Many of our corporate social responsibility activities have been exported to us by the Australian owner and the CSR report is an example (NZFSI #2, B).

From the feedback of the above respondents, the name and contact details of the identified 'person in charge' were obtained, and that person was duly interviewed and

included as a respondent for this research. Other remarks from NZFSI respondents affirming their supporting roles include:

Ok, my specific involvement which pertains to [CSR reporting], and I can show you here, is providing some of the NZFSI #\* figures for balancing accounts in the group. I provide the figures based on the databases that we have access to. This report has its specific requirements, so that number has never been used before whatsoever in other types of reports (NZFSI #\*, \*).

It's largely driven by the people - by head office who decides what's important to report and more or less, they give us a list of what they want New Zealand to report. I report on how many surveys that we do with customer and staff. I didn't actually look at the nature or purpose of those surveys, I just provided the quantity or number of surveys done (NZFSI #\*, \*).

The findings related to this category affirm that the decision-making for CSR reporting in the NZFSI respondents are confined to a few personnel who have the final say in deciding the design and content of the stand-alone New Zealand version of CSR reports. The majority of the employees involved played a role in data collection but were not always directly involved in deciding the format of the CSR reports.

### **8.2.3 Choice of CSR issues for reporting and GRI**

Specifically, the decision-makers from the NZFSIs have used CSR reporting guidelines or frameworks such as the Global Reporting Initiatives (GRI), and The Equator Principles, and templates obtained from overseas-based head offices. Raw data were generally collected and collated to fit into the different sections of the GRI model, for example, total CO2 emissions under the 'Environment' category.

NZFSI respondents relayed how they used the GRI as guidance for their CSR reporting.

The GRI really determines what banks should report on. Ok, we run a process, asking these people [from the focus groups and workshops] what is it they think about under each of those headings and what they should expect from the bank. They tell it, you collect the data, then you work out a report, and you go, right, I

am going to report on this stuff as well as whatever GRI wants. You then come back into the organisation in terms of all the data under the GRI. What you need to report has to be sourced from all parts of the bank to bring it all together into a form of graph, or whatever it is. You then put it in front of the auditor to say whether it is ok or not, then it goes in the book [CSR report] (NZFSI #1, A).

Although CSR reporting guides, such as the GRI were used to design the CSR reports, the NZFSI respondents report using discretion to select issues that they want to report on. Although there is guidance on how to select issues consistently, for example testing for materiality, there is room for considerable subjectivity.

We were using the GRI. It provided a guide but we didn't report all, and you can see by our report, that the GRI required. We didn't need to [report] in accordance to the GRI, but there is an 'if not, why not?' approach (NZFSI #3, C).

Some of these issues we don't do yet or we have a slightly different approach, so we haven't included them. Others, we say this is not relevant to us, so we can't influence that. In other cases, we actually said, 'Look, our systems have never been developed to allow us to report on that indicator even though we understand you'd love us to report, we can't' (NZFSI #1, A).

GRI gives you some good principles to help you interact the issues, so we test it with, 'Is it material that we need to report?' And you do that at two levels, first, 'Is it material in terms of stakeholders?', and second, 'Is there a regulatory way of materiality here, will it affect the market and its decision about us?' So, there's materiality in terms of our degree of impact and the stakeholders' use. You know, if there's a very small minority group asking us to report on something as opposed to the majority of people, then we can exclude it (NZFSI #2, A).

As noted in Chapter 3, one of the key CSR issues to report on is related to the organisation's core business products and services. One NZFSI respondent mentioned the finance sector supplement of the GRI and explained the challenges of reporting issues relating to the core business products and services.

One of the GRI indicators in the finance sector supplement says that we should report on the social and environmental impact, both positive and negative

around lending, and we just went, ‘That’s so big, we can’t actually do that at the moment. It’s embedded with value judgment, so we say, ok, we’ll just take a small and manageable chunk, say, project finance, and then it was like, how do you do that? How do you decide what is socially beneficial and what is not? How do you find what environmental impact it has?’ (NZFSI #2, A).

One NZFSI respondent also highlighted a challenge about the flexibility offered in the GRI guidelines, citing the inconsistency of CSR reports, despite using the same GRI guidelines, making it difficult to compare the CSR of different organisations.

As someone who has put together these CSR reports, I would like there to be a sort of common benchmarking things around environmental indicators and social indicators that we can use to compare, you know, between [NZFSIs] because people tend to report in very different ways, using different measurements and not necessarily explaining everything even when using the same GRI guidelines, not to mention when there are a few other guidelines available (NZFSI #3, C).

The head office template was used as a guide to design the content of the New Zealand version of the CSR report.

We use the indicators that came from head office overseas last year, which is a guide for us and also that was the kind of stuff that we were reporting on, so we already know something about that. In terms of the one with head office, we took everything that we could report on, so we reported on every single one that we could. There are only a handful of ones that we couldn’t report on because in some cases there were things like, for example, worker compensation cover which doesn’t exist here, or it was aboriginal, you know, diversity around aboriginal which is not, and we don’t collect that kind of data here, and it wouldn’t apply anywhere across this country. So those kind of things were only the kind of things that we couldn’t report on and we didn’t (NZFSI #3, C).

An approach to interpreting the CSR reporting guidelines offered by one expert stakeholder respondent suggests that NZFSIs should be reporting more on the processes and impacts relating to core products or services.

Well, they should report on how they evaluate their investment, their loan applications, their project investments and also business investment options to ensure that they are investing or lending wisely, that they are investing in companies that are operating in an environmentally and socially responsible way. So they should be reporting on the processes that they have, and the issues they have with that. The screening process, you know, how they go about screening. I mean internationally, for example, there's something called The Equator Principles that they apply to projects investment, so that the projects meet a certain number of criteria. They could report some examples of CSR projects that they have supported with some sort of appendix that shows the screening and evaluation that they went through and what they asked, you know, for example, 'all our government clients now ask information about our practices, and it's part of their decision-making as to whether they engage us or not.' Similarly, part of the bank's decision-making and analysis [relating to loan applications] should be, you know, how the applicant companies perform in terms of CSR (ES #2).

The same expert stakeholder also suggested that governmental legislation may be required to promote and structure CSR practices among the NZFSIs. The same respondent claimed that leaving it to the financial services institutions to decide on their reporting agenda can be compromised by their strategy in competing for customers. The respondent also offered some ideas about how the government can get involved in CSR reporting by NZFSIs, for example through providing incentives for financing sustainability-related activities or businesses. The respondent considered that the public can also contribute ideas to the government in formulating regulations for CSR reporting by the NZFSIs.

You know somebody in the government should initiate [action] because it is hard for the banks and private sectors and they are competing to drive this agenda because they are always looking over the shoulder to compete for more customers. There needed to be a meeting with the government to set the rules of the playing field so that preferential investment in socially and environmentally responsible banks and projects will fare better. The government can offer banks incentives to offer lower interest rates for solar energy related projects compared to non-renewable ones, you know, the public can contribute ideas for government to put in place the regulations and policies (ES #2).

Although the GRI was cited as the general guide for CSR reporting, NZFSI respondents are aware of the flexibility allowed for in the interpretation of the guide. An opinion from one expert stakeholder is that government should initiate control over CSR

reporting by NZFSIs as the latter are unlikely to make the changes to report more broad CSR for fear of losing clients to competitors.

#### **8.2.4 Remaining issues in the wake of the 2008/9 global financial crisis**

The concern about the costs that relates to CSR reporting seems to have been reflected in the choice to discontinue the stand-alone New Zealand version of CSR reports by one NZFSI. Instead, it has preferred to produce a consolidated group report, and use the web-based channel for reporting CSR activities.

So we, I mean, for example this year we have integrated our financial and non-financial reporting as a group level, so [NZFSI #\*] doesn't report its own report. Because it's just quite a long cumbersome process, and we communicate through different means, so CSR reporting is just one means of communication. We just make a decision on where it [the information] actually goes, so we update our websites, we've got an intranet for our staff, we've got, you know, a lot more engagement within the business. We communicate very differently now. But I think you know, in terms of where we are going and where New Zealand stakeholders likely to read, we just have to ask them, so we did ask, so we said, do you read reports, and they said no (NZFSI #\*, B).

Another NZFSI respondent has indicated that all the CSR information will be included in its annual review together with the details of the financial performance where shareholders will get to read about the social and environmental performance.

Well this year, we've decided to not have a corporate responsibility review. This year we are having an annual review that is partly about corporate responsibility and partly about business strategy. So we are combining the shareholder review and the corporate responsibility review because we believe that they should be more integrated like shareholders should look at financial, social, and environmental performances. So this integration is quite big for us. So I think it will start to add more value in that regard when we look for shareholders that are looking for the triple bottom line, and even if they are not looking, they should realise or learning to start to care. And, so maybe, maybe, that has value (NZFSI #\*, E).

As with before the 2008/9 global financial crisis, there was awareness of negative indirect social and environmental impacts of core business products and services of NZFSIs. The refreshed emphasis is on the responsibility to their clients whom they cause distress if their core business products and services offered were not matched properly to the customers' situation. Aside from the continued emphasis on the environmental impacts of NZFSI office operational activities, one NZFSI respondent hinted at the organisations' responsibility in selecting customers who were also conscious about their activity's environmental impacts.

We can cause people to be in financial distress if we don't sell them the right product, if we don't educate them what to do with that product, and if we lend to them irresponsibly. So that's first the most important, I guess. Environmentally, we emit some emissions, but we can also continually invest in dirty energy, dirty coal for example. So our impact might be that we don't help shape a New Zealand that has a cleaner technology for example, as a finance company, you can finance change in that regard (NZFSI #2, E).

Although aware of the responsibility with regard to their indirect impacts, that is concerning their customers' social and environmental impacts, NZFSIs found it difficult or were unwilling to get involved in or dictate their customers' activities. The effort to implement a consistent indirect impact policy is selective, and the monitoring of their clients' social and environmental impacts is based on encouragement.

So I think yeah, as I've said, traditionally we've been very hands off but I think in terms of responsibility, we do absolutely have a responsibility. I mean we were one of the first banks to sign the Equator Principles, so I mean that was you know, ten years ago. So, I mean that has had a major impact in terms of reducing the amount of coal, fire-power stations being built in Australia and what have you, but I mean we work very closely with our institutional clients. I mean, we are not dictating what they should do and how they should invest but we are certainly encouraging more investment in low carbon. It's very individual how we treat our customers, so it does depend on the relationship, manager at the time. I mean some of our relationship managers are very aware of the impacts, wider than just the financial risk (NZFSI #\*, B).

As with the pre-crisis situation, one of the expert stakeholders still insisted that the indirect impacts of NZFSIs remains important, but added the direct impacts to the

NZFSIs should they fail to take into account the social and environmental impacts of their customers.

It also makes a lot of sense from the financial institutes' perspective because they should not be loaning money or participating in projects or companies that are not performing well, environmentally and socially because that is a risk to their money (ES #2, 2010).

The other expert stakeholder considered that the 2008/9 global financial crisis had stimulated NZFSIs to increase their stakeholder engagement mainly with customers. However, this respondent believed the engagement was not done effectively. This respondent was also of the view that NZFSIs may be fearful of the expectation of stakeholders in terms of CSR reporting, thus stifling any change.

I don't think that it's been done really particularly well. I don't think. I think that part of the fear is probably, if they ask the questions [to stakeholders about CSR issues relating to NZFSIs], then what? Because it might be quite challenging for the changes that they actually need to make. So I think if they do a really good job stakeholder engagement and do it really well, they will be quite shocked at the expectations that people have on them, and some of them in some situations. I think that people might already be assuming that banks are already doing 'X', 'Y' and 'Z', just because they are the right things to do, and they are not [doing those things] ES #1, 2010).

The 2008/9 global financial crisis resulted in relatively minimal changes in CSR reporting by the NZFSIs. Although changes such as consolidation of CSR reports were made, these NZFSIs had not made substantial changes in the content of the CSR reports. As before the 2008/9 global financial crisis, NZFSI respondents continued to be concerned about their organisations' indirect responsibilities but were also found to be lacking in any incentive to move beyond their current level. One expert stakeholder commented that the fear of not being able to meet stakeholders' expectations in terms of their indirect social and environmental impacts might be a reason for maintaining the status quo.

### 8.3 Chapter conclusion

NZFSIs respondents' comments on stakeholder engagement for CSR reporting suggest two major groups of stakeholders were predominant. Customers and employees were the major focus of engagement exercises, and engagement was undertaken using surveys, focus group meetings and/or workshop sessions. The survey approach was most preferred. Some of the objectives for the engagement include obtaining feedback on the NZFSI's service quality, and to a lesser extent on getting feedback or ideas in relation to CSR reporting. The NZFSI respondents were very concerned with the reputation of their organisations, as perceived by customers and investors. Other stakeholder engagement groups include suppliers, and the expert stakeholder groups were also mentioned but more in passing. Normal business interactions and communications with suppliers were deemed by the NZFSI respondents as stakeholder engagement in relation to CSR. All the stakeholder engagement discussed had been initiated by the NZFSIs. There had been minimal voluntary feedback from the stakeholders, notably in response to the prompt for feedback as indicated in the CSR reports. The expert stakeholders opined that stakeholder engagement conducted by the NZFSIs was inadequate because environmental stakeholder groups had not been specifically included, and the channels used, such as written feedback as asked for in the CSR reports, were also ineffective.

CSR reporting was reportedly seen by the NZFSIs as costly in terms of money, time and resources. The NZFSI respondents also highlighted that the ultimate decision-makers for CSR reporting were head-office based and limited to one or three people while others collected and collated data for the decision-makers. One of the NZFSI respondents used a CSR report template or sample from the head office and the GRI guidelines have reportedly also been used by the other NZFSIs. The general comment about the GRI guidelines is that the indicators can be customised to each organisation each time of use, thus compromising over time the consistency of information for comparison. The expert stakeholders were also aware of the high cost of CSR reporting, especially with the opportunity cost of foregoing ongoing activities in order to do CSR reporting for a few months in a year. They also considered that the

government could play a critical role in encouraging, if not regulating, the NZFSIs to take CSR reporting to a level which covered broader social and environmental impacts. Both the expert stakeholders considered NZFSIs' engagement with stakeholders for CSR reporting adequate but any action or non-action on the latter's feedback on the part5 of the NZFSI's was not known. As with the NZFSI respondents, the expert stakeholders considered that voluntary stakeholder feedback scarce.

The 2008/9 global financial crisis reportedly prompted NZFSIs to think more about their indirect responsibilities, increase their stakeholder engagement with customers, and rationalise their costs for CSR activities such as CSR reporting. However, one expert stakeholder considered that despite the increase in stakeholder engagement, the quality of CSR reports could have been better.

The above categories of findings presented in this chapter, and those from the two previous chapters are discussed and analysed in the next chapter.

## CHAPTER 9: DISCUSSION

### 9.0 Introduction

*The real mystique of qualitative inquiry lies in the process of using data rather than in the process of gathering data.*

*(Wolcott, 1990, p. 1)*

This chapter discusses the key results from content analysis and findings from the interviews in relation to the literature reviewed in Chapters 2, 3 and 4. It is organised into five main sections to address the research questions outlined in Chapter 1.

The first section, 9.1, discusses the CSR concept, as espoused by the NZFSI respondents and the expert stakeholders in the context of financial services institutions. Section 9.2 discusses the perceived motivations for CSR reporting offered by the NZFSI respondents and the expert stakeholders' perceptions of likely motivations. Section 9.3 discusses stakeholder engagement by the NZFSIs in relation to CSR reporting. Section 9.4 discusses three other issues relating to CSR reporting reported by the NZFSI respondents and the expert stakeholders during interviews. Results from content analysis have also been woven into the sections where appropriate. Section 9.5 provides a summary of the discussion.

### 9.1 Espoused understandings of the CSR concept

The interview respondents' espoused understandings of the CSR concept serves as a useful background to understand the motivations, and the way CSR reporting was carried out by the NZFSIs. The motivations could affect the strategies for engagement with stakeholders and the design of the NZFSIs' CSR reports.

Sub-section 9.1.1 provides a bullet point list of key findings from the pre and post 2008/9 global financial crisis interviews, followed by some discussion relating to the perception of the CSR concept by the NZFSI and expert stakeholder respondents to the literature reviewed, incorporating the findings from the content analysis conducted on the CSR reports of the NZFSIs.

**9.1.1 Key findings surrounding understandings**

- The content analysis on the stand-alone New Zealand version of CSR reports of the NZFSIs before and after the 2008/9 global financial crisis revealed a relatively low level of reporting on issues relating to the impacts of the core business products and services.
- NZFSI respondents were aware of the broad concept of CSR that embraces three dimensions. In line with literature presented in Chapter 2 (for example, Elkington, 1999; Jeucken & Bouma, 2001; Cramer, Jonker & Heijden, 2004; O’Sullivan & O’Dwyer, 2009), the three dimensions relate to the economic, social and environmental impacts of their business activities, including core business products and services, and the direct and indirect impacts on stakeholders. This perception had not changed following the 2008/9 global financial crisis. Instead, there was indicative focus by the NZFSIs on the social impacts of their core business products, such as loans, that affected the welfare of those customers who were financially affected by the crisis. Despite NZFSI respondents being aware of the broad CSR concept, it was not adopted in their institutions’ CSR reporting.
- The expert stakeholders considered that the NZFSIs should prioritise their reporting on the direct and indirect impacts of their core business products and services, rather than overly focussing on the environmental impacts of their office operations, and philanthropy.

