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The Development and Utilization of Corporate Social Responsibility Reporting

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THE DEVELOPMENT AND UTILIZATION OF CORPORATE SOCIAL RESPONSIBILITY REPORTING

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Introduction

Social and environmental reporting has emerged as a significant accounting issue as companies, non-governmental organizations (NGOs), and governments try to fulfill users' growing informational demands. This increase in reporting has in turn created new challenges for the assurance profession as it tries to determine the best way to verify these innovative reports. Sustainability reporting encompasses both social and environmental information, focusing on creating an overall positive outcome for humanity. This reporting is referred to by several names, including sustainability reporting, sustainability accounting, social reporting, environmental accounting, social and environmental accounting (SEA), triple bottom line, and corporate social responsibility (CSR). The variations in terminology are an indication that each company takes an approach to reporting that best fits its goals and circumstances. In most instances, this thesis will use the term CSR, which encompasses social and environmental material as well as the economic characteristics of the company.

At present, the decision to report normally rests with the company. The accounting profession has the potential to create standardized reporting practices for the CSR field as it has done for financial reporting in the past. New CSR standards present challenges to the accounting discipline because accountants must understand the non-financial data and establish new methods to evaluate CSR information. These challenges will especially be felt by assurance providers.

A subcategory of accounting is assurance services. Assurance services are defined as "independent professional services that improve the quality of information, or its context, for decision makers" (Messier, Glover, & Prawitt, 2010, p. 13). At a minimum, an assurance engagement reports on the reliability and credibility of information. Information is judged against criteria used by management, such as the Generally Accepted Accounting Principles

(GAAP), the reporting standard created by the Financial Accounting Standards Board (Messier, Glover, & Prawitt, 2010, p. 13). An audit is not meant to cover all of a company's data; instead, it determines at what level incorrect information will change a rational person's opinion of the company. Auditors set their testing level by determining materiality, a threshold at which investors will no longer be ambivalent to an error in the company's reports. This is an important accounting principle because it allows auditors to provide assurance without reviewing all of a company's transactions. Regardless of the level of evaluation provided, an audit requires a set of standards to compare a company's assertions. These standards are normally set by a body of experts.

Numerous groups oversee the accounting profession and can influence its role in CSR reporting. The Public Company Accounting Oversight Board (PCAOB) gave the Financial Accounting Standards Board (FASB) control over financial accounting standards after Sarbanes-Oxley was passed in 2002. The FASB has not done or said anything to show it is increasing CSR reporting efforts, though. The International Accounting Standards Board (IASB), which is working to create international financial reporting standards, also does not plan to play an active role in CSR standard setting (Tschopp, Wells, & Barney, 2012). The usual standards setters are shying away from committing to CSR reporting, but other groups are stepping in to bring clarity to the subject.

The International Auditing and Assurance Standards Board (IAASB) has been actively involved with the Global Reporting Initiative (GRI), a prominent non-profit group, to create reliable assurance standards for CSR reporting (Tschopp, Wells, & Barney, 2012). In fact, the board released guidance for auditing non-financial information that took effect in 2005 (Blair, Williams, & Lin, 2008). Other groups, such as AccountAbility and the UN Global Compact, are also playing a crucial part in creating reporting standards for CSR information. The uncertainty around assurance procedures for non-financial information can reduce an accounting firm's willingness to perform an audit. It also creates uncertainty on what exact procedures should be carried out to provide assurance to stakeholders.

Research Question

How do auditors evaluate sustainability data? As noted, assurance requires comparing data to a set of agreed-upon standards. Auditors provide reasonable assurance for financial information because they can evaluate a company's information based on its adherence to GAAP. Although reporting and auditing standards have not been agreed upon and set for CSR information, auditors are still providing assurance. They use standards developed by non-governmental organizations discussed below and can determine the amount of assurance provided, either reasonable or limited. Two additional questions arise from this situation: what standards are commonly used to evaluate CSR reports and does a company's industry or geographic location predispose it to acquiring assurance for CSR reporting? Analysis of these additional points will contribute to the understanding of how the CSR assurance process has transformed.

Review of Literature

Historical Background

A basic review of CSR reporting and traditional financial reporting is needed to better understand the use and importance of external assurance. CSR reporting has evolved similarly to how traditional financial reporting has evolved over the years. In the early 1900s, companies released unreliable and sometimes dishonest financial statements. They were not held accountable for their financial information until the Securities Exchange Act of 1934 was passed, establishing the Securities and Exchange Commission (SEC). The act mandated publicly traded companies to provide accurate and complete information to investors of all sizes wishing to purchase the stocks on exchanges and over-the-counter markets. This increased the quality and trustworthiness of financial reports. However, financial reporting standards were not fully established in a matter of days, weeks, months, or even years; instead, standards setters are still seeking ways to make financial reporting more relevant and reliable to this day. CSR reporting is already showing signs of a similar developmental track.

CSR reporting has been around since the 1970s and has slowly become a more trustworthy source of information. Early reports were often deceptive, marketing products and companies as eco-friendly without supporting evidence. Sustainability reports were biased and meant to portray the company in a positive light. In the 1980s, companies began moving away from a shareholder-based viewpoint to understanding the needs of their consumers, communities, employees, and other stakeholders. A 1987 United Nations report titled "Our Common Future" further encouraged companies to take sustainability accounting seriously. Initially focused on the environment, sustainability also began to incorporate social issues (Jones & Jonas, 2011). By the 1990s, public interest increased and responsible investing appeared to be on the rise (Tschopp, Wells, & Barney, 2012). Stakeholders increased demand for transparent and comparable social and environmental information, which can be achieved through external assurance.

External assurance can be provided by an assortment of professions, but accountants have a unique opportunity to dominate the field. Environmental specialists or social experts understand the information presented in CSR reports and can act as an external assurance provider. However, they might not have an established reputation like an auditor. The accounting profession has years of verification experience that can be applied to CSR reporting. An auditor's profession is based on verifying information in order to make it more relevant and reliable to end users. Auditors and accounting firms have built their reputations as trustworthy sources and have an incentive to display ethical behavior. If the auditing profession can gain an understanding of CSR issues, it can provide credible assurance to CSR reports. Auditors must also be knowledgeable of managerial accounting practices related to the issue in order to provide high quality assurance.

Management Accounting and Social and Environmental Reporting

Before providing assurance, an auditor must first have an understanding of how and why CSR reports are created and what information is included. Similar to financial statements, management has the final say of what is reported. Risk management is a major reason to gather CSR information. Risks related to environmental and social issues stem from hazardous material usage, product safety, workplace conditions, and supplier operations. Organizations assess these risks and the financial impact they might have to determine risk avoidance, risk reduction, and risk mitigation strategies (Joshi & Krishnan, 2010). The SEC requires disclosure of this information if it is material to the business. Disclosures include the cost of complying with environmental regulations in the future, costs of cleaning contaminated sites, contingent liabilities, and any uncertainty related to environmental trends (Ross, 2010). The need to understand company risks has led to advancements in sustainability accounting and understanding the underlying costs to a company.

Companies can choose from various methods to incorporate social and environmental information into their management decisions. They can create a Life Cycle Assessment (LCA) to examine the complete life of a product from suppliers to customers to final disposal. They can also strengthen costing controls in order to better track related social and environmental costs. However, the costs and resources needed to do this have led academics to study why a company is willing to go through additional effort to create a report that is not generally a legal requirement.

Theoretical Perspective of CSR Reporting

Sustainability has received increased attention in the past years from many academic disciplines. This research can be beneficial to auditors because it delves into the reasoning behind reporting CSR information. Research from the social and environmental science fields can increase an auditor's understanding of the reasoning behind CSR initiatives. Accountants have studied CSR since the 1970s (Parker, 2005). Although almost forty years of CSR research has been completed, the volume of information has not led to a clear understanding of social and environmental reporting (Parker, 2005). Social and environmental reporting is intertwined with ethics, physical sciences, and social sciences, which lead to many differing viewpoints. No common reasoning exists why a company does or should report sustainability measures. This has led academics to create several theories — like legitimacy theory, political economy theory, and stakeholder theory — to explain why a company would go to these lengths to provide voluntary information and engage an external auditor. Although many of the theories offer valid explanations, stakeholder theory is most informative to an auditor wishing to understand the reasoning behind reporting.

Stakeholder Theory

Stakeholder theory is a prominent theory used to explain why companies adopt sustainability reporting. The theory is defined as the attempt to develop corporate strategies around the desires of an organization's key stakeholders (Parker, 2005). Important stakeholders may be investors, customers, employees, the community, or governmental agencies. Stakeholder theory is management-focused because that group must determine who is most important to shaping company policies (Spence, Husillos, & Correa- Ruiz, 2010). After determining the goals and desires of these groups, a company can then determine its most relevant sustainability practices.

