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Why do corporations across industry incur cost to disclose ethical and environmental information and how does it matter?

An exploratory study of four Swedish corporations across industry

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ABSTRACT

The recognition of Corporate Social Responsibility (CSR) has increasingly become a key issue for today's corporations. There is increasing public interest as a result of globalization in the world economy. Corporations adjust to rapid changes by extending beyond the traditional business model that is dominated by short-run profit maximization with the focus on economic aspects of company's activities. It appears that corporations move beyond that extent to enhance both accountability and transparency in social and environmental commitment by internalizing such concerns into their operation. Not only are these designed to prevent potential criticism and pressure from media and public activists that play a crucial role shaping community awareness, but also to enhance their relations with key stakeholders. This research aims to gain a deeper understanding of corporate implementation of social and environmental responsibility and to become familiar with why organizations incur the cost to publish their operational activities that impact on social and environment. In order to achieve the purpose of this study, an exploratory study will be used as a key to examine through different characteristic of four Swedish corporations across industry. The research found that the benefits of having a CSR engagement are numerous and include strengthening profits, enhancing brand recognition and reputation as well as boosting employment relations. This study also examines the theoretical importance of stakeholder analysis and the motive behind the efforts to disclose information arising from different factors. This paper draws a conclusion to the extent to which communicating information voluntarily to public or disclosure about firms undertaking such activities can significantly affect stakeholders' decision-making and contribute to the public's perception.

Keywords: non-financial reporting, corporate social responsibility, disclosure, stakeholders

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CHAPTER 1: INTRODUCTION

This chapter gives the reader a clear idea about the central issue of concern in this study and the reasons that it was worth studying. First, it provides a general background of the research area, and then followed by problem statement. The research question and the objectives are presented in the next section. The chapter later discusses the limits of the study. Finally, an outline serves as a route map through the rest of the report, which contains brief details of the content of each chapter.

1.1 Background

'Making environmental improvements is often the best way to increase a company's efficiency and, therefore, profitability¹', cited from former U.S. Vice President Al Gore

The growing consensus about the global climate crisis draws considerable public attention beginning with the Kyoto Protocol, a unilateral agreement among industrial nations with a commitment to limit the amount of carbon dioxide being released into the atmosphere. The Protocol also sounded a cautionary note to business leaders regarding new regulations designed to reduce the likelihood of climate change. These new regulations disrupt the flow of business in which mandated by law. Regulations designed to keep climate change under control are already being proposed. Furthermore, governments are actively engaged in organisations' activities and demand a higher control on corporations' responsibility. For instance, it is likely that governments may impose additional taxes on fuel consumption and require that cars and appliances use less energy. Such regulations will push up energy prices as the schemes start to take shape². Corporate executives face these complex problems and find themselves in situations where a range of alternatives have to be chosen in deciding whether it is more efficient to pay the tax or reduce emission. Therefore many corporations are responding to this change and have decided to shift the way they operate.

¹ N. Walley and B. Whitehead (1994) It's not easy being green, *Harvard Business Review*, p. 46.

² P.K. O'Neill and F.L. Reinhardt (2000) What Every Executive Needs to Know About Global Warming, *Harvard Business Review*, p. 130.

Many companies in a wide range of industry are already in search for ways to mitigate the effects shaped by regulatory regime that governments originated. And they have informed the public about their effects to reduce the problems associate with climate change. Commodity producers invest in sophisticated process control equipment that generates less carbon emissions with more energy efficient, while service providers have worked to reduce air conditioning and heating usage, paper waste, etc. Even though adopting these may come with high costs, all companies may view this as a long-term forward-looking investment and see this as an opportunity to gain competitive advantage over their less technologically sophisticated rivals³.

In the case of Scandinavian corporations, where both companies and consumers are very attentive to social and environmental concerns, adapting and adjusting changes are not uncommon. Therefore some companies do pursue such knowledge and innovative technologies without pressure, or in advance of regulation.

1.2 Problem Discussion

As discussed in the previous section, growing public concern on climate change and ethical issues tremendously affects how organizations choose to operate. Embraced by the rule of society, corporations operate with regulations by which they are directed. This type of responsibility refers to the continuing commitment of businesses to voluntarily behave ethically and contribute to economic development while simultaneously improving the quality of life of the workforce, local community and society at large.

Such engagement may lead to major obstacles that organizations face when it comes to social and environmental disclosure, in other words, when releasing information to be recognized by public. These obstacles arise from media that plays a crucial role shaping community concerns and serves the public interests by pressuring corporate managers to take more responsibility for their operational activities that impact on many people's welfare⁴. Some companies find it difficult to comply, as they need to maintain their level of operation. Consequently, this results in uncertainty and a sense of pressure to behave as responsible citizens in order to protect their reputation and go along with public interest.

³ P.K. O'Neill and F.L. Reinhardt (2000) What Every Executive Needs to Know About Global Warming, *Harvard Business Review*, p. 132.