### 9.1.2 A broad view of CSR

The NZFSI respondents generally acknowledged and understood the broad view of CSR. The interview responses suggested that the NZFSI respondents were aware that their business processes and the core business products and services have a significant impact. The impacts include those business activities' direct and indirect impacts on stakeholders in terms of economic, social and/or environmental dimensions. A broad CSR concept is akin to Swanson's (1995) proposal that CSR is an all encompassing concept that requires organisations to be responsible for both the direct and indirect impacts of their business activities. Such responsibilities or obligations are regarded as the organisations' public or societal responsibilities (Wood, 1991; Swanson, 1995; Shaw & Barry, 2001). Jeucken (2001) relates direct impacts to internal issues, which relate to those social and environmental impacts caused by banks' operational activities. These tend to be the kinds of activities these NZFSIs routinely focus on as part of their CSR activities. He also refers to indirect impacts on external issues, which includes those social and environmental impacts caused by banks' core business products and services. These include the impacts caused by the users or borrowers of bank loans which are not generally incorporated in NZFSIs' CSR reports. The NZFSI respondents' espoused understandings of the concept of CSR, being broad and general, is not out of line with the writings about the concept as reviewed in Chapter 2. Expert stakeholders' understandings are more specific, regarding the need to consider both direct and indirect impacts of NZFSIs' activities, including core business products and services

Debates surrounding the concept of CSR exist because of the vagueness or boundless responsibilities. Discussion concerning what CSR activities should encompass and whether all or selected stakeholder groups should benefit is common. As noted earlier, the concept of CSR is vague, ambiguous and complex (Frankental, 2001; Coelho, McClure & Spry, 2003), and therefore can produce a huge variations of how organisations have undertaken or fulfilled their CSR (Ziek, 2009). As observed by Frederick (1994, p. 154), the vagueness of the concept of CSR "poses the dreadful possibilities that the debate over 'corporate social responsibility' could either continue indefinitely with little prospect of final resolution or that it would simply exhaust itself and collapse as a viable, legitimate question". Although translating the CSR rhetoric

into practice has gone a long way, there is still a long way to go and the main problems according to Matten and Moon (2008, p. 405) are that CSR is a value-based, all encompassing concept, and “a dynamic phenomenon”. The complexities of the CSR concept were thus recognised more than 15 years ago and the concept is still in flux.

The variety, vagueness and flux of the definition of the concept of CSR in literature are reflected in the application of CSR by the NZFSIs is concerned, and has resulted in some inconsistencies in the choice of CSR issues for reporting. Such inconsistencies provide opportunities for conflict between the CSR reporters and stakeholders in terms of what should be reported, or not reported in CSR reports. The NZFSIs have exercised discretion when undertaking CSR activities and reporting by interpreting the CSR concept to their advantage, rather than demonstrating more balance in reporting on both direct and indirect impacts.

The power and influence of stakeholders in general have not been directed toward the impacts of financial services institutions’ CSR reporting – perhaps because financial services institutions are seen as intermediaries rather than as having a direct impact on the community and the environment, compared with some of the dirty, damaging and dangerous industries they support. Regardless, one might esteem in line with Banerjee’s (2007) critique of CSR, that the views expressed by the NZFSI respondents are more concerned with corporate self-interest than with the wider social impacts.

When it comes to giving emphasis or priorities to the extensiveness and comprehensiveness of impacts, the NZFSI respondents appeared to be rather selective. For example, the NZFSI respondents seemed to have adopted a narrower view of CSR and gave priority to the impacts of office operational and philanthropic activities and less emphasis on social and environmental impacts of their core business products and services. The NZFSI respondents readily spoke about their institutions’ relatively minimal, controlled and reported office related operational activities such as the usage of water, electricity, fuel consumption for corporate vehicles, and office stationery when they attempted to justify their responsibilities in relation to CSR. The environmental

impacts of the core business products and services such as lending and investments, and insurance underwriting, especially the potentially huge indirect impacts seemed to have been played down, missed or avoided. Such an attitude of playing up the office operational activities and diminishing the indirect impacts of the core business products and services, is likened to denying the social and environmental responsibilities of core NZFSIs' business products and services, and an amoral positioning. The latter is consistent with the observations of Gray, Bebbington and Walters (1993) who pointed out that the major banks in the UK tended to see themselves as amoral, or environmentally and socially neutral in their business conduct.

Without a universally accepted definition of CSR, the variety of understandings of the concept can lead to CSR reports that are somewhat unique, thus making comparison of performance in relation to addressing the impacts of the organisation's activities, whether relating to past performance or between organisations, extremely difficult. Emphasis on social and environmental impacts become discretionary and choices made can be random and according to the fancies of those charged with making decisions about what to report. Although CSR reporting guides, such as GRI, AA1000, UNEP-FI, and the Equator Principles, exist to assist adopters in their reporting, the NZFSIs are aware of the flexibility of the guides in terms of interpretations and usage. The GRI was the main guide mentioned. NGOs have expressed their dissatisfaction about the implementation of those guides by financial services institutions (O'Sullivan & O'Dwyer, 2009; Levy et al, 2010).

The discretionary process for CSR reporting can potentially leave powerful organisations, such as financial services institutions, to determine what and how CSR should be practised. The practical outcomes of their social and environmental impacts may not be a result that match their potential of influence and capability to perform, thus leaving some stakeholders demanding a broader application of CSR from financial services institutions, and others, perhaps, demanding less (e.g. shareholders who do not want financial services institutions to assume additionally responsibility).

Although the financial products and services themselves do not pollute, the aggregate actions of clients can have substantial social and environmental impacts. Interview responses and results from content analysis used showed that the NZFSIs gave less than due emphasis to the impacts of core business products and services.

### **9.1.3 Direct and indirect impacts of core business products and services**

CSR reporting is an important way for business organisations to manage their impacts on the environment and the community because it allows them to measure, track and improve their performance on specific social and environmental issues (Jupe, 2007). As far as financial services institutions are concerned, The Collevocchio Declaration requires them to be responsible for their core business products, services and processes (Minor, 2003), and also those impacts of their clients (Green@work, 2003). O'Sullivan and O'Dwyer (2009) allege that financial services institutions have a significant role in positively influencing these indirect impacts of their core business products and services. NZFSI respondents have shown to be aware of their organisations' indirect impacts caused by their core business products and services, but had not shown due emphasis for these aspects in their CSR reporting.

Financial services institutions' core business products and services provide an intermediary function in most societies, and therefore they have a responsibility to the society that is very critical (Lachowicz, 2000). Should NZFSIs enforce strict environmentally or socially related criteria for their major loans, investment and underwriting clients, the number of people affected by such enforcement, directly or indirectly will be substantial. Without regulation to that effect, the ideal situation seems unlikely. Financial services institutions are unlikely to volunteer such initiatives without external coercion. Even the 2008/9 global financial crisis did not have much impact on them in this respect. Perhaps with consistent pressure and encouragement from regulatory bodies, NGOs and academics over a period of time, financial services institutions may ease their way to a broader application of CSR. After all, as this research shows, some representatives of financial services institutions are already aware

of broad CSR, and reporting guides, such as the GRI-FI, UNEO-FI, Equator Principles, have alerted users to adopt a broad view of CSR.

Financial services institutions have been reluctant to impose socially and environmentally related conditions on the activities of their clients for three main reasons. The first reason relates to perceived role and responsibilities. As far back as 1993, in a report by the British Bankers' Association, lenders argued that it is not within their role as bankers to police the activities of their clients, and that their liability does not extend to the activities of their borrowers (BBA, 1993). The second reason relates to difficulties in assessing clients' project impacts and risk. Banks can find it a burden to calculate or estimate the environmental and social impacts of their clients' activities, whom they have funded, but not impossible (Jeucken, 2001). The third reason, relates to the second, but is more explicitly related to costs. NZFSI respondents were concerned with the potentially high costs involved in managing these social and environmental indirect impacts. By implication, the high costs would deter clients and potential clients from using their services, thus affecting profitability. The problem with operationalising a system that monitors and measures clients' social and environmental impacts was also raised and is discussed further later.

The content analysis conducted on the respective CSR reports of the NZFSI respondents reveals the relative lack of reporting on issues relating to the direct and indirect impacts of the core business products, services and processes, and may imply the relative lack of concern for such responsibilities or obligations. The aggregated average proportion of coverage of impacts due to core business products, services and processes deduced from the CSR reports of the NZFSI respondents since the commencement of the reporting is 8.99% of each report. The small percentage implies a lesser importance accorded for such impacts. One statistic from the content analysis of the CSR reports of the NZFSIs is the downward trend of reporting the impacts caused by the core business products, services and processes from 10.18% in 2005 to 8.56% in 2009. Reasons cited included the irrelevancy of such impacts (by products and services) and that their impacts were too remote and beyond the control of the NZFSIs.

## CHAPTER 9: DISCUSSION

In acknowledgement of such substantial indirect impacts, the financial services sector supplement on the environmental performance of the GRI sustainability reporting guidelines clearly states:

The indirect environmental impacts associated with financial products and services are an area of intense interest to many stakeholders. These impacts can be significantly greater in scale than the direct impacts of financial institutions' operations, such as the amount of energy consumed or volume of waste generated (GRI, 2011).

Despite this emphasis, the NZFSIs that adopted the GRI had not appeared to treat indirect impacts as mainstream concern in their CSR reporting. Again the discretionary adoption and flexibility of interpretation or choice of reporting guidelines facilitate the customisation of their CSR reports.

The complexity and burden involved in estimating indirect impacts by NZFSIs should not be an excuse for not doing so. Cowton (2002) asserts that both lender and borrower have responsibilities in a loan contract. It can be argued that a financial services institution's responsibility will continue to exist and should be in accordance to the terms and conditions of the agreement as long as the contractual relationship exists. It is also a responsibility of the financial services institutions' clients to honour the terms and conditions stipulated in the contractual relationship until termination. So if there is a term in the contract that requires the client to ensure some agreed standards of social and environmental performance that are reported to the financial services institutions, this information can inform CSR reporting. Both parties are then obliged to ensure compliance with agreed standards.

Problems can occur with monitoring the activities of clients and even when terms and conditions are written into contractual agreements between the parties, and financial services institutions still need to be concerned with tackling regulations that involve customer privacy issues when reporting their clients' activities. Strict enforcement of the contractual terms and agreement, for example pollution standards, over a period of

time and through consultation, should assist in developing workable indicators that monitor the real environmental impacts. An exemplary practice by the Cooperative Bank, a financial institution in the UK, cited by the Corporation of London (2002), is the bank's practice at reporting on the rejection of loans for activities that are perceived to damage the environment and society. Banks should be transparent about their credit policies especially those that relate to social and environmental impacts (Stichele, 2004), as part of their corporate social responsibility. Client privacy can be an obstacle for financial services institutions to reveal the former's social and environmental activities but through consultation with experts and clients, and experience over time, agreeable specific and measurable indicators could evolve.

Almost by default, the high demand for loans, investments and insurance underwriting, being core business products and services of financial services institutions, makes it likely that potential clients will supply the required information (Thompson & Cowton, 2004). For example, borrowers have supplied evidence to their bankers about their positive corporate social and environmental impacts such as through social and environmental assessment reports by independent authorities to support their loan applications (Coulson, 2002). Financial services institutions may request social and environmental assessment reports be submitted periodically as a condition for the approval and continuance of the loans (Coulson, 2001). Although financial services institutions have the power over their clients, decisions to demand extra information and compliance to social and environmental standards can affect their business if such practices were not carried out by all financial services institutions. On the other hand, should the financial services institutions exercise their power together to insist on social and environmental compliance, there will be concerns raised by stakeholders about the accordance of such power and standards of social and environmental performance, and other implementation issues such as who to monitor or certify compliant. So structures and systems may have to be in place to determine the standards and certification process for financial services institutions to adopt a broad view of CSR consistently.

Stakeholders who may be interested in the indirect impacts of financial products and services include environmental groups concerned with among other things, climate

change, and social groups concerned with the working environment of business organisations, such as in factories, mines etc. The recognition of the significance of indirect environmental impacts is also highlighted by reporting guides such as the GRI-FI and the EP. The NZFSI respondents themselves had also indicated their awareness and understanding of these indirect impacts.

Financial services institutions are often large and powerful with the impacts of their lending, investment and underwriting stretching far and wide. In a March 2009 report, international NGO, Global Witness, examined corporate activities' contribution to resource exploitation, corruption and human rights. It reported that many international banks that claim to be committed to CSR had facilitated corruption by dealing with dubious customers (Banktrack, 2009). Although there is a demand for financial services institutions to consider the social and environmental impacts of their clients' activities, whether this demand occurs across multiple stakeholder groups, or whether this demand is a legitimacy threat to the financial institutions, remains unclear. It seems that most stakeholders perceive financial services institutions to have relatively minor social and environmental impacts, ignoring or being unaware of their indirect impacts. Reporting as it is currently practised tends to divert the public's attention away from the impacts of NZFSIs' core business products and services, and seek to realign the public's expectations (Lindblom, 1994) with a narrower view focused more around achievements such as office operational activities and philanthropy-related activities. It could be argued that a narrow view of CSR is a form of CSR, and without the regulatory compulsion of adopting a broad view of CSR, financial services institutions appears to have been doing their fair share of CSR. Whether the broad view of CSR agenda can be forced upon financial services institutions remains to be seen.

This thesis exposes gaps between the understandings of CSR and the voluntary reporting of the NZFSIs, and the expectations and concerns of expert stakeholders. It may be that NZFSIs are waiting for the wider public to become more interested in, and demand change towards a broader view of accountability for CSR. Or indeed that the NZFSI decision-makers doubt they will do so in the foreseeable future. As leaders, the NZFSIs who participated in this research may well already enjoy some acclaim and

have protected themselves against the possibility of being seen as illegitimate – or laggards if such a demand came to the fore. Another possibility is that doing much more than their competitors (i.e. demanding more scrutiny over clients' loans, investments and/or underwriting) may render these NZFSIs less attractive to clients and investors, and hence less competitive.

### 9.1.4 Philanthropy as a non-core business activity

Corporate philanthropy-related activities are highly profiled by the media and generally welcomed by the beneficiaries and seemed to be strongly preferred by the NZFSIs as a major CSR activity. A common response from NZFSI respondents was to list their organisations' philanthropy-related activities as one of their organisations' main CSR activities. Skeptics can and are known to have opined that corporate philanthropy-related activities are biased towards certain groups of people to suit the business-case motivated organisations, as evidenced by phrases such as 'greenwash'<sup>21</sup>, to denote such corporate philanthropy-related activities, and can even have other negative repercussions for the sponsors/donors and beneficiaries. Sponsors can feel frustrated when their CSR activities are being labelled as 'greenwash' especially after putting in a substantial amount of resources, such as time and money. For example, interview respondents considered CSR reporting as an additional responsibility to their normal business responsibilities.

The NZFSI respondents readily offered many examples in support of their organisations' CSR in this respect. Philanthropy-related activities are also considered as part of CSR by many authors such as Carroll (1999) and Henriques and Sadorsky (1999). Offering examples of philanthropy-related activities as CSR achievements is common and easy to report on, and is commonly done by organisations (Tsang, Welford & Brown, 2009). Tsang et al (2009, p. 135) relate such an approach to CSR as attaining the "feel good factor but argue that it is not within the core business of organisations".

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<sup>21</sup> "Greenwash" is an expression used by Tilt (2007, p. 8) to denote the motivation to undertake CSR reporting by organisations as to "improve reputation without substantially changing practices, to placate and manipulate stakeholders and to gain competitive advantage, rather than out of any real concern for society and environment". Similar meaning has also been attached to "greenwashing" by Athanasiou (1996) and Beder (2000). Owen, Swift and Hunt (2001) refer to the business-case rationale relating to CSR reporting as 'corporate spin'.

In proposing that CSR be distinguished into four responsibilities, namely economic, legal, ethical and philanthropic, Carroll (1979, 1991) never suggests that philanthropy-related activities are more or less important than the others. In fact, as noted earlier, the fourth responsibility, philanthropy, was later dropped from his list as it was argued that “philanthropy is not considered a duty or social responsibility of business, but something that is merely desirable” (Schwartz & Carroll, 2003, p. 505). However Tsang, Welford and Brown (2009) found that it is still common for organisations to cite philanthropy-related activities as part of their CSR efforts.