Management prioritizes stakeholders based on the company's focus. A company that is profit-oriented will focus on shareholders since these are the stakeholders who can gain financially through increased income. Management that focuses on the big picture values non-shareholders. Management's job is to allocate resources based on which stakeholder groups they deem most important. Those most directly related—shareholders, employees, and customers—often receive the most attention. The government is deemed less important but is still significant due to its power to mandate legislation. Communities often receive the least attention because they have less influence on the company's daily operations and profits (Agle, Mitchell, & Sonnenfeld, 1999). These rankings do not hold true for all companies.

Companies have the final say on which stakeholder group is most influential. Stakeholder theory believes stakeholders possess three key characteristics: legitimacy, power, and urgency. All stakeholders have some level of legitimacy and power which consists of a claim on the company and the ability to influence a company's behavior. However, the urgency component increases a stakeholder's rank in a company's viewpoint (Agle, Mitchell, & Sonnenfeld, 1999). Some companies simply react to new policies or accommodate special interests. Others are proactive in their strategies by taking on new and innovative ideas. The higher the perceived demand, the more likely a company will generate numerous solutions to an issue (Murillo-Luna, Garces-Ayerbe, & Rivera-Torres, 2008). Stakeholder theory is a valuable tool to auditors as it provides insight into where the demand for CSR reports stems from. Companies can engage auditors to relieve the worries of the most important stakeholders and when necessary, fulfill its obligations to regulatory bodies.

Governments' and Non-Governmental Organizations' Roles

Governments can play a large part in encouraging and requiring CSR reporting. Governments have the power to implement legislation over CSR reporting and assurance. The government must also think of the costs and benefits of requiring companies to produce additional reports, which some have already established as beneficial.

To date, few countries require CSR reporting. South Africa is the only country to require integrated reporting to be listed on the Johannesburg Stock Exchange. To be listed, companies must disclose relevant information about the company's strategy, model, and competitive environment. They also must share information on sustainability pressures and risks faced in the industry, both short term and long term (Eccles & Saltzman, 2011). Denmark began mandating CSR reporting for certain companies in 1995, requiring companies to "publish this kind of information in order to provide a good understanding of the development, results and position of the company with respect to CSR" (Dubbink, Graafland, & van Liedekerke, 2008). In the Scandinavian countries, environmental reporting is legally required for the largest companies. Belgium may have some of the farthest reaching requirements, requiring companies with as few as twenty-five employees to report on certain social issues (Tschopp, Wells, & Barney, 2012). European countries tend to have more requirements for CSR reporting compared to American countries.

The United States has one of the lowest levels of reporting requirements. Environmental issues are largely reported if related to financial risks (Wallage, 2000). In the past, the government has been reactive in its policy-making. The Toxic Release Inventory was mandated in 1986 after several chemical accidents. Most other policies are established to defend communities' civil liberties after a disaster has already occurred (O'Rourke, 2004). However, shareholders in all countries now have a greater interest in social and environmental reporting, which can lead to entire countries being held accountable for sustainability practices.

Social and environmental reporting has been applied to countries as well as companies. Because governments set legislation, they are also being held responsible for how companies within their borders operate. Companies frequently avoid countries known for child labor, sweatshops, and political unrest. A 2003 survey by the World Bank showed that of 107 multinational companies surveyed, forty-five percent chose to relocate operations based partially on CSR principles. Thirty-six percent withdrew from a country known for not upholding CSR standards (O'Rourke, 2004). This offers a suggestion of why a company would choose to voluntarily report CSR information. Company reports often describe operations in countries with objectionable working conditions. These reports offer a way for companies to explain how they are dealing with differing work conditions around the world and bringing all international operations up to a standard code of conduct. To further increase credibility, companies can contract with auditors to verify these assertions.

Third-party assurance providers have been critical in evaluating business dealings with other countries. Globalization and outsourcing have led American companies to work more directly with undeveloped or developing countries that might not have the same legal requirements or ethical standards as the United States. Companies can counter this by writing extensive supplier contracts detailing behaviors that are standard within the United States. Assurance providers have also replaced legal systems in countries where the courts are not trusted. They provide a means of enforcement and a way to require suppliers to comply with principles the U.S. companies want to uphold (Blair, Williams, & Lin, 2008). Some view assurance providers as more reliable and efficient than involving the government.

Researchers have debated the use of government legislation on CSR. Simply requiring reports does not necessarily add value or accuracy. Instead, it may lead to minimum compliance and less innovative reporting. Passing legislation is also difficult because no agreed-upon standards exist (Thomas, Shaad, Oram, & Baker, 2004). Passing laws without assurance providers' input can also be detrimental as it can require auditors to form an opinion on something they do not have the tools to evaluate. Instead, a self-regulating system can be used to report CSR information at this time.

Self-Regulation

A self-regulation system reduces the need for government regulation and enforces an acceptance of social responsibility within an industry. Self-regulation occurs within an individual company when it voluntarily improves its social and environmental performance. Companies pursue this path for many reasons, including image management, cost efficiency, risk reduction, and altruism. Transparency is also a sought-after characteristic, leading almost eighty percent of Fortune Global 500 companies to publish sustainability reports (Joshi & Krishnan, 2010). Whatever the reasoning, self-regulation is closely linked with CSR because companies release voluntary information about values and activities unregulated by the government (Searcy, 2012).

Self-regulation can also arise industry-wide. Companies act to maintain the industry's reputation, prevent governments from implementing sanctions, or mimic reports done by other companies within the industry (Schaltegger & Burritt, 2010). Sometimes the motivation may be to create barriers to entry or reduce the likelihood of punishments for ethical infractions (Norman, 2011). Regardless of the purpose, industry-wide regulation is not a new concept.

Industry regulating bodies have been operating for years. Groups such as the Better Business Bureau and Underwriters' Laboratory are involved in industries producing consumer goods. Others like the Responsible Care Program in the chemical industry focus on specific products (Norman, 2011). Fair trade assurance providers sprung up when a number of consumers began choosing products based on fair wages and eco-friendly practices. Conflict-free diamonds, sustainable fishing, and safe chemical manufacturing are all codes of conduct put in place within an industry by its own doing (Blair, Williams, & Lin, 2008). All of these groups began voluntarily and all offer a form of assurance to stakeholders desiring specific industry practices. While industry associations have worked to improve their respective industries, government agencies are less active in increasing non-financial reporting.

Current Accounting Standards Setters' Viewpoint

At present, United States government agencies have not been instrumental in encouraging CSR reporting. The SEC has said they will not push the CSR agenda although they have released guidance on climate change reporting (Tschopp, Wells, & Barney, 2012). The original Securities Exchange Act requires disclosure of material financial and non-financial information, but little is done to enforce the non-financial feature. This data largely falls under the reporting category of risk contingencies related to the cost of compliance and non-compliance with laws and legal proceedings (O'Rourke, 2004). The government's lack of interest has created an opportunity for other groups.

The government has relied on non-governmental organizations in the past. The AICPA and FASB have been largely in charge of the accounting profession for many years. When determining financial accounting standards, the U.S. government allowed NGOs to create the rules and maintain professional standards (Norman, 2011). By working directly with a particular NGO, government groups can streamline the reporting process, especially for a new topic such as CSR reporting. Companies then have one set of regulations to follow instead of working with numerous standards (Blair, Williams, & Lin, 2008). This also helps the assurance industry because it focuses their efforts on finding an efficient way to audit based on one set of standards.

In the end, the law and self-regulation are interlinked; governments benefit from NGOs regulation of reporting while NGOs rely on governments for additional enforcement (Norman, 2011). This is especially true for the auditing profession, which provides input on proposed government legislation affecting the industry.

Auditing Profession's Role

Increasing social and environmental reporting may change the auditing profession. Currently, auditors' primary focus is assuring financial reports. By focusing on this field, the profession has created specific and efficient procedures that provide adequate assurance over the financial statements. Auditors also have the luxury of assuming financial statement users understand the basic concepts of reporting. However, CSR report users are not necessarily shareholders and can come from non-business backgrounds. The accountant's role in providing assurance may be challenged by other disciplines such as environmental experts or management companies. Accountants will need to adapt to the changes and gain an understanding of the issues reported in CSR reports.

The accountant's role in CSR reporting standards has been debated. Currently, companies are not required to report sustainability numbers unless related to certain environmental and legal regulations, and auditors are not required to verify a company's sustainability reporting (Gearty, 2011). However, companies are still releasing this information with or without assurance from a third party. Users need guidance on how to interpret reports and understand the scope of the audit. The government may try to keep auditing professionals within the financial arena to avoid conflicts of interest, but accounting firms are taking their prior experience and applying it to this growing field.

The Big Four accounting firms— Deloitte Touche Tohmatsu, Ernst & Young, PricewaterhouseCoopers, and KPMG— have discovered opportunities to offer assurance and consulting services for CSR reporting. Currently the largest firms focus on consulting and finding tax incentives available for sustainable practices. Deloitte has purchased sustainability consulting firms and has hired respected names in the corporate social responsibility field to head its own sustainability practice. Firms are less likely to audit sustainability reports, at least within the United States, because many companies are unwilling to pay for audit services when reporting rules frequently change. Accounting firms are trying to make their mark, attempting "to be seen by potential clients as experts and thought leaders" (Johnson, 2011, p. 17). Due to their past experiences and reputations as reliable third-party verifiers, firms might easily enter the market.