⁴ D. Cormier & M. Magnan, Does Disclosure Matter?, *CA Magazine* [May 2003 - PRINT EDITION], p. 2.

Disclosure may also influence how stakeholders, those who have interest in the organization and whom the organizations depend, to interpret a firm's financial performance and future⁵. Having a damaged reputation can affect their stakeholders' loyalty, as well as financial well-being. Therefore, the kind and quality of information given to market participants, such as Corporate Social Responsibility report, which will be used to assess ethical and environmental risk, is a strategic solution for the management of firms. Meanwhile, there may be a risk when investors view the information as non-creditable. For example if it is too self-serving⁶. This can be seen when the reports are prepared to promote how well the corporations are doing in terms of social and environmental issues. Therefore, corporations must find ways to follow guidelines authorized by non-profit institutions in order to gain transparency and accountability.

On the other hands, a benefit of disclosure is that it causes managers to reduce the information gap between them and stakeholders. This does not only benefit directly to organizations by allowing them to lower their cost of capital, which raise its stock valuation and enhance interest by institutional investors⁷, but also serves public demand for which they are accountable for. For these reasons, it is worthwhile to understand such dilemma that will, to some extent, constitute a piece of knowledge that can be used for other studies as well as future research.

1.3 Research Questions and Purpose

The purpose of this study is to find answers to the following three questions:

Why do corporations across industry incur cost to disclose ethical and environmental information and how does it matter?

What are incentives that inspire Swedish companies throughout the social responsibility/sustainability reporting process?

How can corporate social responsibility reporting influence stakeholders' perception and their relations with corporations?

⁵ D. Cormier & M. Magnan, Does Disclosure Matter?, CA Magazine [May 2003 - PRINT EDITION], p. 1.

⁶ D. Cormier & M. Magnan, Does Disclosure Matter?, CA Magazine [May 2003 - PRINT EDITION], p. 1.

⁷ D. Cormier & M. Magnan, Does Disclosure Matter?, CA Magazine [May 2003 - PRINT EDITION], p. 1.

1.4 Research Limitation

First, this research only includes Swedish companies that are listed and apply the Global Reporting Initiative guidelines. As it assumes that the GRI guidelines is a generally accepted guidelines firms commonly use and ensured by a satisfactory level of reporting quality from expertise at different fields. Hence the aspect of quality of the ethical and environmental sustainability reports will not be a central point in this study.

Second, in particular, the companies in this study are in medium and large size, measured by quantity of employee. The physical size of companies is an important determinant and a focus in this study, despite whether industry corporations are operating. This is because as level of size increases, it usually presents advantage of diverse resource endowment. Firms involve in sources of materials and products, which leads to a higher degree of information. Thus, this could provide a sufficient amount of information to be used and contribute to the reason why particular companies were chosen in this study.

Lastly, it is important to discuss a specific term which is found throughout the study. ‘Social’ means generally to both ‘ethical’, which refers to whether or not ethical business practices are followed and ‘environmental’ refers to the impact of the organization on the environment. Therefore, the word ‘social’ and its aspect will commonly be used to include those ethical and environmental aspects, which is an important focus in this study.

1.5 Thesis Outline

The first chapter primarily provides an introduction to general background, which presents the problem discussion of the research area and includes the research question and the objectives for this research.

In chapter two, methodology presents the use of data collection and interpretation that are described in detail. It also indicates how the research employed methods to analyze the collected data and how they contributed to the conclusion.

In chapter three, theoretical framework deals with the review of literatures. The chapter presents theories that can used to explore the concept of Stakeholder and CSR analysis that will underlie the empirical findings.

In chapter four, empirical findings chapter shows the presentation of four Swedish companies that employed in this study and their relations with CSR by gathering non-financial reports on

social and environmental sustainability in accordance with Global Reporting Initiative guidelines.

The given data is analyzed in the next chapter, chapter five, with the support from the theoretical framework and data collection from the previous empirical findings chapter.

The analysis is concluded in the last chapter, chapter six. It sums up the argument from the analysis chapter as well as presents reflection and lesson learned from this study. Recommendations for further research will be discussed indeed at the end of the chapter.

CHAPTER 2: METHODOLOGY

This chapter provides an explanation of the way in which the theoretical proposition conducted would be tested and gives readers sufficient information to make an estimate of the reliability and validity of the method conducted in this study. It is divided into four sections, which are to be discussed in detail subsequently. The first section describes relevant summary of the research approach involved in the study. Furthermore, it describes the type of research and explains the reason they are selected. The second section explains the way in which how the data can be carried out and the methods used in order to acquire essential information to process the study. The end of this chapter reviews validity and reliability, which presents criticism regarding research process in this study.

2.1 Research Approaches

As this research project involves the use of theory, it is impossible to identify in the beginning whether that theory may or may not be made explicit in the design of the research. An important question concerning the design of research project would be when deciding which research approaches this study should use. To some extent, it is useful to label research approach to the research philosophies in order to guide readers for a clear explanation and by drawing implication on how the research is conducted and how the conclusion is reached.