NZFSI respondents consider obligations relating to the scope of control of the direct and indirect impacts of the core business products and services as too large to capture or are beyond reach. As Frederick (1994, p. 152) puts it, “that such an obligation exists or not, if so, that it can be made to work has been the subject of intense and sometimes acrimonious debate”. CSR is perhaps conveniently broad and vague. Consistent reporting is not conducted even when voluntary reporting guides, such as the GRI, are being used because of the flexibility in interpretation. Therefore, the selection of impacts for CSR reporting is discretionary or subject to interpretation, and those with potential benefits to the NZFSIs appear to have been chosen in this context, rather than their adopting a more holistic or broader approach. Gray, Dillard and Spence (2009, p. 558) claim that “voluntary disclosure has been exposed as “cherry picking” where the portrayal of CSR is “hollow”.

### **9.1.5 Section summary**

The NZFSI respondents acknowledged their awareness and understanding of a broad view of the CSR concept but their organisations elected to adopt a narrow view of the concept in their CSR reporting. For example, indirect impacts of their core business products, services and processes were not extensively reported with only an aggregated average of 8.99% of each stand-alone CSR report over the years from 2004 to 2009. Reasons cited include the complexity of measuring their clients’ social and

environmental impacts and client-privacy issues. Not only has this thesis revealed the gap between NZFSI respondents' espoused understandings of the CSR concept and their organisations' practices, it also identifies a gap between the expectations of expert stakeholders and the content of NZFSIs' stand-alone CSR reports. Such differences may lead to conflict when inferences are made about the motivations to publish CSR reports by the NZFSIs, and are discussed in the next section.

## **9.2 Perceived motivations for CSR reporting**

Sub-section 9.2.1 provides a bullet list of key findings related to the motivations for CSR reporting as perceived by the NZFSI respondents and expert stakeholders. As far as the motivations to undertake CSR reporting are concerned, the NZFSI respondents openly revealed that business-case related motivations are predominant.

### **9.2.1 Key findings surrounding motivations**

- One of the main motivations behind the intention to do CSR reporting by the NZFSI respondents is related to the business-case rationale, where the primary objective of CSR reporting espoused is to enhance revenue and profit, through increasing market share and reducing costs of operations. Other business-case related issues include competitors' CSR strategies, enhancement of reputation and image, and retention of or increased market share. The expert stakeholders also stressed that this motivation seemed to be NZFSIs' main purpose for CSR reporting.
- Aside from the business-case related motivation, there were also pressures from head office, a global trend in CSR reporting and the obligation or requirements of voluntary associations such as membership of the New Zealand Business Council for Sustainable Development.

- The 2008/9 global financial crisis had not extinguished the CSR efforts of the NZFSIs, although it changed some practices such as, in one case, the consolidation of the New Zealand stand-alone version with the groups' CSR reports. There was also generally more communication with customers who were affected by the crisis, although it was not widely reported in the organisations' CSR reports.

### 9.2.2 Perceived motivations

As reviewed in Chapter 3, studies relating to the motivations of business organisations to undertake CSR activities can be broadly categorised into three areas. First, the motivation is business-case driven. Second, there exists a moral-values driven obligation to be socially and environmentally responsible as a priority over, or in line with maximizing business profits. And third, an external-pressure driven motivation exists where an external party or parties to the business organisation exerts pressures for CSR initiatives to be carried out. This third motivation is commonly discussed in relation to institutional, legitimacy, and stakeholder theories, and the social contract (Donaldson & Preston, 1995; Deegan, 2007).

Although the discussion on the motivations for business organisations to undertake CSR activities has been clearly defined into three categories, it has been noted that they may not exist exclusively; rather, it is more common for an organisation to have a combination or multiple categories of motivations for an action. It is even more difficult to suggest the absence of any of the three categories of motivations identified for an action or non-action (Gray et al, 1996). The degree of emphasis on each category of motivations by an organisation is easier to justify and yet difficult to quantify in terms of intensity. The decision on the degree of emphasis on whichever category of motivations may be determined by different reasons or circumstances or understanding and adoption of the concept of CSR.

In any case, the real motivations behind any action are not easy to determine conclusively, and can be contested. There can be many motivations for an action, and the motivations can change depending on circumstances and availability of information. Establishing the real motivations of an action can be a huge challenge and the conclusion can cause conflicts. Gray et al (1996) remind us that it may be offensive to assume that an organisation's motives for CSR reporting are self-centred because there could be many issues surrounding the decision made. However, it becomes easier when the motivations to undertake certain tasks are explained directly by the persons undertaking the CSR reporting of an organisation, for example during interviews with decision-makers as was the case in this research.

When there is a perception gap about the apparent motivations between the CSR reporters and the reportees or stakeholder groups, in relation to the CSR reporting, it could create misunderstandings that result in frustration or even wastage of resources. For example, a CSR report that was intended to communicate the CSR of a business organisation but has a relatively higher content on the quest for profitability and philanthropy activities and/or lesser content on other direct and indirect impacts of the core business products, services, and processes could be perceived by some stakeholders to be a mere public relations exercise, or 'green washing' that only benefits a selected group of stakeholders at the expense of others (Frankental, 2001). Thus, the actual and perceived motivation gap is an important issue to consider when undertaking CSR reporting.

### **9.2.3 Business-case related motivations**

This section discusses the motivations of the NZFSI respondents in relation to CSR reporting where the predominant theme is business-case related, or corporate-centric. A business-case driven motivation relates to the predominant concern for increasing profit, reducing cost, pre-empting and reacting to competition, and enhancing reputation and image in relation to the social and environmental responsibility. Responses from the NZFSI respondents about their organisations' probable motivations for CSR reporting relate strongly to the business-case rationale. There were also responses about

rebuilding organisational and industry's reputation as a result of damage caused by the 2008/9 global financial crisis.

Although both the NZFSIs and the expert stakeholder respondents openly concurred on the business-case rationale as a major motive for the former to undertake CSR reporting during the interviews, there is no suggestion that it is the only motive. However, the eager and enthusiastic comments offered during the interviews suggest a strong relationship between CSR reporting and the business-case rationale, compared with other motivations. For example, there was no response about coercion on the part of NGOs on the NZFSIs to publish CSR reports. The NZFSI respondents commented about not feeling any pressure from any stakeholder group to do CSR reporting except from the NZBCSD which their organisations had voluntarily joined, and for which one of the membership requirements is to produce a CSR report within three years of membership. The legitimacy threat in relation to CSR reporting seems relatively low but institutional isomorphic forces, such as those from NZBCSD and competitors, suggest some influences.

With these decision-makers from the NZFSIs freely claiming the organisational motivations to do CSR reporting as business-case driven, this finding is similar to the conclusions about CSR reporting being done to gain some business advantage, or done with self business interest as reported by Larrinaga-Gonzalez et al (2001), Jupe (2007) and Souto (2009). Although authors such as Gray et al (1996) and Milne (2002) purport that empirical evidence about business being purely accountable for economic gain is not easy to get, the interview response for this research gives a very positive assertion perhaps due to the guarantee of anonymity of the respondents. However, the interview responses do not suggest that the business-case driven motivation is the only motivation, but it certainly appeared the major motivation for CSR reporting espoused by the NZFSI respondents, in both rounds of interviews (pre and post the 2008/9 global financial crisis).

CSR reporting can be used as a public relations tool in an attempt to change the public's perception on the stance of the organisation in terms of CSR, referred to as the second strategy to seek legitimation by Lindblom (1994). Image building and reputation enhancement were also cited by the NZFSI respondents as a motivation for their organisations to undertake CSR reporting, and these activities are commonly related to the business-case rationale because the objective for such an exercise is most likely related to the pursuit of economic gain. In the analysis of 127 CSR reports, Jupe (2007, p. 11) concluded that the majority of CSR reports were "aimed to rework the concept of sustainability in the company's favour". CSR reporting can be a good tool to enhance a positive organisational image, especially in relation to CSR. NZFSIs could be using CSR reports to manage the perceptions of stakeholders for the benefits of shareholders. In this sense, it matters less that the stakeholders read the reports than whether they merely know the NZFSI is operating in the CSR space.

Whether NZFSIs demonstrated any motivation for their organisations' CSR reporting that was driven solely by moral-values, or commitment to a broader view of CSR is not easy to ascertain. For example, the public relations activities conducted by the NZFSIs could have been done to deflect stakeholders' perceptions away from any attention on those organisations' narrow CSR undertaking. That being the case, Hopwood (1989), Adams and Harte (1998), Woodward, Edwards and Birkin (2001) deem such intention as immoral or unethical. Mystifying stakeholders could include strategies such as those purported by Lindblom (1994) where CSR reporting could be used to deceive, and/or to deviate attention. A different study that focussed more on actual report readers and wider groups of stakeholders would be required to ascertain these intentions.

The content analysis of the NZFSIs' CSR reports suggests that there had been a relatively lower proportion of reporting on the direct and indirect impacts of the core business products, services and processes. Furthermore, such reporting is also on a declining trend. Most of the issues reported are philanthropy-related, and indicators like water and electricity usage, recycling of stationery, fuel usage and emissions were used. According to Suchman (1995, p. 575) these activities belong to the "unproblematic category of social activities" where organisations chose to undertake CSR activities as a

sideline to making profit. NZFSI respondents' espoused motivations for CSR reporting that relate to reputation and image enhancement also coincided with some findings in the literature (e.g. Frankental, 2001; Zadek, 2004) where CSR activities were done for such purposes and can be said to be related to the business-case rationale.

Post 2008/9 global financial crisis interview comments from the NZFSI respondents indicate that the business-case driven motivations had been downplayed but not removed. An NZFSI respondent considered CSR reporting as a good tool to rebuild the poor image of financial services institutions that resulted from the 2008/9 global financial crisis. It was said to be useful for reassuring the public that financial services institutions were still strong and reliable, rather than for the purposes of social and environmental accountability.

It must be noted that the interview responses from the NZFSI and the expert stakeholder respondents concerning organisational motivations are specifically in the context of motivations to do CSR reporting, and not other CSR activities, of which the motivations may still have been the same, or may have differed. It is also interesting to note that the interview responses from the NZFSI respondents had been given, subject to confidentiality relating to their identities. Again, there is no knowing whether the feedback would differ should the confidentiality condition have been removed. Notwithstanding, the NZFSI respondents appeared to be open and comfortable in relating their key motivations to do CSR reporting and activities to the self-interest business-case rationale. Indeed an increasing number of authors have proposed and encouraged the business-case rationale that includes profit enhancement and gaining competitive advantage, for business organisations to undertake CSR activities. See for example, Porter and Kramer (2003), and Grayson and Hodges (2004).

Where the powerful stakeholder group is the shareholders, it is a common expectation that business organisations should consider profit to be the reason for their existence (Freeman, 1984). For example, empirical testing by Berman, Wicks, Kotha and Jones (1999) suggest that businesses are motivated to adopt stakeholder management practices

because of the positive impacts on the bottom line. Owen, Swift and Hunt (2001) concur and describe this type of management practice as a 'soft' form of accountability when priority is given to the profit motive. When business goals, such as bottom line or profit are overwhelmingly preferred over others by organisations, the application of CSR may be considered narrow or even poor quality by some stakeholders who support a broad view of CSR.

### 9.2.4 Other motivations

Although there was no apparent coercion from stakeholder groups, such as those related to environment and other social movements, or the shareholders, employees and suppliers, for NZFSI respondents to undertake CSR reporting, there were comments by the NZFSI respondents about some strategic factors or positioning rather than threats. The first factor relates to a business decision where the NZFSI respondents considered taking a lead in producing New Zealand version stand-alone CSR reports to gain competitive advantage.

The second factor relates to their joining the NZBCSD whose membership condition requires them to publish CSR reports. The CSR reporting condition imposed by the NZBCSD is not a serious business legitimacy issue. Some have joined and left without publishing, some members have published but not annually. Enforcement by NZBCSD seems weak in this aspect. The decision to be a member of the NZBCSD is voluntary in nature, and there are other associations who have similar CSR objectives that NZFSIs can join, such as the Sustainable Business Network, minus the condition that requires CSR reporting. The NZFSI respondents also did not claim pressure from any stakeholder group to do CSR reporting; nor was there mention of NGOs coercing the NZFSI respondents to publish CSR reports.

As with the findings of Dowling and Pfeffer (1975), O'Donovan (2002), and Deegan (2007), and in relation to legitimacy theory, the comments from the NZFSI respondents suggest that there was no apparent or explicit threat to their survival for not producing CSR reports. With minimal or no pressure that affects the survival of their

organisations, the motivation to do CSR reporting to attain legitimacy is found to be somewhat weak in this situation. Although it can also be argued that there may still be some remote pressure to maintain legitimacy through CSR reporting, the argument is also weak as there are other NZFSIs existing alongside that do not publish New Zealand versions stand-alone CSR reports. Of course, there is the counter argument that they could have done even better with CSR reporting.

Assuming there may be some weak threat from stakeholders, the initiative taken by NZFSIs to voluntarily publish stand-alone CSR reports within NZFSI sector appears to follow Lindblom's (1994) first legitimacy strategy of announcing and informing the public about their CSR activities. Upon examination of the stand-alone CSR reports published, proponents of a broad view of CSR could argue that the NZFSIs can be seen to have adopted Lindblom's (1994) third legitimacy strategy where they seek to divert attention and re-align expectations of the public that philanthropy and office operational activities are the more important CSR activities in the financial services industry (than those caused by the core business products and services, or the indirect impacts).

When seen from the institutional theory perspective, the NZFSIs may be seen to have taken a leadership role in setting the local agenda on what CSR reports should contain, instead of letting those surrounding institutions exert influence on what the CSR reports should be comprised of. Riaz (2009) refers to such a situation where the financial services institutions are more powerful than the surrounding institutions in the institutional field as reverse-legitimacy. Powerful institutions are able to determine their own agenda or behaviour in the institutional environment or framework (Riaz, 2009). Although CSR reporting guides by the GRI, for example, have suggested a standardised framework, their adoption is voluntary. So the influencing power of the institutions that produce CSR reporting guides is limited. The GRI had been moderately successful as an institutional influence on CSR reporting but has "fallen short of the aspirations of its founders to use disclosure to empower NGOs" (Levy et al, 2010, p. 88). The GRI is nevertheless an institutional power but may be relatively weak when compared to financial services institutions, acting largely in concert.

On the other hand, it can be argued that the NZFSIs influence each other on what should be in the content of New Zealand version of stand-alone CSR reports. Notwithstanding the content, but in terms of producing New Zealand version CSR reports, interview responses suggest business competitors' strategies for CSR reporting as a strong influence. Where competitors' CSR reporting practices appear to influence the NZFSIs' initiatives to do CSR reporting, the motivations to follow may be explained through mimetic isomorphism inherent in explanations of institutional theory (DiMaggio & Powell, 1983; Jennings & Zanderbergen, 1995). Differentiation must be made between motivations to publish CSR reports for the whole business group, and the New Zealand version CSR reports. For New Zealand incorporated and registered banks, there was only one additional CSR reporter since the commencement of this research and towards the end of the research, none has continued publishing New Zealand version CSR reports. Attempts by the first movers to publish New Zealand version CSR reports appears to have not been able to influence competitors to follow, and the practice was eventually dropped. It appears that competitors influence or force to publish CSR reports is weak. It could be due to the extra costs involved for publishing New Zealand version in addition to the business group's version.

### **9.2.5 Section summary**

As evidenced from responses in the interviews, the NZFSIs appear to be motivated by the economic dimension or self-interest business-case related intention to do CSR reporting, and such a motivation is not uncommon in many of the studies reviewed. The motivation to enhance reputation and image can also be linked to the business-case rationale. Although the business-case driven motivation is strongly claimed, it is unlikely to be the only motivation for NZFSIs to do CSR reporting.

It also appears that the motivations for CSR reporting by NZFSIs has a weak link to legitimacy theory as responses from the interviews indicated that there was no pressure from any stakeholder that seriously threatened organisations for non-reporting or reporting based on a narrow and predominantly business-case CSR perspective. The stronger position and power of NZFSIs seems to allow them to set the agenda for CSR

reporting especially on the content that is currently oriented towards a narrow view of CSR. An argument from the reverse-legitimacy branch of institutional theory also suggests that NZFSIs are dictating the terms and conditions under which they report, rather than the situation where the surrounding institutions influence the behaviour of the subject NZFSIs.

Further evidence and discussion relating to stakeholder engagement in CSR reporting, as discussed in the next section, sheds more light on the motivations of NZFSIs in relation to CSR reporting.

### **9.3 Stakeholder engagement and CSR reporting**

Upon directing the various interview discussions toward the context of CSR reporting, the responses from NZFSI respondents suggest that their organisations have attempted to engage with a limited group of stakeholders for the purpose. Similar to being selective in terms of what to report on in relation to their organisations' economic, social and environmental impacts, the NZFSIs appear to have also been selective on the engagement of stakeholders for CSR reporting. The NZFSI respondents did not claim pressure from any stakeholder group to undertake CSR reporting (beyond head office and the business sustainability lobby group which some elected to join), nor was there mention of NGOs coercing the NZFSIs to publish CSR reports.