Accountants have characteristics that make them ideal for auditing sustainability reports. Wallage (2000) describes accountants in the following way:

> Financial auditors can rely on their reputation (expertise of verification as a process), have experience in cooperating with other experts, and are known to be independent. The latter attribute stresses the need to focus on verification and not on consultancy… Finally, it can be said that financial auditors have the necessary skills in reviewing information systems, verification of data, and in the reporting of information to those outside the organization (p. 64).

As professionals, accountants are bound by confidentiality guidelines which can also calm companies' fears of revealing trade secrets (Dubbink, Graafland, & van Liedekerke, 2008). Overall, accountants already understand the importance of confidentiality and credibility.

When financial reporting requirements first developed, accountants quickly found the path to credibility was an honest reputation and complete licensing requirements. These are signals to customers, the companies being audited, that the accounting services provided are adding value (Blair, Williams, & Lin, 2008). Firms have worked decades to build credible reputations and continue to maintain standards that uphold their statuses. Now accountants can apply these same traits to a new industry. The biggest challenge still is to determine agreed-upon standards for providing assurance.

Accountants will see changes to typical assurance procedures when applied to sustainability reports. Because social and environmental interests are often qualitative, auditors have difficulty determining what is material to a stakeholder. University of Florence professors Giacomo Manetti and Lucia Becatti portrayed a largely different approach to auditing sustainability reports. They stated "there is a credibility gap that renders sustainability reports an instrument little used by the traditional target users: shareholders, lenders, customers, employees, and local communities" (Manetti & Becatti, 2009). Manetti and Becatti proposed several ways to adjust typical assurance work to sustainability reports. Because of the qualitative nature of most social and environmental information, limited assurance is strongly preferred to reasonable assurance. Auditors can also use experts to assist in evaluating areas outside the typical accounting domain. This interdisciplinary approach does not pass the burden of responsibility from the audit team, but allows them to better evaluate the company (Manetti & Becatti, 2009). At present, the question remains: how are auditors planning to overcome these barriers, and how will they provide verification to CSR reports? Several groups are developing standards to assist statement preparers and auditors overcome these challenges.

Understanding Reporting Frameworks

Before an auditor can review CSR reports, he or she must understand how they are created and arranged. Because there are no set standards, companies are allowed to determine what is in the report. Some companies follow government standards while others use NGO-developed frameworks. Still others determine which CSR information they want to disclose fully based on company preferences, not following any predetermined formats. Over the years, certain standards such as AccountAbility and GRI have emerged as leaders in CSR reporting.

AccountAbility. A prominent group working on sustainability assurance standards is AccountAbility, a global not-for-profit partnership. Originally formed in 1995, AccountAbility now has eight offices worldwide (AccountAbility, 2012). It focuses its standard setting efforts around the three principles of materiality, completeness, and responsiveness (O'Rourke, 2004). The group has an advisory council made of business leaders from around the world. It also has a standards board, which works to develop a set of accounting standards (AccountAbility, 2012). Its main purpose is to promote accountability in regards to various sustainable development issues and has three main standards sets: AccountAbility Principles Standard, Assurance Standard, and Stakeholder Engagement Standard (AccountAbility, 2012). The two most commonly referenced in this thesis are the Principles Standard and the Assurance Standard.

The AccountAbility Principles Standard is meant to be used by reporting companies. It was first developed in 1999 as part of the AA1000 Framework Standard which covered all aspects of sustainability information. It was made into its own set of standards after AccountAbility created assurance-specific standards in 2003. The Principles Standard was clarified in 2006 and 2008. The group's goal is to involve as many stakeholders as possible and incorporate feedback into future standards (AA1000 AccountAbility Principles Standard, 2008). The Principles Standard is often used in conjunction with the Assurance Standard.

The AccountAbility Assurance Standard was created for assurance providers evaluating sustainability information. It fulfills the credibility principle set forth by AccountAbility. The standard was also included as part of the 1999 Framework Standard and became the first assurance standard of its kind in 2003. It was further revised in 2008 after considering input from various users. The standard can be adapted to provide the most appropriate level of assurance for the specific engagement.

The Assurance Standard can be broken down into two types of assurance engagements. Type 1 provides assurance on sustainable performance using both disclosed information and an evaluation of the business's systems and processes. In a Type 1 audit, assurance "...is intended to give stakeholders assurance on the way an organization manages sustainability performance, and how it communicates this in its sustainability reporting, without verifying the reliability of the reported information" (AA1000 AccountAbility Assurance Standard, 2008, p. 9). A Type 2 audit goes one step further. The assurance provider evaluates the reliability of the information specified as material and meaningful by the company (AA1000 AccountAbility Assurance Standard, 2008). Understanding the audience is critical to Type 1 and 2 assurance as accountants must evaluate the stakeholders in order to determine the best performance indicators to include.

The assurance provider can also offer different levels of assurance. A high level of assurance should provide a high level of confidence in the sustainability reports, and the auditor performs enough work to believe the risk of an erroneous conclusion is "very low but not zero" (AA1000 AccountAbility Assurance Standard, 2008, p. 11). A moderate level of assurance is achieved where "sufficient evidence has been obtained to support their statement such that the risk of their conclusion being in error is reduced but not reduced to very low but not zero" (AA1000 AccountAbility Assurance Standard, 2008, p. 11). A high level or moderate level of assurance can be provided for either Type 1 or Type 2 audits. Companies often use both levels in the same report, applying a high level to certain information and a moderate level to the remaining report. Quantitative information is easier to cover using a high level of assurance while qualitative information is often covered by moderate assurance.

Aside from the separate standards and types of assurance levels, the AccountAbility audit guidelines are similar to a typical audit. High and moderate levels of assurance closely correlate to reasonable and moderate assurance. The principle difference is the business's assertions are scrutinized according to sustainability measures as well as the usual financial standards. Auditors are required to have experience with sustainability reporting and the industry in which the business operates. In addition, they must have a general knowledge of social and political issues affecting this type of reported information. When performing assurance services according to the AccountAbility Assurance Standard, auditors can use other reporting references, such as the UN Global Compact.

UN Global Compact. The United Nations created the UN Global Compact in 2000 to promote accountability for four issues: human rights, labor, anti-corruption, and the environment. The initiative is voluntary and most companies can join. To join, a company sends a letter from its chief executive officer as well as a letter of support from the United Nations Secretary-General. Companies are also asked to make a financial donation once a year to support the UN Global Compact (United Nations, 2011). The United Nations is making CSR reporting more accessible by allowing companies to join freely and without excessive hassle. They have also created an easy framework to follow for reporting purposes.

The UN Global Compact follows ten principles. The principles are shown in Figure 1. Companies compile a Communications on Progress annually to share their advancement of the four principle topics. This report can be included in the annual report, a sustainability report, or as a stand-alone document. The report is similar to the Global Reporting Initiative and the two are often combined.

Figure 1: United Nations Global Compact Principles

Human Rights

- Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights
- Principle 2: Businesses should make sure that they are not complicit in human rights abuses

Labour

- Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- Principle 4: the elimination of all forms of forced and compulsory labour
- Principle 5: the effective abolition of child labour
- Principle 6: the elimination of discrimination in respect of employment and occupation

Environment

- Principle 7: Businesses should support a precautionary approach to environmental challenges
- Principle 8: undertake initiatives to promote greater environmental responsibility
- Principle 9: encourage the development and diffusion of environmentally friendly technologies

Anti-Corruption

- Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery

Global Reporting Initiative. The Global Reporting Initiative (GRI) is an independent organization that has released guidelines for reporting corporate responsibility information. Originally founded in the United States in 1997, GRI has since relocated to the Netherlands. GRI works to maintain independence by securing funding through a wide range of sources so no company, industry, or government body can bias standards. It has opened training centers across the world to aid companies in understanding the GRI reporting framework (O'Rourke, 2004). The reporting framework can be used by any company, government, or non-profit organization regardless of size. Companies can choose to report as partially adhering to the guidelines or as full compliance (Global Reporting Iniative FAQs, 2012). This gives companies freedom to implement reporting as they see needed.

GRI has also developed sector specific guidelines for five industries with five additional sector supplements in development. Sector-specific guidelines are developed based on "the need for sector-specific content in reporting, the potential to improve the sustainability performance of organizations in the sector, and the potential for increasing the number and quality of reports in the sector" (Global Reporting Iniative FAQs, 2012). A group of twenty experts from various professional backgrounds create a draft of guidelines. The draft is reviewed by the public on two occasions before GRI's Technical Advisory Committee assesses it to ensure high quality. The draft is then presented to GRI's Board of Directors for final approval. The complete process takes around two years, and sector supplements are reviewed every five years (Global Reporting Iniative FAQs, 2012). This rigorous process adds to GRI's reputation as a responsible standard setter and increases the demand for more specific GRI standards.