As presented in Chapter 6, the content analysis conducted on the CSR reports of the NZFSIs reflected not only a relatively low proportion of reporting on stakeholder engagement relating to CSR reporting but also a general declining trend. The average proportion for all the CSR reports of the NZFSIs since their respective inaugural copies in 2004 was 2.49% for reporting on stakeholder engagement relating to CSR reporting. Considering the importance of gaining stakeholder feedback on issues for CSR reporting, as cited both by literature (Litovsky, 2005; Coulson, 2009) and CSR reporting guidelines (e.g. GRI, 2011), such a small proportion dedicated to stakeholder

engagement seems to suggest that it is less important in this context for these organisations than other reported issues such as office operational and philanthropy-related activities. Ideally, all issues reported in CSR reports would be what stakeholders wanted and not what the reporters want to disclose, and consultation with stakeholders for CSR reporting would be paramount. The limited stakeholder engagement by NZFSIs could be due to a combination of reporting only what they want to disclose and that NZFSIs had only engaged with a limited group of stakeholders.

The trend of reporting about stakeholder engagement in relation to CSR reporting shows an average of 3.36% in 2004 to the latest CSR reports of 2009 that report only 2.89%. This finding further supports the suggestion that the NZFSI respondents consider it not a major issue in CSR reporting. Perhaps, as in line with stakeholder management theory (Friedman & Miles, 2002; Deegan, 2007), NZFSI respondents had been selective in their engagement with stakeholders for reporting, thus the small proportion reflected in the CSR reports. As reviewed in Chapter 3, stakeholder engagement is seen to be a critical activity when undertaking CSR activities, including CSR reporting (Cumming, 2001; Owen, Swift & Hunt, 2001; O'Dwyer, 2005b; Thomson & Bebbington, 2005; Deegan & Unerman, 2006; Coulson, 2009).

The importance of stakeholder engagement between financial services institutions and the environmental stakeholder groups is highlighted by Coulson (2009) who advocates the need for serious engagement between the two parties to debate and agree on some environmental impacts or threshold indicators that financial services institutions could impose and then report on their borrowers' performances, notwithstanding the current legal constraints in relation to the client's privacy issues. For example, a study by Cumming (2001) revealed the lack of widespread stakeholder engagement being conducted for joint agenda setting, issues identification and implementation in relation to the CSR venture by 29 personnel who are involved in CSR reporting concludes the normality of unsatisfactory effort of stakeholder engagement by many organisations.

This section is organised into five sub-sections. Sub-section 9.3.1 presents bullet points of key findings from interview response and content analysis in relation to stakeholder engagement. Sub-section 9.3.2 discusses the selection of stakeholders for engagement in relation to CSR reporting. Sub-sections 9.3.3 and 9.3.4 discuss the conditions or state during engagement, and stakeholder feedback post engagement respectively. Sub-section 9.3.5 concludes the section.

### **9.3.1 Key findings surrounding stakeholder engagement**

- Not all stakeholder groups were accorded equal importance by NZFSI respondents. For the purpose of engagement, not necessarily for CSR reporting, customers, employees, and suppliers appeared to have been given more serious consideration than others such as the social and environment-related stakeholders. Content analysis done on the CSR reports of the NZFSIs show that there was a general decreasing trend in the proportion of reporting on stakeholder engagement in relation to CSR reporting. The aggregated average proportion reduced from 3.36% in 2004 to 1.62% in 2007. Then there was an increase to 3.92% in 2008, followed by a decrease to 2.89% in 2009.
- The modes of NZFSI engagement with stakeholders included surveys, workshopping, and suggestion boxes or intranet facilities seeking voluntary feedback. Employee participation for such purposes was on a voluntary basis. Commonly cited objectives of the engagement with the customers were to gauge the quality of services rendered; to uncover customers' need; and, to accord with customers' expectation.
- Both the NZFSI respondents and the expert stakeholders noted experiences that written feedback from stakeholders have not been a popular or successful mean of stakeholder engagement for improving CSR reporting.
- Responses from post 2008/9 global financial crisis interviews indicate that NZFSIs appeared to have had more engagement with their clients, especially

those who were financially affected by the crisis. However, reporting on this engagement has yet to be translated into CSR reports.

### **9.3.2 Stakeholder selection**

Although there was no indication from the NZFSI respondents as to how exactly they had identified stakeholders for engagement, the interview discussion on stakeholder engagement covered stakeholder groups like customers, employees, suppliers and community. The community group of stakeholders referred to was typically those beneficiaries of the philanthropy-related activities by the NZFSIs.

Stakeholder engagement for CSR reporting is a cyclical process that can be segregated into three stages, the pre and post engagement stages in addition to the actual engagement stage (Unerman, Bebbington & O'Dwyer, 2007). The identification of stakeholders for business organisations to engage with, in their CSR reporting endeavour is the pre stage for stakeholder engagement that has significance in terms of portraying the type of motivations intended for CSR reporting. When a business organisation chooses to only engage with all those groups of stakeholders that have more direct impacts on the business's financial bottom line, it may be perceived that the resultant stakeholder engagement is heavily slanted toward the business-case or stakeholder management rationale (Neu, Warsame & Pedwell, 1998; Friedman & Miles, 2002; Deegan, 2007).

In terms of prioritising stakeholder groups, the situation for NZFSIs is similar to the finding by Owen, Shaw and Cooper (2005) that the shareholder group of stakeholders, rank priority among the other stakeholders in the UK as perceived by the managers of some of the top corporations, financial services institutions included. Shareholders constitute a group of stakeholders whose obvious concern is the returns on their investments which is a direct result of an organisation's profitability. Although NZFSI respondents did not explicitly mention engagement with shareholders, their responses shared a similar theme of profit maximisation. NZFSIs' preferred stakeholders for

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engagement - customers, employees, and suppliers - are those that can affect profitability directly.

Stakeholder engagement is also an area that can provide some circumstantial evidence in relation to the motivations behind why business organisations undertake CSR reporting. For example, a study by Owen, Swift and Hunt (2001) concludes that less than satisfactory engagement with stakeholders by CSR reporters renders the CSR reporting exercise little more than corporate spin or greenwashing, thus endorsing the bias toward a business-case driven motivation. Consequently, the CSR reports lack credibility in terms of accountability and transparency for the proponents of a broad view of CSR.

There is also no evidence in the findings in this thesis to suggest that the NZFSI customer group of stakeholders has been identified for engagement to discuss and establish CSR-related issues for CSR reports. Instead, the interview responses suggested that the purposes for engaging with customers were for gauging the service quality of the NZFSIs, needs and expectations from the customers' perspectives. Again, the purpose of engagement with customers is related to the business-case rationale where the underlying intention is likely to be heavily biased towards the economic performance of the NZFSIs.

The omission of a stakeholder group may be interpreted as the NZFSI respondents relying on the assumption that the participating stakeholders are multi-faceted and could be assumed to be the proxies for specific stakeholder groups that were not engaged. However, according to Prado-Lorenzo, Gallego-Alvarez and Garcia-Sanchez (2009), different stakeholder groups have different interests, and expect different information in CSR reports. Holistic accountability resembles the true social responsibility as proposed by Hasnas (1998) where all stakeholders have rights to information regardless of whether or not it is asked for (O'Dwyer, 2005b). Correctly identified CSR issues through stakeholder engagement and dialogue (Owen, Swift & Hunt, 2001; O'Dwyer, 2005b; Thomson & Bebbington, 2005) not only make the CSR reports effective but also

guide business organisations towards a fuller accountability that is in line with a broader view of the CSR concept.

Another possibility could be that the NZFSI respondents view environmental stakeholders as insignificant because of the perception that the financial services institutions have minimal or inconsequential impacts on the environment. Such a perception goes against the Lachowicz (2000) contention that financial services institutions have a critical impact on the state of society, including the environment through their indirect impacts, as discussed earlier. The engagement with a selective group of stakeholders is also a demonstration of NZFSIs adopting a narrow view of CSR.

Coulson (2009) further highlights the need for financial services institutions to engage with environmental stakeholder groups to explore the possibility of agreeing to some socially and environmentally related indicators for borrowers to adhere to, as a contribution by the financial services industry to improve ecological impacts. By engaging with a wider range of stakeholders in CSR reporting as well as in other CSR activities, according to Unerman, Bebbington and O'Dwyer (2007), the motivations will be perceived to be:

grounded in a broader moral philosophy, of being responsible, responsive and accountable to all those upon whom their organisation's activities might impact, and are likely to be concerned with the whole of this broader range of stakeholders, rather than a narrower group of stakeholders whose needs are prioritised simply because the stakeholders' actions can impact upon the organisation (p. 91).

From the reported responses, it seems that NZFSIs have not really fulfilled this broader moral philosophy of being responsible, responsive and accountable in their stakeholder engagement in relation to CSR reporting.

Another explanation for the exclusion of stakeholder groups for engagement could be due to the concession accorded by CSR reporting guidelines that allow for individual interpretations with regard to which stakeholder groups are more relevant than others. Thus, it is common for organisations to prioritise and be selective when engaging with stakeholders (Adams, 2002; Owen, Shaw & Cooper, 2005). In addition to the flexibility for interpreting the relevant stakeholder groups, which fuels subjectivity, the voluntary nature or non-regulated CSR reporting regime has a high tendency for some stakeholder groups to be left out and may not augur well with those who subscribe to the value of a broad view of CSR, where every person's welfare is equally important which is a component of "utilitarian morality" (Rachels, 2003, p. 109), or "true social responsibilities" (Hasnas, 1998, p. 295).

Arguably, it is impossible to engage with all stakeholder groups in a short span of time. The advantages of engaging with select groups of stakeholders include time and cost savings. With a smaller category of stakeholder participation for each engagement, the quality of engagement could be enhanced. Careful selection of stakeholders could also result in those who have better knowledge contributing during engagement.

The overall picture in relation to stakeholder engagement in the context of CSR reporting seems to suggest that NZFSIs' practices have not matched some academics' and the respondents' own understandings of the broad view of CSR.

### **9.3.3 Conditions of engagement**

As highlighted in Section 3.5, stakeholder engagement is important for CSR reporting to be effective, and the lack of it will result in business organisations risking a higher chance of not meeting the information needs or expectations of stakeholders or lacking in credibility in terms of accountability and transparency (Owen, Swift & Hunt, 2001).

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As observed by Owen, Gray and Bebbington (1997) and O'Dwyer (2002), some form of mutual understanding of CSR responsibilities and the way the society or stakeholders expect them to be reported may be enlightened through more open discussions in the form of bilateral communication during organised conferences, seminars or workshops. Studies by Thomson and Bebbington (2005) revealed evidence that very little feedback was obtained from the invitation to feedback attached to CSR reports although there was no reasons given. As some of the NZFSI and expert stakeholder respondents explained during the interviews, from their experience, very few people provided written feedback, prompting an expert stakeholder to propose that the NZFSIs should use a verbal communication approach such as work-shopping or focus groups for more effective results.

An issue could involve the subject knowledge of the participants, for example the employee stakeholder group. When there is a lack or an insufficient knowledge level of the subject matter, the debate can be one-sided just as when there is an unequal level of power between the parties. It also appears that the NZFSI respondents have used surveys and workshops which are common modes of stakeholder engagement and dialogue, as reported by Thomson and Bebbington (2005). Some instances of stakeholder engagement by the NZFSIs may have mitigated the situation. For example, using a third party to conduct feedback survey with the employees could have allayed some fear that resulted from uneven power among groups, and the holding of workshops to get feedback on a voluntary basis perhaps suggests that only those knowledgeable or interested stakeholders will come forward.

Such speculation about the intention of the mode of stakeholder engagement used only serves to give the benefit of the doubt to the NZFSIs, and such measures reported on and taken by the NZFSIs seems to endorse the argument put forward by Thomson and Bebbington (2005). They insist that measures or actions must be taken to equalise the power between the business organisations and the stakeholders when communicating for a purpose. It seems that the most convenient group of stakeholders for NZFSI respondents to engage with for the purpose of CSR reporting is the employee stakeholders group. So, convenience and control are important factors compared with

the inconvenience of and difficulty in engaging with a more varied group of stakeholders for the same purpose. It can be argued that the apparent inconveniences of comprehensive stakeholder engagement show the NZFSIs as possibly more concerned with self-interest or the business-case rationale that is aligned to the narrow stakeholder management theory (Friedman & Miles, 2002; Deegan, 2007).

The counter argument would be that it would be counter-productive to involve too many stakeholder groups. Perhaps a compromise of gradually increasing the number of groups of stakeholders, especially after having more experience will convey a more holistic or broader CSR intention by the NZFSIs. Another option could be to engage with different groups of stakeholders for each round of engagement during a reporting period, and continue with new and different stakeholder groups for subsequent reporting periods before the old ones are rotated.

#### **9.3.4 Stakeholder feedback**

Discussion on feedback about the actions taken or not taken, resulting from the stakeholder engagement sessions by the business organisations to the stakeholders involved seems to be lacking both in the literature (Unerman et al, 2007) and in practice according to the NZFSI respondents. This concern highlighted by the expert stakeholder respondents during the interviews seems to be a valid observation that can serve to enhance the stakeholder engagement process and its validity if taken seriously. Post engagement communication between financial services institutions and stakeholders, especially the CSR literate ones, about concerns raised during the engagement could bring reassurance around or closure to issues prior to publishing the CSR reports.

Interview responses regarding the distribution of the CSR reports produced by the NZFSIs suggest that the reports are meant for the general public, which includes all stakeholder groups. However, stakeholder engagement was only limited to a few groups of stakeholders, and such a practice is likely to produce CSR reports that will not

meet the expectations of many stakeholder groups. Internet reporting can enhance report availability (Ziek, 2009), but an NZFSI respondent claimed that readership from this source had been low as evidenced by the 'hits' recorded.

There was one NZFSI that had a lunch meeting with some expert stakeholders to get feedback on its CSR report. Although the feedback was sought only after the CSR report had been published, the NZFSI respondent insisted that the feedback was for reference and report enhancement in the following year. Although it was commendable that the NZFSI concerned took the trouble to include external expert stakeholders in its CSR reporting, both the external expert stakeholders interviewed commented several months later that there was no feedback about their suggestions pertaining to the issues brought up in the discussion.

Although studies about stakeholder engagement after reports have been produced are lacking, the feedback here suggests that stakeholders might expect to be kept in the loop about their contribution to CSR reporting. Through completing the feedback loop of the CSR reporting process, reporters can also affirm a stronger CSR intention for CSR reporting (Unerman et al, 2007). Without completing the feedback loop, the stakeholder engagement can be interpreted as narrow and corporate-centric (Gray et al, 1996).

One of the expert stakeholders also noticed the lack of participation of the environment related stakeholder groups in the lunch meeting in relation to CSR reporting, and commented on the incompleteness of stakeholder groups present for the exercise, another sign of a narrower, more corporate-centric motivation to engage with stakeholders. The post 2008/9 global financial crisis interview response suggests that stakeholders' feedback is still lacking, and one expert stakeholder postulated that it could be part of a New Zealand culture where people are generally reluctant to critique. The veracity of that cultural assessment aside, the more important question remains as to whether the New Zealand public is willing and wanting to engage in the CSR related activities of financial services institutions, such as CSR reporting. The expert

stakeholders implied that if the NZFSIs tried hard enough, they would get some interested parties involved especially when the conditions are conducive.

### **9.3.5 Section summary**

Overall, stakeholder engagement by the NZFSIs for CSR reporting has been less than satisfactory, especially from the perspective of those who actively subscribe to the broad view of CSR. However, the practice of NZFSIs in being selective in their choice of stakeholder groups to engage with is not uncommon, and is linked to the narrow view of CSR (in practice) and can again be related to business-case motivations for undertaking CSR. The common modes of stakeholder engagement used, such as surveys, appear mainly to be focused on assessing the quality of services and exploring for new or improved services, rather than concentrating on seeking feedback on, and direction for CSR reporting. There was also no evidence of closing the power differential between NZFSIs and stakeholders like employees and suppliers during engagement.

Interview responses further suggested the lack of stakeholder feedback on CSR reports despite the availability of contacts provided in CSR reports. The lack of interest from stakeholders may mean that: (1) CSR reports had not been widely read; or (2) stakeholders were not bothered with them; or (3) stakeholders that were happy with the current state of reporting. The expert stakeholders expressed their dissatisfaction with the current state of NZFSIs' stakeholder engagement for CSR reporting. There were also comments by NZFSI respondents that their organisations' CSR reports were not widely read. Engagement with broader groups of stakeholders for CSR reporting is perhaps not considered necessary for organisational legitimisation, compared with for example, the engagement with shareholders, customers and employees who are more mainstream business concern.