GRI is developing standards to guide reporting in specific countries. Since regulations and issues differ worldwide, the organization wishes to create National Annexes to be used in conjunction with the Reporting Framework (Global Reporting Iniative FAQs, 2012). Many companies already report some form of sustainability data using GRI standards. In 2009, over 1,500 companies filed reports using the GRI Reporting Framework (Global Reporting Iniative

FAQs, 2012). GRI's popularity indicates it is a user-friendly and prevalent reporting framework, but it still has its critics.

Adopters and analysts see several faults with the GRI framework. The biggest critique is that the group sets unrealistic reporting goals. With fifty core indicators, one side believes that the reporting range is too large and complex. On the other hand, some critics believe framework does not require enough performance metrics and instead focuses on company policies (O'Rourke, 2004). Still other critics believe the indicators are not practical as a management tool and are overly general, making it difficult for companies to actually implement change (Searcy, 2012). Gathering information proves to be costly, but companies often believe the financial outlay is not as significant as the investment of management's time (CICA, AICPA, & CIMA, 2011). Management must divert attention to monitoring, compiling, and reporting CSR information. This takes away time spent on other aspects of running the company. Preparation using GRI guidelines is meant to ease reporting burdens, but it is not a perfect framework.

Comparability remains an issue with the GRI indicators. When using a lower level of compliance, companies can pick and choose which indicators to report. Companies are allowed to report at levels A, B, or C with C as the lowest level of reporting. A study of sustainability reports using GRI G3 criteria released in 2007 through 2009 showed even using the same criteria does not guarantee comparability. In 2008, CitiBank reported three times as many environmental indicators as Barclays; conversely, Barclays reported three times as many labor practice indicators as CitiBank (Sherman & DiGuilio, 2010). Both companies are in the financial services industry, but the two company's sustainability reports are focused on two different themes. Although the information is not comparable, it does show what each company believes is most important to its business and stakeholders.

Using GRI's generally accepted reporting framework simplifies the preparation and presentation of a company's values and sustainability progress. Companies can increase the reliability of sustainability reports by having both GRI and an external auditor assess the information (Global Reporting Iniative FAQs, 2012). Furthermore, following GRI's standards signals a serious commitment to sustainability reporting. Others are starting to notice a company's dedication to CSR reporting and are rewarding its efforts.

Evaluations of Sustainability Reports

Some non-profit and research organizations have instituted ranking systems to communicate how well companies report information. These rankings are used by stakeholders and researchers to evaluate a company's performance. Companies also use the rankings to judge their progress against other sustainability leaders and view inclusion on such rankings as an accomplishment. Some organizations simply analyze each company's individual performance while others compile information on thousands of companies and create a system for others to use in analyzing CSR initiatives.

The Global 100 Most Sustainable Corporations in the World, or the Global 100, is one such ranking system. The group's goal is to showcase the top 100 companies that provide extra-financial and non-financial information to stakeholders and are shown to uphold CSR values (Global 100: Mission Statement, 2011). The listings allow users to easily look up companies by country and ranking criteria. Eleven criteria are used to assess corporations for the 2011 listing. The criteria vary from environmental impacts, such as water productivity, to social issues, such as percentage of taxes paid (Global 100: Criteria and Weights, 2011). The criteria can be seen in Table 1. Each company's CSR information is closely scrutinized by capable reviewers.

The Global 100 rankings are compiled by four companies: Corporate Knights Inc., Inflection Point Capital Management, Global Currents, and Phoenix Global Advisors, LLC

(Global 100: Who We Are, 2011). Around 3,500 companies' CSR information is initially gathered from other research firms before the field is narrowed down to 400 top companies (Global 100: Methodology Overview, 2012). Global Currents assesses each company's financial wherewithal before the Global Knights analyzes each company by the eleven criteria. Once the final 100 companies are chosen, Inflection Point Capital performs analytical and quantitative testing that can be used as a follow up to the lists (Global 100: Methodology Overview, 2012). The Global 100 is just one such list that tracks companies' CSR initiatives. Companies' sustainability practices are also tracked for investment purposes by several indexes.

Table 1: Criteria for Inclusion in Global 100

Global 100 Criteria
• Energy Productivity
• Greenhouse Gas Productivity
• Water Productivity
• Waste Productivity
• Innovation Capacity
• Percentage of Taxes Paid
• CEO to Average Employee Pay
• Safety Productivity
• Employee Turnover
• Leadership Diversity
• Clean Capitalism Paylink

In 1999, Dow Jones Indexes launched its first sustainability index with the help of the Sustainable Asset Management (SAM) Group. Companies are selected based on an annual assessment performed by SAM, which uses general and industry specific criteria to judge which companies are paving the way in sustainable practices. The Dow Jones Sustainability Index (DJSI) is a leading benchmark and some companies set inclusion in the index as a corporate objective (CME Group Index Services LLC, 2010). In 2011, over 2,700 companies were invited to take the assessment. Of those, 1,443 companies were analyzed. Seven hundred and twenty-nine companies completed the questionnaire while 714 were analyzed only using public information (SAM Indexes, 2011). Now over twenty sustainability-related indexes are offered, including country-specific indexes, region-specific indexes, and the Dow Jones Sustainability World Index (DJSWI).

The DJSWI is composed of companies from the top ten percent of the largest 2,500 companies on the Dow Jones Global total stock market index. American and British companies make up 29.75% and 17.52% of the world index respectively. The financial sector makes up the largest proportion of the DJSWI with 19.37% while the consumer goods sector trails behind at 12.96%. However, many of the leading companies, such as IBM, Intel, and Samsung, are the top companies of the index (CME Group Index Services LLC, 2012). The index has grown from less than $1 billion in total assets when it first started to $8 billion in 2010 (SAM Indexes, 2011). Many companies make inclusion in a sustainability index a goal, creating a reason for reporting CSR data. This goal of inclusion might be paying off financially and improving a company's reputation.

Several studies have been done to judge the benefits of inclusion in a DJSI. A study performed by Adrian Wai Kong Cheung (2011) examined a sample of companies included and excluded from the DJSWI over the period of 2002-2008. The study looked at the financial markets' response to US companies newly added or deleted from the DJSWI. Fifty percent of the firms were from the manufacturing sector. Cheung measured the impact on stock returns, risks, and liquidity. She found that the time period around the day of inclusion had a temporary impact of increasing the stock's return and decreasing the stock's return when the company was removed from the index. However, no permanent change was found in the study. One possible reason is that portfolio managers have the ability to diversify the risk of holding stock in a company that was recently removed from the list.

Another study by Robinson, Kleffner, and Bertels (2011) examined whether inclusion in the DJSI improved a firm's reputation. The study measured the six months before and after an announcement of inclusion or exclusion in the DJSWI from 2003-2007. Inclusion in an index gives a credible signal of sustainability commitment and cannot be written off as easily as self-disclosure. To meet the criteria to be in one of the DJSI, one company estimated it spent thirty person-days to provide the necessary information. By analyzing the data, the researchers found that the increase in a firm's price changes over the months following the announcement as traditional investors reassess its worth. They found that a firm's market value increased by around 2.1% when included in the index.

A third study uncovered another result when studying the DJSWI. Lopez, Garcia, and Rodriguez (2007) focused on European companies from 1998-2004, studying the short term effects of index inclusion. They found that companies adopting CSR policies felt a negative impact in the first few years as the costs outweighed the benefits and the cost of capital did not decrease as expected. This can deter others from adopting the same strategies as they see the negative short term outcomes. However, the researchers also concluded that more long-term research was needed on the subject.

Data from rankings and indexes provide useful information for researchers and stakeholders. Although not faultless, the lists show which companies are providing environmental and social information. Rankings often list companies by total sales, country of origin, and industry which can be further used to identify why comparable companies choose to obtain or not obtain external assurance.

Major Research Findings

Thirty-five CSR reports were chosen from the 2011 Global 100 Most Sustainable Companies in the World list and evaluated by geographic region and industry. The sample size limits the ability to draw conclusions but provides a basis for useful analysis. The GRI standards were most widely used in the sample, followed by the AccountAbility assurance standards and the UN Global Compact. A little more than fifty-four percent of companies received limited assurance, reasonable assurance, or a combination of the two. Two companies hired external assurance providers to conduct a review, the lowest level of assurance. Nine companies did not receive external assurance and two companies did not specify what, if any, assurance was obtained. Interestingly, three companies used an expert panel to review the CSR reports and provide feedback.

Geographic region and industry played a part in contracting external assurance providers. Europe was most likely to use external assurance for CSR reports, followed by Asia/Australia and the United States. The Health & Biotechnology industry sector was most likely to receive external assurance, with 80% of the sample seeking outside verification. However, the sample size for this industry was only five companies, limiting the ability to draw conclusions. Surprisingly, the Banking, Insurance, & Real Estate industry sector was the second most likely to obtain external assurance followed by Energy & Technology; Materials, Automobiles, & Capital Goods; and Food, Retail, & Personal Goods. A discussion of these results can be found below.

Many factors contribute to reporting sustainability information and obtaining external assurance for the reports. While this is often a management decision, the government, non-profit organizations, customers, and employees can influence decision making. Over the years, external assurance has been utilized to account for this difference between management's goals and outsiders' goals, following a similar developmental path as financial reporting.

Methodology

This thesis largely relies on publicly available information to find descriptive data for businesses in various industries and geographic locations. The 2011 Global 100 Most Sustainable Companies (Global 100) list served as the source of sample companies rated favorably according to sustainability criteria. The listing of all companies included in the 2011 Global 100 can be found in Appendix I.

The Global 100 is composed of companies from around the world and various industries. The listing represents a diverse group of companies based on size. The Global 100 measures each company's net sales in United States dollars. Table 2 represents the makeup of the list by net sales.

Table 2: Global 100 Sales Statistics

Sales in US Dollars in Millions	
Total	$3,082,450
Average	$30,825
Minimum	$452
Maximum	$205,127

Japan is the most heavily represented country with nineteen companies on the list while the United States and Britain trail behind with thirteen and eleven companies respectively. Europe has the highest concentration of Global 100 companies with forty-four percent of the total. Australia/Asia follows with thirty-one percent. North & South America combine for twenty-four percent of the list while Africa has a single country on the list, making it one percent of the total. The Global 100 is composed of twenty-one industries. Table 3 summarizes the percentage breakdown of industries on the Global 100.

Table 3: Industries Represented on Global 100

Industries on Global 100	
Industry	Percentage of Global 100
Health Care Equipment & Services	1.00%
Media	1.00%
Food & Staples Retailing	2.00%
Software & Services	2.00%
Automobiles & Components	3.00%
Retailing	3.00%
Consumer Durables & Apparel	4.00%
Food Beverage & Tobacco	4.00%
Household & Personal Products	4.00%
Semiconductors & Semiconductor Equipment	4.00%
Telecommunication Services	4.00%
Transportation	4.00%
Utilities	4.00%
Technology Hardware & Equipment	5.00%
Capital Goods	6.00%
Real Estate	6.00%
Insurance	7.00%
Pharmaceuticals, Biotechnology & Life Sciences	7.00%
Banks	9.00%
Materials	9.00%
Energy	11.00%
Grand Total	100.00%

For my research, I selected all companies on the Global 100 list located in the United States, thirteen in total. I then randomly selected twenty-two other companies for a total sample size of thirty-five companies. Although all U.S. companies on the list were chosen, the sample was still evenly divided between American companies, European companies, and Australian/Asian companies. Appendix II lists the sample companies, geographic location, and industry. I accessed each company's corporate social responsibility report through its individual company website and collected qualitative information from the reports.

Results

Using the methodology explained above, I analyzed the corporate social responsibility reports of the thirty-five companies in my sample, noting if the company engaged an assurance provider, what type of assurance was provided, and how the report was compiled. To make the industry comparisons more meaningful, the Global 100 industry categorizations were combined into fewer groupings based on similarities. The original industries can be seen in the table in Appendix I. The revised groupings are shown in Table 4.

Table 4: Count and Percentage of Total Sample of Industries

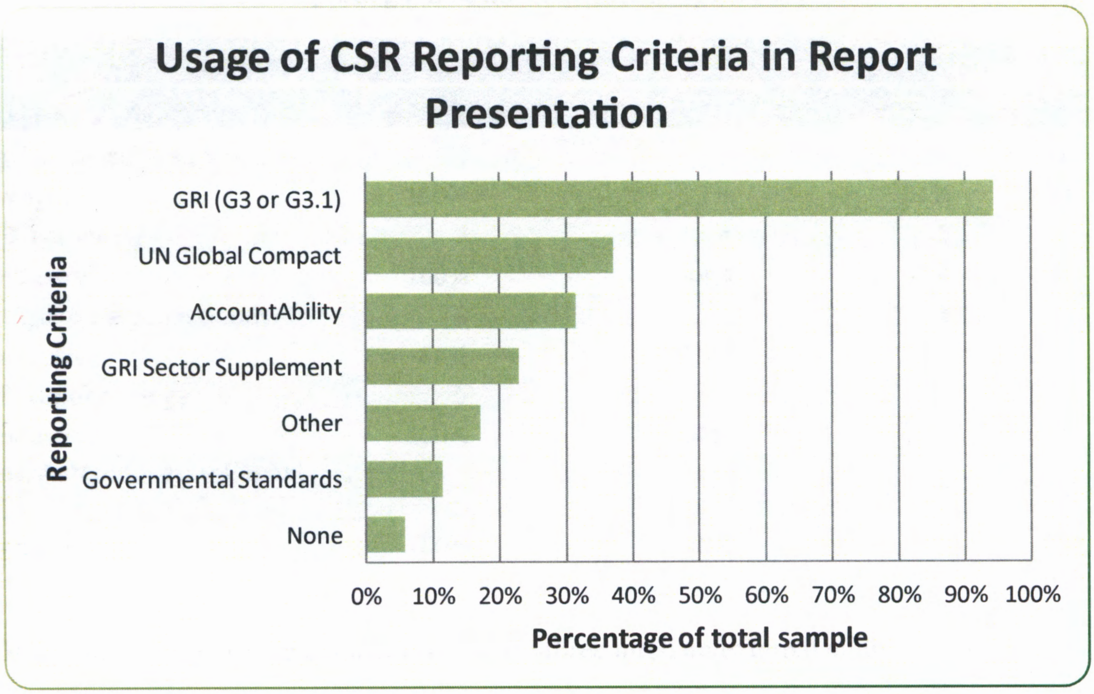
Breakdown of Sample by Industry		
Industry	Count of Companies	% of Total Sample
Energy & Technology	9	26%
Banking, Insurance, & Real Estate	9	26%
Health & Biotechnology	5	14%
Food, Retail, & Personal Goods	7	20%
Materials, Automobiles, & Capital Goods	5	14%
Total	**35**	**100%**

The companies in the sample chose to present their CSR reports in a variety of fashions. Most companies' primary reports were interactive while a PDF version was offered as a second form of reporting. Many companies also specified that printed copies of the report were not available. Only one company, Novo Nordisk, did not present a separate CSR report. Instead, this was the only company to have a fully integrated financial, environmental, and social report. Other companies presented some social and environmental information within the financial statements but also developed a separate CSR report. The contents of the report largely relied on the reporting framework chosen by the company.

CSR reports tended to use multiple frameworks and principles to present social and environmental information. Sample reports commonly used a major framework, such as GRI or the UN Global Contract, and also include information for other reporting entities, such as the

Greenhouse Gas Protocol. Of the thirty-five reports analyzed, thirty-three used either the GRI G3 or G3.1 standards to disclose information. Eight of those companies also used sector supplements created by GRI. The second most used reporting criteria was the UN Global Compact (thirteen companies) followed by AccountAbility (eleven companies). Four companies followed government-specified criteria such as the Environmental Reporting Guidelines issued by the Ministry of the Environment in Japan. Six companies used other reporting criteria. One company, Kraft Foods, did not create a formal report. Instead it created a short brochure-style report covering its key CSR initiatives. The reporting criteria usage can be seen in Figure 2.

Figure 2: Usage of CSR Reporting Criteria in Report Presentation



A breakdown of the reporting criteria used by each geographic location and industry can be found in Tables 5 and 6, respectively. The GRI framework was the overwhelming favorite when broken down by both geographic location and industry. The analysis focuses on the GRI, UN Global Compact, and AccountAbility reporting styles as these three were the most prevalent. European countries had the highest usage rates for the three most common reporting frameworks, indicating that many companies adhered to multiple standards.

Table 5: Reporting Framework Adherence by Geographic Location

Reporting Framework Used by Geographic Location				
Reporting Framework	GRI	UN Global Compact	AccountAbility	None
USA	12	3	0	1
% of Region	92%	23%	0%	8%
Europe	12	8	5	0
% of Region	100%	67%	42%	0%
Asia/Australia	10	1	4	1
% of Region	100%	10%	40%	10%

Table 6: Reporting Framework Adherence by Industry

Reporting Framework Used by Industry				
Reporting Framework	GRI	UN Global Compact	AccountAbility	None
Banking, Insurance, & Real Estate	9	2	6	0
% of Industry	100%	22%	67%	0%
Energy & Technology	9	4	1	0
% of Industry	100%	44%	11%	0%
Food, Retail, & Personal Goods	6	2	2	2
% of Industry	86%	29%	29%	29%
Health & Biotechnology	5	1	1	0
% of Industry	100%	20%	20%	0%
Materials, Automobiles, & Capital Goods	5	2	1	0
% of Industry	100%	40%	20%	0%

Of the thirty-five sample companies, twenty-three hired an external auditor to verify information within the report. Six companies did not use an external auditor and six reports did not specify. The auditor usage by country and industry is shown in Tables 7 and 8, respectively. Categories labeled as "Not Specified" indicate the company did not mention assurance over the CSR report. Almost eighty-four percent of European countries hired an external auditor while sixty percent of Asian/Australian companies did so. The United States had the lowest percentage of external auditors at fifty-four percent of American companies sampled.