## 9.4 Other issues relating to CSR reporting

Other main issues relating to CSR reporting by the NZFSI respondents that emerged from the semi-structured interviews were categorised into three main areas or issues of concern in relation to CSR reporting, and are summarised as key findings in Sub-section 9.4.1. Sub-section 9.4.2 discusses the first category that relates to the costs of CSR reporting. Cost can be considered as a critical area of concern within the business-case rationale. Sub-section 9.4.3 discusses the concern about the key decision-makers in relation to CSR reporting by the NZFSI respondents. Sub-section 9.4.4, presents the approaches taken by the NZFSI respondents in choosing CSR issues for their CSR reports. Specific research on these three issues in relation to CSR reporting has been scarce. However, the NZFSI respondents consistently brought out their concerns on these issues during the interviews. Sub-section 9.4.5 concludes this section.

### 9.4.1 Key findings on other issues

- NZFSI respondents expressed strong concern within their organisations about the high costs involved in CSR reporting (including time, money and resources such as personnel involved in the CSR reporting process).
- Decision-making about issues relating to CSR reporting, including the decision on the choice of issues to be included or excluded in the CSR reports, appears to be in the hands of the few decision-makers who are involved in the coordination of CSR in their respective NZFSIs.
- The NZFSIs have reportedly used CSR reporting guidelines such as the GRI, and templates obtained from their respective overseas-based head offices to design their New Zealand version CSR reports. The expert stakeholder respondents are keen for NZFSIs to report more about the social and environmental impacts of their core business products and services.

### 9.4.2 Cost concerns related to CSR reporting

Both the NZFSI and the expert stakeholder respondents shared the same sentiment about the high costs of CSR reporting, which includes money, time and human resources that are required to produce CSR reports annually. Although specific published research on the costs of CSR reporting is currently almost non-existent, the cost element is a real concern for NZFSI respondents. Extra money needed to be budgeted for staff, meetings and stakeholder engagement. Extra time was required whether within or outside the current working hours and activities, and human resources needed to be trained and utilised, regardless of whether it is the existing pool of staff or newly recruited ones for the specific purpose of CSR reporting.

There may also be opportunity costs involved, especially when some of the staff were assigned additional duties related to CSR reporting in the organisation, thus affecting the quality and timeliness of the report and their other responsibilities. Both the NZFSI and expert stakeholder respondents shared a concern about costs having a direct and immediate impact on profitability, as well as those indirect impacts such as the negative impacts on the quality of products and services provided because of human and costs resource constraints. Therefore, unsurprisingly the concern relating to cost is closely related to the corporate-centric, business-case rationale.

In contrast to the negative concern for the costs involved in CSR reporting, there were more proposals put forward about the benefits of CSR reporting for the business organisations so doing. These are usually written in 'how to' publications where authors such as Porter and Kramer (2003), Prahalad and Hammond (2003), Martin (2003), and Grayson and Hodges (2004) respectively suggest that CSR is a profitable venture for business organisations. Although some positive relationships between CSR activities and benefits for the CSR reporters have been established, the precise amount and the impacts of CSR reporting specifically, is less conclusive and difficult to determine exactly. Margolis, Elfenbein and Walsh (2008) found that organisations undertaking CSR have minimal impacts on their economic performance. On the other hand, quantifying some of the benefits of CSR activities for communities, such as monetary corporate sponsorship for a local football team may be clearer to ascertain

than other activities that purport to enhance the environment, like planting trees for a local community. Although there are difficulties in quantifying environmental benefits to the community, it may not mean that there is no benefit or positive contribution to the environment. Expenses being incurred to produce CSR reports that can report on measuring, monitoring and reducing the negative social and environmental impacts of core business products and services of financial services institutions could be reported on along with an assessment of benefits.

The NZFSI respondents' concerns about costs in relation to CSR reporting seem to suggest that more resources needed to be allocated for CSR reporting than previously anticipated. The demands on both human and monetary resources were seen to be intensifying, and whether added resources are forthcoming or not may determine the extent of NZFSIs' continued CSR reporting endeavours. External forces such as the cost of capital and availability of liquidity may affect financial services institutions managers' decisions whether to allocate additional resources for CSR reporting and whether or not to extend reporting. However, serious consideration to the budget for CSR reporting must be given if NZFSIs want to enhance the quality of their reporting and give attention to measuring and reporting on the impacts of their core business products and services. A positive CSR effort from NZFSIs relates to their continuous publication of CSR reports during and post the 2008/9 global financial crisis.

### **9.4.3 Decision-making in relation to CSR reporting**

From the interview responses, it seems that most decisions in relation to CSR reporting by the NZFSI respondents are in the hands of just a few decision-makers, who are also the prime movers for the CSR reporting venture in the NZFSIs concerned. The decision-makers of the NZFSIs' CSR reporting teams have participated in the interviews of this research, and most of them are also undertaking other duties such as public relations and marketing in their respective NZFSIs while being accorded responsibilities that relate to CSR activities and CSR reporting.

The advantages of having a smaller number of people managing the CSR reporting process include faster decision-making and a more streamlined budget. The disadvantages could include over-stressing the minimal number of staff involved in the CSR reporting process, as well as other departmental staff who are required to perform extra duties to assist and collate information, and can also limit the ideas and perspectives about the strategies for CSR reporting, particularly when the staff are not specialised. For example, with more staff involved in the CSR reporting process, more contributions during meetings may have led to the NZFSIs to engage with more stakeholder groups, possibly making their CSR reports more credible and acceptable to those who profess a broader perspective of CSR.

The allocation and coordination of staff members for CSR reporting responsibilities by the NZFSIs as reported seems to suggest that CSR reporting could be seen as an auxiliary function of the business, rather than being embedded in mainstream business activities. The departmental multi-tasking of the staff members allocated to do CSR reporting is evidence of the impression that CSR reporting is a simple and off-season task, while the allocated staff members, who are generally from the marketing or public relations departments, suggest that the CSR reporting and the resultant CSR reports are marketing or public relations tools.

The small number of personnel involved in and responsible for deciding issues relating to CSR reporting by the respective NZFSIs, as revealed in the findings of this research, is further evidence that there was only a limited number of potential interviewees for this research, and that the coverage has been reasonable.

#### **9.4.4 Selection of issues and flexibility in CSR reporting**

Another category of findings reveals the concern about the CSR reports that have been published. There are two main concerns, and the first relates to the main topic headings to be included in the CSR report, and the second relates to the issues that needed to be included within each topic heading. This second concern, as discussed in Section 7.1 relates to the respondents' view of CSR. It is important because understandings of the CSR concept can determine the interpretation and choice of CSR issues considered critical for inclusion or exclusion in the CSR reports.

A further foundation for this second concern lies in the impression given by the CSR reports, as the final output of periodic CSR endeavours. The impression given could be positive, negative or neutral to the CSR reporters. A positive impression generally leaves a perception that the CSR reporters have selected relevant and critical impact indicators, whereas a negative impression leaves an image that the CSR reporters have used CSR reporting as a greenwash effect for CSR reporting (Athanasidou, 1996; Beder, 2000; Tilt, 2007).

The first concern relates to the NZFSI respondents' use of GRI guidelines and CSR report samples from their respective overseas-based head offices for their design of the of their New Zealand version of the CSR reports. The GRI guidelines are commonly used by the organisations to guide their CSR reporting processes. The NZFSI respondents claimed to have made at least some casual references to the GRI guidelines for their CSR reporting. Two NZFSIs reportedly had used the GRI guidelines extensively, while the other NZFSI had used them less.

The popularity or appropriateness of the CSR reporting guidelines used is not an issue here. Aligned to the generally wide and variable understanding and interpretation of the concept of CSR, there is no unanimous understanding and interpretation of what CSR reporting means, thus resulting in the development of a variety of CSR reporting frameworks and guidelines (Guthrie, Cuganesan & Ward, 2008). The flexibility of guidelines for CSR reporting, such as the GRI, allows adopters or users to report issues relating to the recommended topic headings such as suppliers, employees, customers, environment, community, and economic according to their own perspectives. Such flexibility does not augur well for consistency and governance. As can be seen, the NZFSIs have chosen to put less emphasis on reporting the direct and indirect impacts of their core business products, services and processes. Such inconsistency of application has resulted in the expert stakeholders' dissatisfaction about the content of CSR reports. The interview responses show that the NZFSI respondents are aware of the indirect impacts but seemed to be relaxed about playing down the importance of such impacts. The results from the content analysis of the CSR reports also show a lot less emphasis on reporting indirect impacts.

## CHAPTER 9: DISCUSSION

Interview responses post the 2008/9 global financial crisis suggest that NZFSIs have shown more concern for the indirect impacts resulted from their products and services. For example, banks had taken more precaution and responsibility in their lending activities through closer scrutiny on repayment capability of potential borrowers. However, the reporting in relation to such activities could be enhanced, to both extending reporting coverage and gaining social approval.

The expert stakeholders also commented on the issues the NZFSIs have chosen to report on is more of a concern. Specifically, the expert stakeholders seem to be keen for NZFSIs to report more detail about their lending processes, including their loan portfolio and the clients' performance in relation to social and environmental impacts. According to the expert stakeholders, the NZFSIs should report more detail on their lending policies and criteria, and how they have or have not enforced those policies and the consequences that are specifically related to indirect impacts. A similar reporting gap exists in the area of insurance underwriting.

As presented in Section 7.1, the NZFSI respondents are aware of those broader impacts but have not emphasised them in discussions of their organisations' CSR reporting, which is also evidenced from the results from the content analysis done on the NZFSIs' CSR reports. From the perspective of the expert stakeholders, it is likely because of reasons like clients' confidentiality or privacy issues, and the difficulty of ascertaining or monitoring the indirect impacts that NZFSIs do not undertake such CSR. On the other hand, it can be argued that, just as financial services institutions have been known to reject or terminate relationships with potential or existing clients, who are linked to criminal activities such as money laundering, illegal arms trading, and illegal drugs related businesses, they could take similar initiatives against those clients whose business processes or products and services are known to have adverse impacts on the community and environment. It may be a matter of degree, as presumably the clients' activities and projects are not unlawful, but those with major impacts could be reported on, giving assurance that financial services institutions do take note.

As with the decoupling effect (Dillard et al, 2004), it is one thing to profess CSR policies pertaining to the business products, services and processes, but if the actual

practices deviate from the policies, then, the CSR objectives will not be achieved. On the other hand, the financial services institutions could have been applying such policies but not reporting on them. Nevertheless, strict and independent enforcement of the CSR policies can help to ensure the consistent applications, and reporting on the activities could also promote transparency. It may be difficult for any NZFSI to initiate such a culture on its own without all other NZFSIs following the same practice because of the fear of losing business as a result of imposing strict CSR conditions on clients. So, the playing field will need to be more even, which could occur for example, through regulating the whole financial services sector with specific mandatory reporting guides. The chance of such regulation appears remote because of the power that financial services institutions hold in economies of the world. Even the 2008/9 global financial crisis promoted limited changes for these powerful financial services institutions in the long run as many of them remained powerful enough to determine their own agenda at their own pace.

Such calls from some stakeholders for financial services institutions to monitor or control the impacts of their core business products and services are also limited.

### **9.4.5 Section summary**

The high concern for costs that relate to CSR reporting has imposed some constraints, for example with NZFSIs engaging with a smaller number of stakeholder groups. The cost concern may have also resulted in CSR reporting duties being confined to a limited number of staff within the NZFSIs. The issues selected for CSR reports were based on a narrow view of CSR. The voluntary nature of CSR reporting in New Zealand, and the flexibility allowed for by the CSR reporting guides such as the GRI do not encourage the adoption of a broad view of CSR. Instead the NZFSIs set their own CSR reporting agenda, a narrow view of CSR where business-case concerns predominate at the expense of other important social and environmental issues and quantified impacts of activity. Stakeholders including regulators, need to increase their effort to encourage financial services institutions to consider implementing CSR actions in relation to their social and environmental indirect impacts that potentially can be huge, considering the

extensiveness of their network of clients, and the nature and extent of the latter's activity permitted by lending, investment and underwriting.

## **9.5 Chapter conclusion**

Table 2.1 in Chapter 2 contrasts the narrow and broad views of CSR. Table 9.1 on the next page extends Table 2.1 to include institutional, legitimacy and stakeholder theories, as applicable to this study (in the shaded boxes in the table).

**Table 9.1: Narrow and broad views of CSR in financial services institutions as illustrated by data and theory**

	<b>Narrow View</b>	<b>Broad View</b>
Type of impacts	Direct impacts	Direct and indirect impacts
Focus of managerial attention	Mainly internal – on office operational-related support and discretionary activities such as philanthropy, that have discernible economic, social and environmental impacts	Internal and external - Additional to direct impacts, includes the impacts of core business products and services (e.g. economic, social and environment impacts caused by clients or users of products and services)
Drivers	Business-case related drivers (increasing profits, reducing cost, pre-empting and responding to competition, and enhancing reputation and image)	Overall economics, societal and environmental wellbeing as a key driver
Stakeholders	Shareholders as main beneficiaries (customers, employees and suppliers consulted)	All stakeholders as potential beneficiaries (all stakeholders consulted)
Findings from data analysis	Actual  Apparent in CSR report content analysis and recognised by CSR managers as reflecting current situation, critiqued by expert stakeholders	Possible ideal  Could be the major focus in CSR reports, as recognised by CSR managers and supported by expert stakeholders
<b>Theory Linkages</b>		
Stakeholder theory	Instrumental stakeholder theory	Normative stakeholder theory
Institutional theory	Strong institutional theory where isomorphic mimetic forces focus managerial attention and reporting activity mainly on direct impacts	Weak institutional theory where isomorphic coercive and normative forces (e.g. from Banktrack and GRI) influence the call to consider indirect impacts
Legitimacy theory	Strategic legitimacy  (Reverse legitimacy)	Risk of illegitimacy and lack of competitiveness in current climate where coercive and normative forces are weak

Where the broad view of CSR requires equal consideration of all stakeholders, the current emphasis by financial services institutions on preferred stakeholders such as customers, shareholders and employees relates instrumental stakeholder theory. Although there were some concerns shown by financial services institutions through their focus on operations and social and environment related philanthropy, proponents

of the broad view CSR consider all activities, including the core business products and services where the social and environmental impacts can be direct or indirect. Their concern is the lack of accountability shown by financial services institutions for their indirect social and environmental impacts of their core business products and services. The normative branch of stakeholder theory requires accountability to all. The predominant concern for business-case related activities, including stakeholder engagement and stakeholder choice, subscribes to the instrumental stakeholder model where economic performance is paramount.

The public seems to have generally little expectation for financial services institutions to adopt a broad CSR view for CSR reporting. The expectations of the apparently few stakeholders who call for a broad view of CSR in CSR reporting seem to have been successfully ignored by the financial services institutions. Those expectations could have been managed through legitimacy strategies (e.g. the organisations changing some of their practices, altering the public's perceptions to accept current reporting content and even diverting their attention away from the broad view CSR responsibilities). Perhaps such strategies could have also encouraged the general public to accept that financial services institutions as having a clean and green image with few social and environmental impacts.

Customers and shareholders do not appear unduly concerned with the current state of CSR. It also appears that there is a strong isomorphic mimetic force among the CSR reporters to not focus on indirect impacts, and weak isomorphic coercive and normative forces, where for example, regulatory bodies and interested stakeholder groups, such as Banktrack and the GRI, are currently weak in encouraging a focus on indirect impacts.

If a broader view of CSR was adopted, reporting coverage would arguably be more complete, and may even attract more readers. With such reporting and readership, it could also be argued that NZFSIs would increase their concern for impacts of their core business products and services, effectively setting the standards for their extensive network of clients' social and environmental impacts. Such initiative by NZFSIs would

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tantamount to political CSR, Matten and Crane's (2005) third model of corporate citizenship. Regulation appears as the most logical solution and even that is not currently on the horizon, nor is it very likely as discussed in the next chapter.

## CHAPTER 10: CONCLUSION

### 10.0 Introduction

*Middle-of-the-road theorising is prompted by concerns about what is politically pragmatic and acceptable; not what is socially just, scientifically rational, or likely to rectify social ills arising from waste, exploitation, extravagance, disadvantage, or coercion.*

*(Tinker, Lehman & Neimark, 1991, p. 29)*

This chapter presents conclusions on the overall findings of this research which investigated CSR reporting by selected NZFSIs through content analysis of standalone CSR reports and the identification and discussion of issues arising in two rounds of semi-structured interviews. These interviews were conducted with key decision-makers in relation to CSR reporting within the NZFSIs and with two expert stakeholders, both pre and post the 2008/9 global financial crisis.

This chapter is organised into four sections. Section 10.1 provides responses to the three research questions that guided this research. Section 10.2 discusses the contributions of this thesis in relation to theory and practice. Section 10.3 outlines some limitations of this research. Section 10.4 provides suggestions for future research. Section 10.5 ends with the restatement of the precautionary principle that was introduced in Chapter 1.

### 10.1 Responses to the research questions

This thesis was designed to address three major research questions, each of which is repeated below followed by responses based on the research conducted for this thesis.