Interestingly, two of the Japanese companies used panels composed of various experts and stakeholders to provide a form of assurance. Both companies were using the Environmental Reporting Guidelines issued by the Ministry of the Environment in Japan. General Electric Company, a U.S.-based company, also chose to use an expert panel. The stakeholders and experts reviewed the reports and offered feedback on the quality of each company's reporting as well as suggestions for future improvement.

Table 7: External Assurance by Industry

External Assurance by Industry		
	Frequency	Percentage*
No	**6**	**17%**
Food, Retail, & Personal Goods	3	43%
Health & Biotechnology	1	20%
Materials, Automobiles, & Capital Goods	2	40%
Not Specified	**6**	**17%**
Banking, Insurance, & Real Estate	2	22%
Energy & Technology	3	9%
Food, Retail, & Personal Goods	1	14%
Yes	**23**	**66%**
Banking, Insurance, & Real Estate	7	78%
Energy & Technology	6	67%
Food, Retail, & Personal Goods	3	43%
Health & Biotechnology	4	80%
Materials, Automobiles, & Capital Goods	3	60%

*Category percentages calculated as percentage of total sample. Industry percentages calculated as percentage of industry sample.

Table 8: External Assurance by Geographic Location

External Assurance by Geographic Location		
	Frequency	Percentage*
No	**6**	**17%**
Asia/Australia	1	10%
Europe	1	8%
United States	4	31%
Not Specified	**6**	**17%**
Asia/Australia	3	30%
Europe	1	8%
United States	2	15%
Yes	**23**	**66%**
Asia/Australia	6	60%
Europe	10	83%
United States	7	54%

*Category percentages calculated as percentage of total sample. Location percentages calculated as percentage of geographic location sample.

Nineteen CSR reports included an independent auditor's report. These reports defined the scope of the engagement, and in the event of limited assurance, laid out what specific portions of the report were covered by testing. Tables 9 and 10 show the number of auditor's reports by industry and geographic location, respectively. Four companies used an external auditor but did not include an audit opinion letter in their reports. Instead, the external assurance was mentioned in a section outlining how the report was created.

Table 9: Audit Opinion Letter by Industry

Audit Opinion Letters by Industry			
	No	Yes	Total
Banking, Insurance, & Real Estate	2	7	9
Energy & Technology	4	5	9
Food, Retail, & Personal Goods	5	2	7
Health & Biotechnology	2	3	5
Materials, Automobiles, & Capital Goods	3	2	5
Total	**16**	**19**	**35**

Table 10: Audit Opinion Letter by Geographic Location

Audit Opinion Letter by Geographic Location			
	No	Yes	Total
Asia/Australia	5	5	10
Europe	2	10	12
United States	9	4	13
Total	**16**	**19**	**35**

When discussing assurance coverage, only four audit reports included reasonable assurance. However no auditors provided reasonable assurance to an entire report; instead, certain quantitative information such as green house gas emissions was audited using reasonable assurance. Of the four auditors providing reasonable assurance, three firms supplied an audit opinion letter. Agilent Technologies, which received reasonable assurance on certain environmental, health, safety, and social information, did not include an audit opinion letter from DEKRA, the independent auditor. Instead, the overview of the report simply stated that DEKRA's reasonable assurance covered specific information.

On the other hand, thirteen reports stated limited assurance was provided as defined in ISAE 3000 and ASAE 3000 (ASAE 3000 is similar to ISAE 3000 but is only used in Australia).

All thirteen companies receiving limited assurance included an audit opinion letter in the CSR report. Each letter carefully laid out what the audit firm's assurance was covering.

Similarly, eight companies received Type 2 assurance coverage. As discussed earlier, Type 2 coverage is a level of assurance according to the AA1000 Assurance Standards that judges a company's adherence to the AA1000 AccountAbility Principles Standards. When describing a Type 2 engagement, the auditor often includes wording such as "moderate" or "review" to indicate a limited amount of assurance.

Interestingly, no particular auditor was used more than another. Table 11 shows the predominant external assurance providers used by sample companies. KPMG, PwC, and Ernst & Young were the most used assurance providers. The fourth Big Four firm, Deloitte, was only hired to review one company's CSR reports. Bureau Veritas, a Paris-based testing, inspection, and certification company, was another major provider. The "Other" category consists of companies that only provided assurance for one sample company. Many companies engaged multiple assurance providers with one reviewing extra-financial information and another reviewing environmental data.

Table 11: External Assurance Providers

External Assurance Providers		
Provider	**Frequency**	**Percentage**
Bureau Veritas	3	9%
Deloitte	2	6%
Environmental Resources Management Ltd.	2	6%
Ernst & Young	4	11%
KPMG	6	17%
PwC	6	17%
Other	9	26%

Discussion

Geographic Location

Some interesting patterns emerged from the analysis of CSR reports. Most notably, European countries have the highest likelihood of reporting CSR information. Five of the twelve European companies attained GRI A+ status, the highest level of GRI reporting indicating the reports were externally verified and checked by GRI. A European company, Novo Nordisk, was the only company to exclusively offer a fully integrated report. European companies were also most likely to include an audit opinion letter. Europe's tendency towards reporting might be due to increased country-specific requirements. For example, Denmark requires the 1,100 largest companies to account for corporate responsibility activities, policies, and results. Auditors are also more able to provide assurance due to the ISAE 3000 standard covering "Assurance engagements other than audits or reviews of historical financial information."

The Asia/Australia region was the second likeliest to seek out external assurance with sixty percent of the sample providing audited CSR reports. Half of the sample companies also included an audit opinion letter. This might also be due to the ASAE 3000 standard which covers Australian companies and is similar to ISAE 3000. Japan's Ministry of the Environment also has established reporting standards, which can further promote reporting by Japanese companies. Notably, two Japanese companies that did not utilize an external assurance provider used a panel of experts instead. These experts included professors, certified public accountants, and industry experts. Although these people were not hired for assurance purposes, they provided valuable insight from well-informed individuals who can guide the company towards advanced CSR goals.

The United States lagged behind the other two regions with less than fifty-four percent of sample companies utilizing external assurance. Only thirty-one percent of the reports included an audit opinion letter. These results might be due to the low non-financial reporting requirements in the United States. As discussed earlier, the SEC and FASB have stated they do not plan to actively pursue CSR reporting measures at present. Without stakeholder demand, companies have little incentive to report discretionary information. The companies that do report must be finding motivation elsewhere.

As a third of the sample, it is worthwhile to compare American companies to their less-recognized competitors. Table 12 lists each U.S. company and one of its closest competitors that was not included in the Global 100. Nine of the thirteen competitors report CSR information and three obtained external assurance. Three of the top competitors are based outside of the United States, all of which report and two of which obtain external assurance for their CSR reports. This indicates only one U.S.-based competitor, 3M Health Care, obtained external assurance. Therefore it is possible that many American companies do not seek out verification when their competitors, especially American companies, are not providing audited reports. Not all competitor companies were lagging behind in reporting, though.

Table 12: American Companies' Top Competitors and Their Reporting Habits

Company	Direct Competitor (DC)	DC Country	DC CSR Report	DC Level of Reporting	DC External Assurance
Agilent Technologies	Advantest Corporation	Japan	Yes	Ministry of the Environment's Environmental Reporting Guidelines; GRI (no reporting level disclosed)	Yes
Baxter International	Becton, Dickinson and Company	United States	Yes	GRI "B" Self-assessed	No
Coca-Cola Enterprises	PepsiCo Inc.	United States	Yes	GRI "B" Self-assessed; UN Global Compact	No
General Electric Company	Alstom	France	Yes	UN Global Compact	No
Hewlett- Packard	Dell Inc.	United States	Yes	GRI "A" Certified	No
Intel Corp	AMD Inc.	United States	Yes	GRI "A" Certified	No
Johnson & Johnson	3M Health Care	United States	Yes	GRI "C+" Certified	Yes
Johnson Controls Inc.	A123 Systems, Inc.	United States	No	N/A	N/A
Kraft Foods	Nestlé S.A.	Switzerland	Yes	UN Global Compact; GRI A+ Certified; AccountAbility	Yes
PG&E Corp	Calpine Corporation	United States	No	N/A	N/A
Procter & Gamble	Alticor, Inc.	United States	No	N/A	N/A
Prologis	CenterPoint Properties	United States	No	N/A	N/A
Weyerhauser Inc.	Buckeye Technologies	United States	Yes	None Specified	No

Many of the U.S. competitor companies reported just as much, if not more, sustainability information as those on the Global 100. Dell Inc., a direct competitor of Hewlett-Packard, uses GRI as its reporting framework and even participates in the GRI Organization Stakeholder and

Sector Leader programs that advocate for standardized CSR reporting. PepsiCo Inc., Coca-Cola's largest competitor, boasts of being ranked first in the DJSWI Food and Beverage Sector as well as being included on the Dow Jones Sustainability North America Index five times. Both Dell and PepsiCo are large companies with over 100,000 employees but they raise reporting expectations within the United States.

U.S. companies might feel added pressure from non-American companies as well. Kraft Foods is second in the world only to Nestlé when it comes to food companies. Nestlé published a 295-page CSR report in 2011, which might have induced Kraft to increase its reporting. Agilent Technologies' competitor Advantest also follows the Ministry of the Environment's reporting framework, similar to other Japanese companies within the overall sample. Companies respond to competitive pressures, and it is not unrealistic to believe competitors' reporting habits can trigger CSR reporting.