Research Question 1:

‘What are the CSR issues covered in financial services institutions’ CSR reports, and what is the rationale behind their selection?’

Specifically, the intention in conducting content analysis was to investigate the extent of reporting on impacts of NZFSIs’ core business products, services and processes in their New Zealand version stand-alone CSR reports. Interviews were used to identify the motivations for NZFSIs’ reporting resulting from the joint construction of meanings with the decision-makers involved in CSR reporting.

The content analysis of all the New Zealand version of stand-alone CSR reports of the three NZFSIs from 2004 to 2009 reveals a low level of disclosure on impacts of core business products, services and processes against the whole report for each year. CSR issues that were selected for CSR reporting were mostly related to impacts of the NZFSIs’ office operational and philanthropy activities. There was relatively a smaller proportion of reporting on indirect impacts of the core business products and services.

In the interviews, both NZFSI decision-makers and expert stakeholders suggested that CSR is a broad concept that encompasses both direct and indirect impacts of business products, services and processes in relation to the economic, social and environmental dimensions. It appears that NZFSI respondents are aware of their responsibility for their indirect impacts that potentially have a huge social and environmental consequent, but had opted to play down the reporting of this responsibility for reasons such as clients’ privacy and the costs involved in managing the related information.

The rationale given includes the difficulty of measuring, and costs involved in capturing indirect impacts. NZFSI respondents freely cited profitability as their major concern when doing voluntary CSR reporting, opting for a narrow interpretation or view of CSR that involved less cost and less potential for negative publicity. The concern for profitability and not incurring unnecessary cost relates to a business-case driven motivation that prioritises the shareholder group of stakeholders, and is in line with

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research findings from Larrinaga-Gonzalez et al (2001) and Jupe (2007). It is accepted this finding is, in many ways, unsurprising based on findings from previous literature but it is based on empirical findings from a different context in terms of industry, methods used and time frame with a global event that occurred during the research. The findings further substantiated the strong business-case stance that business organisations adopt for CSR.

Relatedly, the perceived motivations for CSR reporting seem clearly biased toward the business-case rationale, although there are other motivations. The slant towards a business-case driven motivation created some expectation gaps in CSR reports between the NZFSI respondents and the expert stakeholders. The expectation gaps led to some dissatisfaction about the content of the CSR reports because the expert stakeholders reported they would have preferred to see NZFSIs report in a more holistic and broad manner that includes indirect impacts, where the aggregate performance of the NZFSIs' clients is captured and the effects of NZFSIs' lending, investment and underwriting practices made transparent.

### Research Question 2:

‘How are stakeholders identified, defined, prioritised and engaged in CSR reporting undertaken by New Zealand financial services institutions?’

The intention of this research question was to determine the degree of stakeholder involvement in CSR reporting and subsequently, in light of the above findings, whether it was indicative of a broad or narrow view of CSR. The degree of stakeholder engagement was also investigated using content analysis of CSR reports, and then through the interview discussions.

Results from content analysis on the CSR reports of the NZFSIs revealed that the proportion of reporting related to stakeholder engagement for CSR reporting averaged only a very small amount per CSR report for the years 2004 to 2009. Interview responses about such stakeholder engagement in relation to CSR reporting point mainly

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to the high costs of engagement, suggesting money, human resources and time to specifically engage stakeholders for this purpose are constraints. The concern for costs resulted in a narrow focus of engagement that resembles a trait of stakeholder management (Deegan, 2007). The stakeholder engagement activities conducted by the NZFSIs were mainly intended to gauge and improve the quality of customer service – as a customer service function - rather than for identifying impacts of perceived importance, and assessing performance against indicators such as would be required for CSR reporting. One has the impression that the linkages between customer service and CSR reporting – in relation to stakeholder engagement - were more serendipitous and more one-way than purposefully integrated from the outset in any of the organisations studied.

Common stakeholders identified for engagement in the CSR report analysis and in the interviews included customers, employees, suppliers and agents. Common modes of engagement with these stakeholder groups include surveys conducted inhouse or via professional consultants, work-shopping and through daily casual business dealings. Although community and environment activities were disclosed in the CSR reports, there was no mention of how they were identified, and how engagement with community and environmental groups was carried out for the purpose of CSR reporting, or otherwise. They were mainly the result of philanthropy-related activities rather than generated through a consideration of the impacts from the core business products and services.

### Research Question 3:

‘How has the 2008/9 global financial crisis affected CSR reporting of selected New Zealand financial services institutions?’

To address this question, a comparative content analysis of CSR reports was conducted along with an analysis of response from interviews pre and post the 2008/9 global financial crisis. Changes to the issues reported, and the degree of stakeholder engagement as a result of the crisis, as well as the stated rationale for doing so, were discussed.

Post 2008/9 global financial crisis interviews indicate that NZFSI respondents seemed to be more concerned than before with the impacts of their core business products and services, especially in terms of assessing the repayment affordability of the clients, but still lacking in their responsibility for the environmental impacts of their clients. The concern for the repayment capability is similar to a responsibility of financial services institutions in ensuring minimum risk of default as identified by Prior and Argandora (2009). However, the trend of low level of reporting on impacts of core business products, services and processes, and stakeholder engagement relating to CSR reporting in the reports has not shown significant changes from prior to the 2008/9 global financial crisis.

Interview responses suggest some increased engagement with customers during and the 2008/9 global financial crisis, where discussions were held more regularly between the NZFSIs and their customers to sort out alternatives for repayment and restructuring of loans as some borrowers were financially affected by the 2008/9 global financial crisis.

## **10.2 Contributions and implications**

This section is composed of two sub-sections. Sub-section 10.2.1 discusses the contributions of this thesis to relevant literature and theories reviewed in Chapters 2, 3 and 4. Sub-section 10.2.2 discusses the implications for CSR reporting by financial services institutions.

### **10.2.1 Contributions to literature and theory**

This research contributes empirical evidence that generally support major findings in existing literature on CSR and CSR reporting, and tends to confirm rather than modify or extend existing theory. In relation to institutional theory, the findings appear to suggest that NZFSIs had little pressure from the surrounding institutions to publish CSR reports and to report issues from the broad CSR view. Instead, it seems that the NZFSIs were, at least in part, setting their own agenda for CSR reporting because of their

relatively more powerful position, supporting Riaz's (2009) concept of reverse legitimacy. There was also evidence of weak legitimacy threats from stakeholders on CSR reporting and on what to report in the financial services institutional context. The findings support instrumental stakeholder management theory as only a selective stakeholder groups were being engaged for CSR reporting purposes. Further explanations are given below, but it is important to acknowledge that the individual contributions listed are mainly confirmatory.

This thesis adds to the CSR literature through investigating understandings, motivations, and the extent of reporting on impacts by the core business products, services and processes of CSR reporting by NZFSIs. The financial services industry is one where attention to the indirect impacts has not been as extensively researched as in other industries such as natural resources extractive industries (Coulson, 2007; O'Sullivan & O'Dwyer, 2008). Financial services institutions are not normally known for industrial negativities but it is more than likely that they are involved behind the scene through their core business products and services in terms of financing and underwriting their clients' activities. Recent events, including the 2008/09 global financial crisis that resulted in a worldwide liquidity shortage and global recession, have reminded us that what banks, lending agencies and insurance companies do, impacts us all. Financial services institutions are often large and powerful with the impacts of their core business activities such as lending, investment and underwriting stretching far and wide (Jeucken & Bouma, 2001; Scholtens, 2006; Thompson & Cowton, 2004; Prior & Argandona, 2009).

Face-to-face interviews with decision-makers of financial services institutions have also been rare (O'Sullivan & O'Dwyer, 2008). There were also content analyses done on annual financial reports to assess the extent of CSR reporting (Adams, Hill & Roberts, 1998; Deegan & Gordon, 1996; Deegan & Rankin, 1996), but not specifically on the extent of reporting on impacts of core business activities using stand-alone CSR reports or on NZFSIs. This research uses a combination of face-to-face interviews with content analysis on stand-alone CSR reports on both sides of the 2008/9 global financial crisis also provides a unique situation to derive the data for this thesis.

The analysis of data collected before and after a unique event, the 2008/9 global financial crisis, had the potential to contribute to literature in the area of NZFSIs' understanding of CSR concept and CSR reporting practice, and whether the unique event had any impact on them. Financial services institutions had been blamed for the 2008/9 global financial crises that caused financial collapse and led to social hardship (Souto, 2009; Valencia, 2010). Such a global and industry-related event provides a unique opportunity to assess how it had affected the CSR activities, such as CSR reporting of NZFSIs. This research found that the 2008/9 global financial crisis had very little impact on CSR reporting that relates to disclosures on indirect impacts of financial services institutions' core business products and services as evidenced by the content analysis of the post crisis CSR reports. Responses from the post crisis interviews merely reinforced the NZFSI respondents' pre crisis awareness of their indirect impacts and the relatively higher concerns for activities that support the business-case motivation.

Common theories used to investigate the motivations for CSR activities and CSR reporting include legitimacy theory (Cormier et al, 2004; O'Donovan, 2002; Deegan, 2007), and stakeholder management theory (Freeman, 1984; Owen et al, 2001; Belal, 2002), and recently institutional theory (Bebbington et al, 2009; Riaz, 2009). This thesis supports the view that legitimacy theory does not fully explain the espoused motivations for CSR reporting by NZFSIs. Contextual analysis and the interview responses revealed that there was only a weak external force driving CSR reporting. With competitors' practice in the reporting field being generally seen as lesser or non-existent, a lack of reporting was not seen to threaten the survival of the NZFSIs, should they choose to alter their practice. Whether it would tarnish their reputations was also seen as unlikely. There are many other NZFSIs that exist and doing well without producing New Zealand versions of stand-alone CSR reports, or indeed any specific CSR report, whether in hard copy or web-based. Interestingly, though, major NZFSIs have embraced the voluntary CSR reporting trend, and the interview responses suggested that a business-case motivation is predominant.

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This weak form of external force that influence NZFSIs to do CSR reporting can be explained through the mimetic isomorphism branch of institutional theory (DiMaggio & Powell, 1983), rather than considered a threat towards NZFSIs publishing CSR reports (Jennings & Zanderbergen, 1995). The forces driving isomorphism include coercive, mimetic and normative forms which are difficult to isolate each form exclusively in practice, so DiMaggio and Powell (1983) argue that it is more than likely that some combination of forces are operating simultaneously. There is no coercion through legal requirement for CSR reporting in New Zealand although some form of relatively weak force came through NZBCSD membership. There was also evidence of institutional mimetic copying from competitors but had not been truly established in the financial services sector. Jennings and Zanderbergen (1995) propose that mimetic pressure is more likely to occur than normative pressure in terms of CSR adoption, especially if there is competitive advantage involved. Competitive advantage based on CSR reporting seems unlikely because of the alleged costs, and a very minor focus on benefits beyond possible legitimisation as industry leaders.

CSR reporting is still in the process of institutionalisation (Larrinaga, 2007; Ball, 2007). Using a New Zealand sample, Bebbington et al (2009, p. 616) reveal a similar situation where business organisations and institutions (governmental and non-governmental) influence each other, and so “shape the institutionalisation process”. The findings of this thesis provide further empirical evidence in relation to institutional theory to explain the current state of CSR reporting by the NZFSIs. Minimal reporting on social and environmental indirect impacts, and stakeholder engagement that relates to CSR reporting appears to have persisted across the three NZFSIs. Without real pressure from the institutional organisations, the current design of the CSR reports content seems to be accepted by the majority. The NZFSIs appear to have managed the stakeholders sufficiently to attain legitimacy status.

A further contribution of this thesis is its empirical reinforcement of emerging critique relating to CSR as limited in what it currently achieves, and perhaps pretentious in terms of its rhetoric about taking responsibility by business organisations for wider social and environmental well-being (Banerjee, 2007; Devinney, 2009). Linking espoused understandings of CSR to perceived motivations for reporting, the study

shows the importance of those fundamental understandings in promoting and not promoting change. It is evident that the decision-makers for CSR reporting of the NZFSIs understood the broad view of CSR, including the potential enormity of the social and environmental indirect impacts of financial services institutions in this respect and there seems to be little force from within to seriously embrace it in their CSR reporting. Fineman and Clarke (1996, p. 726) report that only an internal stakeholder “champion” with seniority such as “chairman or managing director” can force environment-related changes in an organisation to happen.

The contribution of this thesis to practice and policy is more at the level of ideas, rather than achieving substantive change. There is potential for NZFSIs to institute changes in policy and practice so as to report more impacts of core business products and services, and alleviate the focus that some might claim of reporting as corporate spin or greenwashing. It would seem a lot more effort is required to influence the NZFSIs to report from a broad CSR view. NZFSIs could look to overseas examples of reporting on indirect impacts and seek to incorporate similar measures. It is accepted they may already have some of the information needed for this kind of reporting, but if not, there is work to be done collecting the data through additional engagement with their existing clients and/or with new clients seeking funding/underwriting particularly for major new projects. The discipline of reporting, taking a broad view, may prompt more responsible behaviour, but it is accepted that it would involve a significant policy change for many financial service institutions. Regular or periodical reporting can help both the reporters and the stakeholders to monitor progress of the social and environmental impacts of the core business products and services. More effective stakeholder engagement for CSR reporting can potentially improve the content of the CSR reports.

### **10.2.2 Implications of the thesis**

The content analysis reveals minimal changes from 2004 - 2009 to the reporting on the impacts of NZFSIs’ core business products, services and processes, and stakeholder engagement for CSR reporting. Despite their awareness of the broad concept of CSR,

interview respondents indicated that a broad application/reporting of CSR is unlikely to happen soon for reasons such as the indirect impacts of their core business products and services being too remote and difficult to measure, and issues connected to privacy of clients' information. Kokke, Os and Racz (2010) and Cowton and Thompson (2000) observe that many financial services institutions that articulated their CSR intentions fail to actually put them into practice.

As reflected in the responses from the NZFSI decision-makers, CSR reporting has been based on a narrow interpretation or view of CSR, where certain impacts such as indirect ones were less reported upon, and the stakeholder engagement was also done on a selective basis, not ostensibly, necessarily for reporting purposes in the first instance. It was also claimed that there was minimal pressure for the NZFSIs to adopt a broader view of CSR in their CSR reporting. Such application of a narrow view of CSR in CSR reporting causes some dissatisfaction among the expert stakeholders who uphold a broader view of CSR.

This thesis also suggests that key decision-makers in NZFSIs need to take the initiative to change their narrow application of the CSR concept in CSR reporting to a broader one (Thompson & Cowton, 2004; Scholtens, 2006;. Prior & Argandona, 2009). Being powerful organisations, financial services institutions are not easily influenced by others, even by insiders, to change their current form of CSR reporting. Although the 2008/9 global financial crisis caused some increase in some areas of concern relating to their indirect impacts, (for example, the social impacts on clients who suffered hardship as a result of unsatisfactory assessment made to qualify their repayment capability), it did not cause a major shift from the current form of CSR reporting. A wider application of CSR in CSR reporting can reflect a truer social responsibility (Hasnas, 1998); otherwise there may be a greenwash effect for CSR reporting (Athanasίου, 1996; Beder, 2000; Tilt, 2007) or corporate spin (Owen et al, 2001) perceived by stakeholders. Constant and consistent stakeholder pressure, such as around highly publicised legal actions on financial services institutions' dealings with socially and environmentally dubious clients, could perhaps one day initiate financial services institutions and/or regulatory bodies to consider a broad view of CSR more seriously.

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A potential area of broadening the application of CSR by the financial services institutions is through engaging with a broader range of stakeholder groups. There are financial costs and other difficulties in engaging those who are not interested or busy or intimidated. Thomson and Bebbington (2005) suggest that for effective stakeholder engagement to take place the organisation has to give practical consideration to creating an equal-power situation between the organisation and its stakeholders, and to accept all stakeholders' points of view. Unerman et al (2007) argue that it is not possible in practice to achieve the perfect situation for stakeholders to speak as not all stakeholders can be present to express their views, some may not be sufficiently articulated or knowledgeable to express their views.

Since there is a lack of stakeholder pressure for CSR reporting and a lack of general interest in what should be reported, concerned stakeholders need to take more initiatives to influence or change the way CSR is applied in the CSR reporting of the financial services institutions. For example, stakeholders could take more initiatives to use the feedback mechanisms that financial services institutions have promoted on their websites or use popular social network tools such as Facebook and twittering to be even more visible. Financial services institutions could provide incentives to encourage feedback such as monetary/recognition rewards, or allowing the winner to nominate a needy organisation as recipient of the incentives.

One reason why stakeholders were not so interested could be due to the lack of engagement with stakeholders by the NZFSIs after the stakeholders had offered feedback on the reports. According to Unerman et al (2007), feedback about the actions taken or not taken, resulting from the stakeholder engagement sessions by the business organisations to the stakeholders involved seems to be lacking. This is the case in practice according to the NZFSI respondents. It is important for those stakeholders who wish to see broader social and environmental impacts by the financial services institutions to increase their effort and means of influencing the financial services institutions to adopt a broader application of CSR. A way of monitoring the progress is via the examination of CSR reports longitudinally and publicising the shortcomings, for example in relation to the indirect social and environmental impacts, in mainstream media, rather than say, the usual more restricted, academic outlets.

## CHAPTER 10: CONCLUSION

Considering the generally weaker positions of stakeholders who demand a broader application of CSR reporting, academics can lend a hand through more insightful research and publications in this area. Continuous publications through different channels that have an extensive global network and readership may encourage the adoption of a broad view of CSR. Exposure created by media may increase stakeholder pressure, initiate governmental regulations or even lead to self-initiated actions to promote the change to a broader adoption of CSR in CSR reporting. Although Deegan et al (2000) found support for such link of media influence, Owen et al (1997) caution that multi-national organisations such as financial services institutions may have overpowering influence and control over the media. On the other hand, there are other internet channels in today's world that could be influential and may not be so easy to control.

In terms of self-initiated CSR reporting, NZFSI respondents commented about the accorded flexibility, allowed by the voluntary status of CSR reporting guides such as the GRI, and chose not to include more indirect social and environmental impacts of their core business products and services in their CSR reports. One of the reasons cited was related to the potential loss of clients if NZFSIs were to impose conditions that require clients to provide their social and environmental impacts to financial services institutions for reporting purposes. It can be argued that the reporting on these indirect impacts can be subject to appropriate terms and conditions for their relationships to be established and maintained. In sympathy with this approach, Prior and Argandora (2009) warn that financial services institutions should be more concerned about what they do not reveal, rather than what they cannot. This suggestion implies the managers of financial services institutions have a choice in what they disclose and what not to disclose. The question becomes how to get them to disclose more – without losing out (i.e. losing customers or potential customers) and becoming uncompetitive because of the greater disclosure requirements they put on their customers compared to competitors.

Beyond the New Zealand context, this thesis may be relevant to proponents of a broad view of CSR in those countries that have a similar political structure and conditions where a few big financial services institutions hold most of the market share and also tend to lead CSR reporting. Evidence shows some stakeholders are not satisfied with

financial services institutions' CSR performance, and believe that the latter can do more than what they have been currently doing. The learning implication of this thesis for those within and outside the New Zealand context is primarily in the simple language offered for describing complexities relating to direct and indirect impacts. The terms 'broad view' and 'narrow view' of CSR are applicable across industries and countries and provide a useful framing that could be picked up by media, activists and others who are concerned with impacts of corporate activities. The critique would be of corporations taking an overly narrow view.

### **10.3 Limitations of the research**

This research has several limitations. First, the sample is relatively small. However, the three financial services institutions included in this research are the pioneers for publishing New Zealand version stand-alone CSR reports and are still producing CSR reports. Although it would have been useful to have a larger sample for this study, it was more critical to have the opinion and view from the key decision-makers within the NZFSIs. Further, this mainly qualitative research did not seek to formulate, prove or dis-prove theories or hypotheses where a larger sample would be logically deemed more appropriate. Additionally, content analysis of the stand-alone CSR reports of the NZFSI respondents was conducted and the results included as part of the findings from the interviews in this thesis by providing a more specific content-base and contextual understanding of the interview data.

Second, due to the nature of the financial services sector where client confidentiality or privacy is highly observed, there are areas where the researcher has not been able to have access to further investigate some claims. Although, in some circumstances, the researcher was shown some confidential documents such as the internal minutes of meetings, approval to reveal or reference them was not granted. It is acknowledged that interviewees may not have disclosed all relevant information, either because of direct questions not asked or because of a concern for the sensitivity of their answers, as employees.

Third, the use of content analysis for the stand-alone CSR reports of the NZFSIs does not imply that these organisations may not have reported CSR issues in other documents such as the annually produced financial reports, corporate websites and other media or circulars and flyers. However, where CSR matters are concerned, it would seem that stand-alone CSR reports are specialised documents for the purpose and other research has also been done using stand-alone CSR reports. Beginning the research in 2004 meant that the use of other forms of reporting such as internet reporting was also in its infancy at that time and so it was not included. A study starting in the intervening years would likely have extended its scope to capture such data. Capturing such data at regular intervals and utilising electronic sorting software would be advantageous.

Fourth, it is acknowledged that the analysis of the effects of the 2008/9 global financial crisis relying on CSR reports from 2008 and 2009 may be pre-mature. The effects of the 2008/9 global financial crisis were explored largely through the post crisis interviews.

#### **10.4 Areas for further research**

Due to their potential to have huge economic, social and environmental impacts, especially in relation to their indirect impacts through lending, investments and underwriting, financial services institutions need to be more accountable to society. Such accountability would involve applying a broader view of CSR, including in their CSR reporting that extends beyond the scope of those direct impacts such as philanthropic endeavours and office operational activities. Having highlighted the importance of the economic, social and environmental indirect impacts of the financial services institutions, further research can proceed to explore how to specifically capture, measure and report on these impacts, both conceptually and by drawing good examples from overseas.

Another potential area of research relating to the economic, social and environmental dimensions of indirect impacts of financial services institutions relates to the required depth each dimension should cover. A longitudinal study on a broader set of stakeholder's CSR expectations about the nature and desired extent of reporting may

help to define the standard of acceptability for CSR reports by financial services institutions. A large scale quantitative survey together with focus group discussions may be an approach to explore this facet of CSR reporting.

An issue highlighted in this thesis relates to reporting on both direct and indirect impacts of the core business products and services of the financial services institutions in their stand-alone CSR reports. The indirect impacts relate to those social and environmental impacts of NZFSIs' clients, and were relatively less reported on. Although the GRI's specific financial services sector supplement on both social and environmental performance has identified indirect impacts, it was unclear to what extent the indirect impacts should be reported on. It may also be useful to conduct research into the potential size of indirect impacts of financial services institutions so that an appropriate perspective in terms of reporting can be determined. Comparing the sizes of direct and indirect social and environmental impacts could provide an indication of the proportion about how much to report for each category of impacts.

Legal issues pertaining to disclosing the affairs of financial services institutions' clients can also be looked at to assess the possibility and extent of change required to accommodate more reporting about the social and environmental impacts of their clients. In the same legal vein, it may also be helpful to assess the feasibility and potential consequences of regulating CSR reporting, in the New Zealand context and elsewhere.

In view of the sensitive nature of the financial services industry, findings from action-based research where the researcher is part of the researched institution(s) may provide some better understanding of the potential, and a possible impetus for change in the current state of CSR reporting. For example, researchers could assist, at little cost, a financial services institution to move towards adoption of the broad CSR concept, through policies formulated for practical implementation of CSR reporting designed according to the broad view of CSR.

## 10.5 A final word

The present situation with NZFSIs' on CSR and CSR reporting is that: (1) key decision-makers appear to understand the broad view of CSR and its potential social and environmental indirect impacts; (2) they perceive their organisations elect to focus on the narrow view of CSR, mainly for the benefit of shareholders; and (3) they consider that it is too costly to adopt the broad view of CSR, and (4) they also consider that they are doing their part in applying CSR through their office operational and philanthropy-related activities.

It could be argued that financial services institutions have taken some small steps in their adoption of CSR through their office operational and non-core business philanthropy-related activities that seem generally acceptable to shareholders, customers and the public as there appears very little to no pressure on them to progress further to increase reporting on the indirect impacts of their core business products and services. Any pressure appears to be from a minority and does not seem to have made much ground in convincing the financial services institutions to change towards applying the broad view of CSR. The present state of CSR reporting by financial services institutions, then, appears to be an accepted norm for CSR by large and leading financial institutions in the New Zealand context.

Gray, Owen and Maunders (1988, p. 6) liken the small steps taken as 'middle ground' and typical of a reformist approach. Tinker, Lehman and Neimark (1991) argue, using the US context, such an approach may be acceptable by the majority but may not necessarily result in the best solutions. In their self reflection, Gray, Dillard and Spence (2009) call for radical changes to be made in terms of CSR thinking and practice by reinforcing Tinker et al's (1991, p. 29) idea to move away from "political quietism", where the acceptance of the current state is the result of conservatism that merely "seek[s] out the middle ground and go[es] along with the crowd", which may be an obstacle to changing for the better.

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It appears that NZFSIs had little pressure to adopt a broad view of CSR especially as related to reporting on their indirect impacts. It could be because they are too powerful to be pressured, or that concerned stakeholders lack power or there is a general acceptance of the small step reformist approach. Although their approach to CSR may seem to be accepted by the majority, and even lauded on occasions, it is argued that in this thesis, financial services institutions could potentially do so much more. The so far ineffective proponents of a broad view of CSR for financial services institutions would prefer a radical change.

Government regulations requiring reporting on indirect impacts would seem most appropriate to achieve a level playing field for the financial services institutions. However, the costs involved in systemising and operationalising the broad view of CSR by financial services institutions are likely to be passed on to clients and the public, through interest rates, fees and other compliance costs. Without regulations, it seems unlikely that individual financial services institutions would currently make the transformation for economic and legitimising reasons. Presumably, additional requirements and costs made on clients, or potential clients, by a financial services institution would encourage them to move their businesses to competitors. Perhaps the most likely initiators to cause financial services institutions to make the transformation are stakeholders including NGOs, the public and academics. NGOs and academics have already made some attempts but no serious reactions from financial services institutions have been reported. To further advance this undertaking, continued, constant, consistent and creative efforts may be required to:

- i) heighten publicity through mainstream and social media to highlight financial services institutions' potentially huge social and environmental indirect impacts;
- ii) provide evidence of dealings with clients who have negative social and environmental impacts; and
- iii) demand transparency in their disclosures of social and environmental indirect impacts, for example in their CSR or annual reports, or other forms of publications.

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As cited in Chapter 1, Edwards (2005, p. 56) calls for organisations whose products and services may raise direct or indirect harm to society and the environment “even if some cause and effect relationships are not fully established scientifically”, to observe the precautionary principle. Arguably, the 2008/9 global financial crisis could be due to avoidance of the precautionary principle by financial services institutions, and a lack of pressure on them to take responsibility for the indirect impacts of their activities. The core business products and services of financial services institutions can facilitate both positive and negative economic, social and environmental impacts. The concern in this thesis is with reducing the negative impacts, and the claim is that greater accountability through reporting can assist in achieving that change. In the case of financial services institutions, the kind of precaution involved in taking a broad view of CSR would amount to radical change.

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## APPENDIX I: Guide for coding units one and two<sup>22</sup>

There are two coding units used for the content analysis in this research. The objective is to investigate the extent/proportion of disclosure of issues related to core business products, services and processes, and of issues that relate to the process and outcome of stakeholder engagement in relation to CSR reporting that is contained within the CSR reports. The first step involves the identification of sentences that explicitly describe or discuss the economic, social and environmental impacts caused by the core business products, services and processes. The second step involves the identification of sentences that specifically describe or discuss the process and outcome of stakeholder engagement in relation to CSR reporting. In order to identify and qualify a sentence, so that it can then be evaluated in terms of the space it takes up, the sentence has to first affirmatively satisfy a coding unit. The coding units and their rules are discussed below.

### Coding unit one

The first coding unit was initially conceptualised as ‘Does the sentence discuss or describe any impact by the core business product/service (lending, investing and underwriting)?’ After three trial runs with a senior doctoral student in Islamic-related CSR (who has since graduated) using three CSR reports, it was modified not less than ten times and finally evolved to become ‘Does the sentence explicitly discuss or describe any specific and resultant economic, social, environmental impacts or consequences caused by the core business products, and services (lending, investing, underwriting) and/or processes of this NZFSI?’.

Some of the basic rules that resulted from the trial runs include the following:

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<sup>22</sup> No references are provided for the examples in this appendix to enable the anonymity of the organisations to be maintained across the thesis.

**APPENDIX I: Guide for coding units one and two**

- A description of impact(s) can be quantitative or qualitative. Impacts include actual and specific social and/or environmental and/or economic impacts of the core business activities, which are mainly lending, investing, and underwriting.

Examples of information that qualify for counting purposes in this content analysis are few as far as social and environmental impacts of the core business products and services are concerned. Some examples that qualify include those that present information on the aggregate loan exposure to environmental sectors:

Total high environmental benefit lending : \$445,397,636

As a % of total : 16.6%

The group generates more than \$6 billion in premiums, of which [the organisation] contributes approximately \$1.1 billion. We insure around 950,000 cars, 575,000 homes, 185,000 businesses and 235,000 rural risks.

A qualitative example that was counted is:

Lee Rodgers is a successful young entrepreneur and founder of 'Pack Leader Mobile Dog Training', which operates in Melbourne. However, turning his passion into a fully fledged business took an extraordinary amount of effort, including months of training, market research and planning. Like all businesses, start-up capital is crucial and, when Lee found himself a little short, [the organisation] was able to reward his efforts with a Microenterprise Loan. Lee now has the capital he needs to secure and grow his business, a business banker and access to ongoing mentoring support through our partner.

Although it describes that the loan was taken up by Lee Rodgers, further description about the impacts resulting from the loan usage would provide an even clearer link between the loan and the economic, social and environmental impacts, where applicable.

The following is an example that has not been counted because the information does not describe the actual impacts of the core business product, service or process. Disclosure of value of impacts is required for this content analysis to keep records that enable ease of comparison between past and present performances as well as across organisations, and also for benchmarking purposes. Mere citation of organisational intentions and policies are excluded as only actual performances or impacts are sought.

Our environmental credit risk assessment policies and processes have been in place since 1992 and reflect our commitment to balancing social and environmental impacts and risks with the need for economic development.

- Core business products for the banks include loans and deposit investments, and insurance underwriting for the insurance companies. Descriptions about the economic, social and environmental impacts of the core business products include the size of the loans or insurance policies to various industries or community groups.

An example of tabulated information qualifies to be counted.

**Business Lending Profile**

	<b>2005</b>	<b>2006</b>	<b>2007</b>
Agriculture, forestry and fishing	20%	20%	24%
Manufacturing	9%	10%	12%
Construction	4%	3%	4%
Wholesale trade	6%	8%	7%
Retail trade	6%	5%	5%
Accommodation, cafes and restaurants	2%	2%	2%
Transport	3%	3%	3%
Finance and insurance	5%	6%	2%
Property and business services	35%	35%	34%
Health and community	2%	2%	2%
Cultural and recreational services	1%	1%	1%
Personal and other services	4%	3%	2%
Other	3%	2%	2%

- Core business office operational activities or processes include premises and vehicle usage, consumption of paper, electricity, and disposal of waste. A description about the usage and economic, social and environmental impacts of these activities would qualify the sentence to be counted.

Sentences that describe or discuss core business processes are common in CSR reports because these issues are the most obvious link to the environmental impacts of the NZFSI's activities. Some examples that are counted include:

In 2007, our group-wide greenhouse emissions total 251,374 tCO<sub>2</sub>-e, a 0.44% decrease compared to 2006.

In the year to 30 September 2003, [organisation's] fleet of 148 vehicles travelled 4,029,575 km and used 396,592 litres of fuel. That's 27,200

km travelled and 2680 litres consumed per vehicle which comes to an average fuel consumption per vehicle of 9.841/100km.

This year we've recycled nearly 60 tonnes of paper through Paper Reclaim and all our sites have recycling bins.

- To be counted, a description of core business impacts has to be explicit and specific. It has to describe the actual consequences and not just be an expression of interest, intention, prediction or assumption that economic, social or environmental impacts will occur.

Explicit and specific examples that have been counted include:

In all, 275 complaints were referred to the Ombudsman in the UK. Of those, 145 were resolved – with 68% in our favour.

A phone call to one underinsured customer proved very timely when, just a few weeks later, her house accidentally burned to the ground. Putting her newly learned customer skills into action, Chrissie, a customer solutions adviser in [the organisation]'s call centre, added a few quick questions to her phone survey on our roadside rescue service. As a result her customer, Shaz Stock, increased her contents cover with just a small increase in her premium. That decision proved wise as she lost everything she owned in the fire. Fortunately, Shaz and her teenage twin boys escaped the blaze. Through her insurance, they were able to replace their destroyed household items. What's more, Shaz's contents policy also covered any liability she had for fire damage to the rented house.

An example that lacks explicit results and specificity, and so is not counted is:

Banks have a major indirect impact on the environment through financing and investment activities. As signatories to the Equator Principles, [the organisation] is committed to lending within strict guidelines to major developmental projects. Broader applications are assessed at the individual corporate or institutional level. Those transactions with perceived environmental screening to determine the

extent of the risk, and whether this may impact the applicant's capacity in their financial obligations.

- A description about modified or new economic, social and/or environmental products is not counted unless it specifies the actual impacts of that product. If it does not explicitly include information about the above then it is not reporting on the impacts and may be interpreted as merely giving product information.

For example,

The provision of SRI investment choices provides customers with an opportunity to make a contribution to a more sustainable society, and allows them to grow their wealth through investment aligned to their personal values.