Industry

When comparing industry groupings, no particular industry stood out above the rest. The use of external assurance often focused on environmental issues. This is due to measures such as greenhouse gas emissions, water usage, and waste production being more easily quantifiable than social measures. Most assurance providers provided reasonable assurance on greenhouse gas emissions but limited assurance on qualitative aspects of the report. This should translate into more Energy & Technology companies and Materials, Automobiles, & Capital Goods companies receiving external assurance. However, the Health & Biotechnology industry had the highest assurance percentage at eighty percent, followed by Banking, Insurance, & Real Estate (78%); Energy & Technology (67%); Materials, Automobiles, & Capital Goods (60%); Food, Retail, & Personal Goods (43%). Interestingly, each sector customized its reporting to focus on elements significant to its stakeholders.

The Health & Biotechnology industry sample only consisted of five companies but still provides insight into industry reporting. Roche, a pharmaceutical company, states within its CSR report (2011) that its object is to "commercialise only those medicines and diagnostic tests that improve the length and quality of patients' lives and that bring clear medical and economic benefit to healthcare systems and society" (p. 64). They focus on how their company can improve people's standard of living. Novo Nordisk, also a pharmaceutical company, highlights specific people who have benefited from its products. The report contains photos and short stories of how Novo Nordisk has improved the lives of people of all ages.

Although initially banks, insurance companies, and real estate companies seem to be unlikely CSR reporters, this coincides with the DJSWI. The index's largest industry sector is financial services at over nineteen percent of the index. Banks are highly regulated for financial reporting purposes, which could translate into CSR reporting and external assurance. The industry was most likely to include an audit opinion letter at seventy-seven percent, which could be a by-product of its heavy financial regulation. The industry's reports disclosed CSR information relating to their typical business activities. For example, Danske Bank discussed responsible lending practices in which it screens applicants against the UN Human Rights Norms of Business, UN Global Compact, and other social guidelines. Prologis, an industrial real estate company, implements environmentally sustainable features into all of its buildings.

The Food, Retail, & Personal Goods industry had the lowest external assurance percentage at forty-three percent. The industry was also the only group to include companies that do not follow set reporting standards. Surprisingly, these two companies are Kraft Foods and Sony Corporation, two large, well-known companies. Few firms used an outside assurance provider to verify reports. Hennes & Mauritz (H&M), a popular global clothing chain, was an interesting sample within the sector; although its report was extensive and outlined many initiatives as well as negative aspects of the firm, it did not seek full assurance. Instead, its external auditor only provided a gap analysis of the 2010 CSR report to determine what more H&M can report in the future. Despite its lack of external assurance, H&M strongly adhered to the GRI guidelines and used the Apparel and Footwear Sector Supplement. It also reported according to the UN Global Compact.

The Energy & Technology sector should be a probable reporter due to its close connection to environmental issues. However, this could also be a deterrent as energy companies are highly scrutinized for any negative ecological impact. Five of the six companies that obtained external assurance also included an audit opinion letter that clearly detailed what was covered in the audit. Some companies also voluntarily disclosed negative company news. Most notably, PG&E Group discussed at length the 2010 explosion of one of its natural gas pipelines in San Bruno, California, that killed eight people and destroyed dozens of homes. PG& E (2011) stated:

> We have embraced a back-to-basics strategy that's focused on delivering safe, reliable and affordable gas and electric service and building a better PG&E for the long-term. The changes we've made as a result of this strategy have been sweeping, perhaps most visibly in the decision to separate our gas and electric units, our renewed commitment to public and employee safety, and the investments we're already making—and those we've proposed—to upgrade our energy infrastructure (p. 2).

The company used this horrific accident as a basis for instituting CSR initiatives.

The Materials, Automobiles, & Capital Goods industry is another sector that is likely to have CSR information to release. All companies released CSR reports, and three of the five companies employed an external assurance provider. All five companies followed the GRI reporting framework, but Tata Steel has yet to meet even the "C" reporting level, the lowest adherence level. Many of the industry's reports try to put a positive light on negative outcomes. Tata Steel discusses how it is helping displaced Indian communities cope with relocation due to one of its new steel plants. Stora Enso, a Swedish company, responded to claims that it is destroying biodiversity in Sweden and has used intimidation in its China operations. Stora Enso offers explanations within its CSR report of why outside groups feel negatively towards the company and how it is working to improve its employees' knowledge of environmental issues.

It appears the industries with the most environmental ties, and potentially objectionable practices, are slow to adopt CSR reporting. This might be due to the company's desire to avoid negative publicity, especially if it is working to improve environmental effects. Some companies also appear to be reluctant to disclose negative information. Industries with primarily social initiatives have done more CSR reports. This information is also more subjective and can be angled in a way to positively display the company. Many factors such as overall industry regulation, ties to social and environmental groups, and stakeholder demand contribute to reporting levels and external verification. Future research can clarify how these companies make decisions to go above and beyond legal requirements.

Limitations and Future Research

This thesis was limited in the fact that only thirty-five companies were included in the sample. This was especially small in regards to comparing industry differences. A larger sample will allow further research on specific industries as well as a comparison across industries. A larger sample will also allow the researcher to understand trends within a geographic location.

Sample companies were chosen from a listing of companies already highly-ranked for their CSR initiatives. Companies on this list might be predisposed to valuing external assurance, have a higher stakeholder demand for verified CSR information, or fall under country-specific standards emphasizing CSR reporting. A comparison of Global 100 companies and non-Global 100 companies with similar characteristics should be conducted to better judge the likelihood and extensiveness of external verification. For this thesis, comparisons were only made for companies within the United States. Nine of the thirteen competitors, or sixty-nine percent, generated a CSR report. Further research into industry reporting trends within the United States would shed light on why the Global 100 companies and their competitors are voluntarily sharing CSR information.

Another question that remains to be answered is who is using this information? Do customers make decisions based on sustainability initiatives? Are future employees choosing between companies based on social and environmental policies? Or are traditional financial analysts incorporating CSR data into their company examinations? The necessity and scope of assurance hinges on who is using these reports. User groups have various levels of reporting knowledge, and some users might not understand external assurance is not a guarantee of perfect information. This is especially important when CSR reports tend to be assured under the constraint of limited assurance. Research on dominant user groups should be done to assist auditors in tailoring reports to the correct audience and including additional explanations as needed.

As the reporting environment continues to change, more studies can be conducted to determine trends in usage of external auditors. Some factors that may affect this are the convergence of GAAP with IFRS, changes in stakeholder demand for CSR information, the cost of verifying these reports, and auditor knowledge of CSR reporting frameworks. As standards evolve, assurance will become increasingly necessary. Transparency will impact the likelihood of reporting, and GAAP and IFRS are likely to incorporate more sustainability-focused standards. As this occurs, accounting firms and other assurance providers will need to perfect their CSR testing procedures. CSR reporting and assurance services are emerging issues that are continually impacted by stakeholders of all backgrounds. Companies, auditors, and standard-setters can work to establish an environment conducive to accurate social and environmental reporting.

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Appendix I: Global 100 Most Sustainable Companies in the World

Rank	Company	Sales (USD in Millions)	Country	Industry
1	STATOIL ASA	73,901	NORWAY	Energy
2	JOHNSON & JOHNSON	61,897	UNITED STATES	Pharmaceuticals, Biotechnology & Life Sciences
3	NOVOZYMES	1,582	DENMARK	Materials
4	NOKIA OYJ	57,150	FINLAND	Technology Hardware & Equipment
5	UMICORE	9,674	BELGIUM	Materials
6	INTEL CORP	35,127	UNITED STATES	Semiconductors & Semiconductor Equipment
7	ASTRAZENECA PLC	32,804	BRITAIN	Pharmaceuticals, Biotechnology & Life Sciences
8	CREDIT AGRICOLE SA	61,414	FRANCE	Banks
9	STOREBRAND ASA	7,711	NORWAY	Insurance
10	DANSKE BANK A/S	23,979	DENMARK	Banks
11	GENERAL ELECTRIC CO	155,777	UNITED STATES	Capital Goods
12	ENCANA CORP	11,114	CANADA	Energy
13	VIVENDI	37,834	FRANCE	Media
14	NITTO DENKO CORP	5,774	JAPAN	Materials
15	TNT NV	14,332	NETHERLANDS	Transportation
16	NOVO NORDISK A/S	9,566	DENMARK	Pharmaceuticals, Biotechnology & Life Sciences
17	DEXIA SA	91,131	BELGIUM	Banks
18	WESTPAC BANKING CORP	25,904	AUSTRALIA	Banks
19	ORIGIN ENERGY LTD	6,011	AUSTRALIA	Energy
20	NESTE OIL OYJ	13,437	FINLAND	Energy
21	VESTAS WIND SYSTEMS A/S	9,254	DENMARK	Capital Goods
22	ROCHE HOLDING AG-GENUSSCHEIN	45,306	SWITZERLAND	Pharmaceuticals, Biotechnology & Life Sciences
23	AEON CO LTD	46,906	JAPAN	Food & Staples Retailing
24	T&D HOLDINGS INC	19,279	JAPAN	Insurance
25	HSBC HOLDINGS PLC	88,570	BRITAIN	Banks
26	KESKO OYJ-B SHS	11,779	FINLAND	Food & Staples Retailing
27	TATA STEEL LTD	32,270	INDIA	Materials
28	AGILENT TECHNOLOGIES INC	4,481	UNITED STATES	Pharmaceuticals, Biotechnology & Life Sciences
29	JOHNSON CONTROLS INC	35,430	UNITED STATES	Automobiles & Components
30	SONY CORP	7,236	JAPAN	Consumer Durables & Apparel
31	WEYERHAEUSER CO	5,528	UNITED STATES	Materials

32	MITSUI OSK LINES LTD	18,643	JAPAN	Transportation
33	INDITEX	15,181	SPAIN	Retailing
34	ENBRIDGE INC	10,921	CANADA	Energy
35	MITSUBISHI HEAVY INDUSTRIES	33,729	JAPAN	Capital Goods
36	NEXEN INC	4,435	CANADA	Energy
37	SWISSCOM AG	11,085	SWITZERLAND	Telecommunication Services
38	ADIDAS AG	14,476	GERMANY	Consumer Durables & Apparel
39	IBERDROLA SA	34,246	SPAIN	Utilities
40	RSA INSURANCE GROUP PLC	11,679	BRITAIN	Insurance
41	PROLOGIS	1,223	UNITED STATES	Real Estate
42	INSURANCE AUSTRALIA GROUP	6,285	AUSTRALIA	Insurance
43	ANGLO PLATINUM LIMITED	4,418	SOUTH AFRICA	Materials
44	PROCTER & GAMBLE CO	76,694	UNITED STATES	Household & Personal Products
45	KRAFT FOODS INC	40,386	UNITED STATES	Food Beverage & Tobacco
46	NORSK HYDRO ASA	10,776	NORWAY	Materials
47	UNIBAIL-RODAMCO SE	2,931	FRANCE	Real Estate
48	HENNES & MAURITZ	13,206	SWEDEN	Retailing
49	TOKYO GAS CO LTD	16,588	JAPAN	Utilities
50	P G & E CORP	13,399	UNITED STATES	Utilities
51	STORA ENSO OYJ-R SHS	12,473	FINLAND	Materials
52	GEBERIT AG-REG	1,784	SWITZERLAND	Capital Goods
53	DAIWA HOUSE INDUSTRY CO LTD	16,896	JAPAN	Real Estate
54	NIPPON YUSEN	24,280	JAPAN	Transportation
55	STOCKLAND	1,381	AUSTRALIA	Real Estate
56	SUN LIFE FINANCIAL INC	24,154	CANADA	Insurance
57	L'OREAL	24,365	FRANCE	Household & Personal Products
58	PHILIPS ELECTRONICS NV	32,336	NETHERLANDS	Capital Goods
59	YAMAHA CORP	4,589	JAPAN	Consumer Durables & Apparel
60	VODAFONE GROUP PLC	70,476	BRITAIN	Telecommunication Services
61	HENKEL AG	18,927	GERMANY	Household & Personal Products
62	CENTRICA PLC	34,393	BRITAIN	Utilities
63	SIMS METAL MANAGEMENT LTD	6,455	AUSTRALIA	Materials
64	ABB LTD	1,291	INDIA	Capital Goods
65	BG GROUP PLC	15,993	BRITAIN	Energy
66	NATURA COSMETICOS SA	2,151	BRAZIL	Household & Personal Products
67	KINGFISHER PLC	18,121	BRITAIN	Retailing
68	DANONE	20,892	FRANCE	Food Beverage & Tobacco

69	NTT DOCOMO INC	44,443	JAPAN	Telecommunication Services
70	KONICA MINOLTA HOLDINGS INC	9,471	JAPAN	Technology Hardware & Equipment
71	RICOH CO LTD	20,900	JAPAN	Technology Hardware & Equipment
72	TOKYO ELECTRON LTD	5,077	JAPAN	Semiconductors & Semiconductor Equipment
73	INTESA SANPAOLO	37,681	ITALY	Banks
74	TAISHO PHARMACEUTICAL CO LTD	2,561	JAPAN	Pharmaceuticals, Biotechnology & Life Sciences
75	HEWLETT-PACKARD CO	114,552	UNITED STATES	Technology Hardware & Equipment
76	SWISS REINSURANCE CO LTD	21,858	SWITZERLAND	Insurance
77	GLAXOSMITHKLINE PLC	44,422	BRITAIN	Pharmaceuticals, Biotechnology & Life Sciences
78	COCA-COLA ENTERPRISES	21,645	UNITED STATES	Food Beverage & Tobacco
79	NEC CORP	42,121	JAPAN	Technology Hardware & Equipment
80	PANASONIC CORP	77,591	JAPAN	Consumer Durables & Apparel
81	NISSAN MOTOR CO LTD	84,300	JAPAN	Automobiles & Components
82	TOYOTA MOTOR CORP	205,127	JAPAN	Automobiles & Components
83	STMICROELECTRONICS NV	8,465	SWITZERLAND	Semiconductors & Semiconductor Equipment
84	UNILEVER PLC	55,531	BRITAIN	Food Beverage & Tobacco
85	LOGICA PLC	5,796	BRITAIN	Software & Services
86	SUNCOR ENERGY INC	15,749	CANADA	Energy
87	PRUDENTIAL PLC	75,320	BRITAIN	Insurance
88	PETROLEO BRASILEIRO SA	91,869	BRAZIL	Energy
89	REPSOL	63,903	Spain	Energy
90	BCE INC	15,537	CANADA	Telecommunication Services
91	BANCO BRADESCO SA	44,338	BRAZIL	Banks
92	TORONTO-DOMINION BANK	21,729	CANADA	Banks
93	SAMSUNG ELECTRONICS CO LTD	70,750	SOUTH KOREA	Semiconductors & Semiconductor Equipment
94	SAP AG	14,881	GERMANY	Software & Services
95	GPT GROUP	452	AUSTRALIA	Real Estate
96	RELIANCE INDUSTRIES LTD	33,123	INDIA	Energy
97	MTR CORP	2,425	HONG KONG	Transportation
98	ROYAL BANK OF CANADA	32,604	CANADA	Banks
99	BAXTER INTERNATIONAL INC	12,562	UNITED STATES	Health Care Equipment & Services
100	CITY DEVELOPMENTS LTD	2,253	SINGAPORE	Real Estate

Appendix II: Listing of Sample Companies

Company	Country	Industry
WESTPAC BANKING CORPORATION	AUSTRALIA	Banking
ORIGIN ENERGY LTD	AUSTRALIA	Energy
INSURANCE AUSTRALIA GROUP	AUSTRALIA	Insurance
STOCKLAND	AUSTRALIA	Real Estate
RSA INSURANCE GROUP PLC	BRITAIN	Insurance
LOGICA PLC	BRITAIN	Software & Services
CENTRICA PLC	BRITAIN	Utilities
DANSKE BANK	DENMARK	Banking
NOVO NORDISK A/S	DENMARK	Pharmaceuticals, Biotechnology
STORA ENSO OYJ-R SHS	FINLAND	Materials
KESKO OYJ-B SHS	FINLAND	Food & Staples Retailing
UNIBAIL-RODAMCO SE	FRANCE	Real Estate
SAP AG	GERMANY	Software & Services
TATA STEEL LTD	INDIA	Materials
DAIWA HOUSE INDUSTRY CO LTD	JAPAN	Real Estate
PANASONIC CORP	JAPAN	Consumer Durables & Apparel
TOKYO ELECTRON LTD	JAPAN	Semiconductors
SONY CORP	JAPAN	Consumer Durables & Apparel
STATOIL ASA	Norway	Energy
CITY DEVELOPMENTS LTD	SINGAPORE	Real Estate
HENNES & MAURITZ	SWEDEN	Retailing
ROCHE HOLDING AG-GENUSSCHEIN	SWITZERLAND	Pharmaceuticals, Biotechnology
JOHNSON & JOHNSON	USA	Pharmaceuticals, Biotechnology
INTEL CORP	USA	Semiconductors
GENERAL ELECTRIC COMPANY	USA	Capital Goods
AGILENT TECHNOLOGIES	USA	Pharmaceuticals, Biotechnology
JOHNSON CONTROLS INC.	USA	Automobiles & Components
WEYERHAUSER INC.	USA	Materials
PROLOGIS	USA	Real Estate
PROCTER & GAMBLE	USA	Household & Personal Products
KRAFT FOODS	USA	Food Beverage & Tobacco
PG&E CORP	USA	Utilities
HEWLETT- PACKARD	USA	Technology Hardware & Equipment
COCA-COLA ENTERPRISES	USA	Food Beverage & Tobacco
BAXTER INTERNATIONAL	USA	Health Care Equipment & Services