- Mere description about the CSR or sustainability strategies, policies, intention and potential is not counted because the CSR actions or outcomes have not materialised. Highlighting sustainability policies and pronouncing the potential economic, social and environmental impacts is speculative. Examples include:

The key areas of focus in our CR strategy include:

- Assisting disadvantaged communities
- Our commitment to carbon neutrality
- Education – building the capacity of our people and local communities

We believe that by adopting such sustainable business practices, not just short term returns, we will deliver a better outcome for our customers, our employees and the broader community, while at the same time enhancing our reputation and financial position.

- Some examples that are counted include description about the impacts caused by core business activities or processes where actual results about employee and customer satisfaction level, and types and consequence of customer and employee complaints, are described:

External research has indicated a five percent increase in overall customer satisfaction from first quarter calendar 2004 and an overall rating of 63 percent as at 30 June 2004. This is the highest result in seven years.

However, employee satisfaction on pay has remained static at 41% and is below the external benchmark.

Key complaint areas in 2006 included:

- The sales and marketing of specific products
  - Our decisions about disability claims or the distribution of death benefits on superannuation accounts
  - Fees and charges and their impact on account values
  - Service delays and their impact on account balances – these complaints were high for a significant portion of the year.
- Philanthropy-related<sup>23</sup> activities such as donations and charity work, are excluded under the two guiding or qualifying questions; either as an impact of core business products, services and processes, or as stakeholder engagement for CSR reporting because that is the focus of this research. Although the NZFSIs' philanthropic activities are commendable, they are not the focus of this thesis.

Therefore, an example of CSR reporting that is not counted<sup>24</sup> is:

Our 40,000 employees globally interact with a diverse range of customers across different communities. We encourage our people to volunteer for a variety of programs. In Australia, this includes an entitlement for every employee to two days volunteer leave. The variety and breadth of programs are profiled in the following pages.

- Where information is presented using flow diagrams, pie charts, linear graphs or tabulated alpha numerals, the transparent grid will be used count the space taken up by those formats. Photographs in the CSR reports are not counted as they are

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<sup>23</sup> The perspective taken in this research on philanthropy-related activities is that they are strategic in nature and orientation, and considered as only one potential CSR initiatives, and, as discussed in Chapter 2, Schwartz and Carroll (2003, p. 505-506) redesign the earlier model to exclude the philanthropy dimension, citing philanthropy as a non-core business activity, and so "is not considered a duty or social responsibility of business, but something that is merely desirable".

<sup>24</sup> If such information were to be included in the count, it would give a distorted impression of the NZFSIs, direct and indirect impacts caused by core business products and services, and stakeholder engagement that are fundamental to the argument in this thesis, and the NZFSIs' core business products and services.

subjective, in terms of both purpose and interpretation, and so are considered outside the scope of this content analysis.

### Coding unit two

The second coding unit was initially conceptualised as ‘Does the sentence discuss or describe any stakeholder engagement in relation to CSR reporting?’ Coding unit two was, like coding unit one, also modified several times and the final version is “Does the sentence explicitly discuss or describe any process and result of stakeholder engagement relating to economic, social and environmental impacts for CSR reporting?”

Some of the basic rules that emerged as a result of the trial runs include the following:

- The description about stakeholder engagement must relate to the mode of engaging with stakeholders and the consequence of the engagement in relation to CSR reporting. For example, what issues are ‘important’ and should be recorded in the CSR report.

Examples that are counted include:

66% of employees say that there is enough regular communication between leadership and employees with regard to the changes taking place in the business. However, this is down 3% from last year.

Engaged employees are happy, loyal and willing to exceed expectations; so, in addition to offering appropriate remuneration packages, we need to listen and deliver on those things our people need to be productive and feel valued. Our engagement increased to 55% this past year. Next year we’re aiming for the high performance zone of 60% plus. This is what we need to build effective and innovative teams who tackle the challenges we are facing today.

The following is an example of information that has also been counted as it clearly indicates the parties involved in the engagement and the outcome that resulted in the production of an internal guide:

Consultation with our stakeholders has indicated that they are interested in understanding how our lending may influence social and environmental outcomes. Therefore during 2004, and again this year, we have undertaken work to identify ways to meet our stakeholders' requirements for transparency with regard to the indirect impacts of our lending. This work involved staff from across our CSR, Group Economics, Project Finance and Corporate Banking areas. It led to the development of an internal guide for classification of industry type by potential environmental and social risk and benefits, so we could in turn try to apply this to our lending portfolio.

- A description about the various modes of actual engagements undertaken with stakeholders, for example meetings and surveys, their results, subsequent or consequential actions whether taken or not, are also counted. Mere itemising or listing of meetings or surveys, and outlining the generic engagement policy, procedure or benefit are deemed insufficient for the purpose of this research because further information about who the stakeholders were that were engaged with, or the result of the engagement, or a specific description about economic, social and environmental impacts of the intention of the stakeholder engagement, is required to qualify for counting.

An example that counts is:

In Australia, myVoice is used to facilitate employee feedback and ideas. It is an intranet-based feedback tool that enables employees to share opinions, propose new ideas, suggest solutions and raise issues. In 2006, 5,647 comments, ideas, opinions and feedback comments were recorded – up from 4,996 in 2005. This year, 1,663 of the responses were ideas, of which 176 were implemented.

An example that is not counted is:

The objectives for 2004 are to work with union representatives and management to ensure employee participation reflects the culture of NZFSI #1, and to ensure all staff are proactive in promoting health and safety in the workplace.

## APPENDIX I: Guide for coding units one and two

- A description about membership in associations or participation in forums is not counted unless it is about specific meetings relating to the issues to be reported in CSR reports, and the subsequent outcome of those meetings, and is explicit and clearly explained.

This example discloses information about number of times the meeting was held together with the topics of discussion but not the subsequent actions. It is determined to be informative enough to be counted:

The Australian External Stakeholder Forum (a formal liason proactively set up by [the organisation]) met four times in the 2005 reporting period. Issues that have been discussed by the Forum include MLC's investment practices, credit risk policies, with a specific focus on how environmental and social risks are treated, project finance and the Equator Principles, executive remuneration, indebtedness and our collection process, and our CSR strategy and activity within the region.

Disclosures about memberships and mentions about participation in forums are not counted if they lack details about engagement in relation to CSR reporting. Examples include:

We have a number of memberships consistent with sound corporate citizenship. We are a founding member of the New Zealand Equal Employment Opportunity Trust, a member of the Sustainable Business Network and the New Zealand business Council for Sustainable Development (NZBCSD), our Chief Executive is also on the board of the New Zealand Institute and chairs the Growth and Innovation Advisory Board.

Participating in industry and business forums, both at a global and regional level, is important to our business, so we can progress discussion and action on issues of common interest. We are members of a number of industry bodies and business forums. See our group websites.

## APPENDIX II: Sets of semi-structured of questions used for interviews

Two separate set of questions for the pre 2008/9 global financial crisis interviews were designed - one for the NZFSIs respondents and one for the expert stakeholders. The first three sets of questions (Table II(a), (b) and (c) below) were for the NZFSIs respondents, and the next three (Table II(d), (e) and (f)) were for the expert stakeholders. The same set of questions (Table II(g)) was used for both the NZFSIs and expert stakeholder respondents post the 2008/9 global financial crisis.

### Pre 2008/9 global financial crisis

The first set of open-ended questions for the NZFSIs is separated into three sections. The first section is about CSR issues and the questions with related explanations are shown in Table II(a).

**Table II(a): Questions about CSR issues**

Questions for NZFSIs about CSR issues	Rationale
1)What do you understand by CSR (corporate social responsibility)? What does CSR mean in the context of your sector (financial services)?	To get respondents' perspectives about CSR as applicable in their industry specific.
2)What is the process that was used to develop your CSR report?	To get an account of these processes that may include the flow of activities relating to CSR reporting, including identifying the ultimate decision-making authority.
3)What did you find were the major issues that your organisation needed to consider? How did you select those issues?	To investigate what system was used to select CSR issues, and the motive or basis for reporting.
4)What other issues in relation to CSR are considered important?	To discover whether there were any other CSR issues chosen (for reporting) and/or overlooked.
5)In your opinion, are there any common	To get feedback about what the most

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issues that are peculiar to NZFSIs that should be considered and reported on?	important and relevant CSR issues are for NZFSIs to consider and report on.
6)What about issues of bank fraud, lending to irresponsible companies, trans Tasman issues, legal actions, etc?	To obtain a sense of how NZFSIs feel about reporting less positive issues that are directly related to their core business.
7)What CSR issues were not reported on at your NZFSI? Why?	To uncover whether there are any less preferred CSR issues for reporting.

The second section relates to stakeholder engagement in relation to CSR reporting. The questions with related explanations are shown in Table II(b).

**Table II(b): Stakeholder engagement questions**

<b>Questions for NZFSIs about stakeholder engagement</b>	<b>Rationale</b>
1. What role(s) did stakeholders play in the development of your CSR report? Who initiated their involvement? Why?	To investigate whether and to what extent stakeholders are involved in the NZFSIs' CSR reporting activities.
2. Which stakeholder group(s) is/are seen as most important?	To gauge how NZFSIs identify and rank their stakeholders.
3. Which stakeholder group(s) is/are excluded and why?	To discover whether any stakeholder groups are considered to be less relevant, and may be excluded for other reasons.
4. How do you decide who to engage with from each group of stakeholders? Why?	To examine criteria used (if any) to identify relevant stakeholder personnel to engage with.
5. How do you decide which engagement tools to use with the different groups of stakeholders? Why?	To gain information about the process of engagement with stakeholders.
*6. What is/are the objective(s) of your engagement with stakeholders?	To uncover the reasons why NZFSIs engage with stakeholders in relation to CSR reporting.
*7. How do you tell whether your stakeholder engagement has been successful?	To ascertain whether NZFSIs are concerned about their engagement with stakeholders in relation to CSR reporting.
*8. Who gets sent the reports? What	To identify to whom and how NZFSIs

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feedback (response rate, type) do you get from the stakeholders?	give their CSR reports and what assessment is made of issues / feedback raised during stakeholder engagement.
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\*Questions 6, 7, and 8 are asked specifically in relation to CSR reporting.

The third section relates to the motivation for CSR reporting. The questions with related explanations are shown in Table IIc.

**Table II(c): Motivations for CSR reporting**

<b>Questions for NZFSIs about motivations for CSR reporting</b>	<b>Rationale</b>
1. What motivated your organisation to start CSR reporting? Why?	To find out the reasons for CSR reporting from the perspective of NZFSI respondents.
2. What do you see as the benefits of CSR reporting to your organisation?	To discover what NZFSIs perceive as a positive impact from CSR reporting.
3. What are the problems you faced in your CSR reporting?	To discover obstacles for NZFSIs in their CSR reporting
4. In your opinion are there any adverse effects of your CSR reporting?	To obtain feedback about the negative effects (current and potential) of CSR reporting for NZFSIs.
5. How do you decide which 'engagement tools' to use with the different groups of stakeholders? Why? For what purpose?	To gain information about the process of engagement with stakeholders.

The second set of questions for stakeholders of the NZFSIs is also open-ended. As explained previously, two expert stakeholders were identified as being appropriate respondents due to their knowledge of CSR and CSR reporting by NZFSIs. The set of questions is separated into three sections. The first section is related to CSR issues and CSR reporting. The questions, with related explanations, are shown in Table II(d).

**Table II(d): CSR issues questions**

<b>Questions for expert stakeholders about NZFSIs CSR issues</b>	<b>Rationale</b>
1. What do you think NZFSIs should report on CSR issues? Why?	To obtain an expert stakeholder's perception about issues that NZFSIs should include in CSR reports so a comparison can be made between what was reported and what stakeholders think should be reported.
2. How do you think NZFSIs should select their CSR issues to report? Why?	To obtain an expert stakeholder's perception about how NZFSIs should prioritise or choose CSR issues to include in CSR reports.
3. How do you think NZFSIs' core business activities impact the community positively and negatively?	To discover what expert stakeholders perceive to be the positive and / or negative impact of the core business of NZFSIs so a comparison can be made with the perspective of NZFSIs .

The second section relates to stakeholder engagement in relation to CSR reporting and the questions with related explanations are shown in Table II(e).

**Table II(e): Stakeholder engagement questions**

<b>Questions for expert stakeholders about NZFSIs' stakeholder engagement</b>	<b>Rationale</b>
1. Have you been involved to engage with the selected NZFSIs in relation to their CSR reporting?	To ascertain the involvement of the expert stakeholders in relation to the CSR reporting activities of NZFSIs.
2. How do you think NZFSIs should engage with their stakeholders in relation to their CSR reporting? Why?	To find out how stakeholders prefer to be engaged with NZFSIs in relation to NZFSIs' CSR reporting.
2.1 Which stakeholder groups do you think NZFSIs should engage with in relation to their CSR reporting? Why?	To learn about the different types of stakeholders and their order of importance, supported with reasons.
2.2 Who should represent these stakeholders for engagement with	To find out if those of the stakeholder groups chosen by NZFSIs for engagement actually represent the core values held by

**APPENDIX II: Semi-structured sets of questions used for interviews**

NZFSIs? Why?	their respective stakeholder group.
2.3 How should stakeholders be involved in NZFSIs' CSR reporting?	To gain a perspective from stakeholders about how they should be involved in the CSR reporting by NZFSIs, and then compare it with the NZFSIs' perspective of how stakeholders should be engaged or involved.
3. Who should NZFSIs public CSR reports for? Why? For what purpose?	To gain an opinion about who could be interested in the CSR reports produced by the NZFSIs and for what purpose.

The third section relates to motivation for NZFSIs CSR reporting. The questions with related explanations are shown in Table II(f).

**Table II(f): Motivations for CSR reporting**

<b>Questions for expert stakeholders about NZFSIs' motivations for CSR reporting</b>	<b>Rationale</b>
1. Why do you think NZFSIs choose to produce CSR reports?	To gain an understanding about the perception of stakeholders as to the reasons why NZFSIs produce CSR reports.
2. Do you think they (the NZFSIs) have been successful in meeting the objectives of producing the CSR reports? Why?	To obtain the view of stakeholders about whether the NZFSIs objectives in relation to CSR reporting are achieved, supported by reasons.
3. Should NZFSIs continue to produce these reports? Why? How might they be improved on?	To seek stakeholders' opinions about whether NZFSIs should continue producing CSR reports and how the reports might be improved.

**Post 2008/9 global financial crisis**

The questions designed for the interviews post the global financial crisis have a similar pattern to the pre crisis interviews but with an emphasis on whether the crisis had an impact on the CSR reporting of the selected NZFSIs. The first four questions seek respondents' views without mentioning the 2008/9 global financial crisis while the subsequent four questions emphasised the crisis.

**Table II(g): Indicative questions for semi-structured interviews – post crisis**

<p>1. What is your understanding of CSR in relation to financial institutions?</p> <ul style="list-style-type: none"> <li>• Is there anything different or special about CSR in the New Zealand context?</li> <li>• Is there anything different or special about CSR in the New Zealand financial services context?</li> </ul>
<p>2. How does your organisation impact on the environment and society?</p> <ul style="list-style-type: none"> <li>• What do you see as the main impacts?</li> <li>• What would you classify as more minor impacts?</li> <li>• Which impacts do you see as direct impacts?</li> <li>• What are the indirect impacts of your organisation's operations?</li> <li>• Who is responsible for these?</li> <li>• Where does your organisation's responsibility begin and end?</li> </ul>
<p>3. What are the main/prioritised activities that your organisation reports on?</p> <ul style="list-style-type: none"> <li>• Have these changed over time?</li> <li>• If so, how?</li> <li>• What do you think has caused the change(s)?</li> <li>• What changes do you think might occur in the near future? And longer term?</li> </ul>
<p>4. What is the value of CSR reporting?</p> <ul style="list-style-type: none"> <li>• For your organisation?</li> <li>• For stakeholders?</li> <li>• Who is actually reading your reports?</li> <li>• How do you know they are interested and reading your reports?</li> <li>• What changes have you made to your reporting format / medium over time?</li> <li>• What other changes are planned in relation to CSR reporting by your organisation?</li> <li>• What would improve the standard of CSR reporting in the financial services sector?</li> </ul>
<p>5. What was the impact of the 2008/9 global financial crisis on financial institutions in New Zealand?</p>

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<ul style="list-style-type: none"><li>• On your organisation specifically?</li></ul>
6. Has the 2008/9 global financial crisis affected your organisation's CSR reporting?* If so, how?
7. Has the 2008/9 global financial crisis affected your engagement with stakeholders?* If so, how?
8. What is the role of CSR reporting and stakeholder engagement in relation to events like the 2008/9 global financial crisis?
<p><i>Note:</i></p> <p><i>These questions are generic and apply to the financial services institution respondents and the expert stakeholder respondents, with slight changes in wording used with the expert stakeholders.</i></p>