2.1.1 Inductive Approach

Due to the exploratory and descriptive nature of this study, data collection, and the availability of organization, this research project commenced primarily by adopting an inductive approach to conduct a study on firms' Corporate Social Responsibility disclosure. Saunders et al⁸, 2007 explains that research using an inductive approach is likely to be particularly concerned with the context in which such events were taking place. Researchers in this tradition are more likely to work with qualitative data and to use a variety of methods to develop a theoretical or conceptual framework in order to establish different views of

⁸ M. Saunders, P. Lewis and A. Thornhill (2006) *Research Methods for Business Students*, p. 117

phenomena as a result of data analysis⁹ i.e. inductive primary describes how theories result from research. Furthermore, even though research has a clearly defined purpose with research question and objectives, the authors are not to start with any predetermined theories or conceptual frameworks. Such an approach cannot be taken without a competent knowledge of research's subject as it is impossible to review every single piece of the literature before collecting data.

Beside the reasons explained above that inductive approach is employed in this study is also because as suggested by M. Easterby-Smith et al., 2002. First, the approach enables researcher to take a more informed decision about research design, i.e. it involves questions about what kind of evidence and from where it is gathered and how such evidence is interpreted in order to provide good answers to the initial research questions. Second, the inductive approach helps researcher to think about research strategies and choices that will work and those that will not. In particular, a researcher who is interest in understanding why something is happening, rather than being able to describe what is happening. Third, M. Easterby-Smith et al., 2002 further argue that due to limited access to data or the lack of prior knowledge of the subject and insufficient understanding of the topic, this approach takes a more flexible structure that permit changes of research emphasis as the research progress and enables researcher to adapt research design to satisfy such constraints. Therefore, as reasoned and by the nature of this research objective, it may be more appropriate to undertake this research inductively which helps define the research questions and fulfill the research purpose.

2.2 Research Design (Method)

Research design aims as general plan to facilitate the readers by describing how researcher will go about answering research question. As suggested by Saunders et al, 2007¹⁰, it will contain clear objectives, the specific sources on how data intend to be collected. It also reflects the fact that why researcher are employing this particular research design, for example, why a particular organization is chosen to conduct in this study. It is to demonstrate valid reasons for all research design decisions, which is based on research question and objectives.

⁹ M. Easterby-Smith et al. (2002) *Management research*. 2nd ed. London : Sage.

¹⁰ M. Saunders, P. Lewis and A. Thornhill (2006) *Research Methods for Business Students*, p. 117

2.2.1 Exploratory Study

The main purpose of this research is to come about answering the question and meet research objectives. In order to achieve such purpose, an exploratory study is employed together with inductive approach to clarify the understanding of the nature of problem. The focus of an exploratory study is initially broad and becomes progressively narrower as the research progresses. Furthermore, M. Easterby-Smith et al., 2002¹¹ suggests that one way of conducting exploratory research is by searching the literature. An explorative study has great advantages in that it is flexible and adaptable to change as a result of new data that appear and new insights that might occur during the research. Due to the fact that the purpose of this research is to find out why corporations disclose ethical and environmental information, exploratory study is chosen to investigate a number of companies regardless of industry. This aims to increase a sufficient amount of information and therefore is appropriate to the research objectives.

2.2.1.1 Case Study

Guided by research question and objectives as well as the extent of existing knowledge, the amount of time and available resources, case study is chosen for this study as a particular strategy to be able to answer research question and meet objectives. Case study is a strategy that can be used for exploratory study, which belongs to inductive approach as suggested by Saunders et al, 2007¹². It involves an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence. Morris and Woods, 1991 argues that the case study strategy will be of particular if one interest and wish to gain a rich understanding of the context of the research and the process are being enacted. The strategy also has an ability to generate answers to the question why, what and how. For these reasons, the case study strategy is most appropriately used in exploratory research. In particular, multiple-case study is selected as a strategy in order to find whether the first case occur in other cases and to generalize from these findings. By combining multiple source of data, not only it useful to compare a limited number of companies within their real-life context, but also it can ensure that the validation of data.

¹¹ M. Easterby-Smith et al. (2002) *Management research*. 2nd ed. London : Sage.

¹² M. Saunders, P. Lewis and A. Thornhill (2006) *Research Methods for Business Students*, p. 139

2.2.2 Qualitative Method

This research is primarily conducted through exploratory study, with the view to become familiar with firms' social and environmental responsibility disclosure. Therefore qualitative method is considered to be the most effective way to capture this importance in order to gain a deeper understanding of the CSR area and meeting research objectives. Robson 2002: 472 argues that qualitative method provides the opportunity to explore a subject in a manner that is based by data collection techniques and data analysis procedures which is used predominately as a synonym for any data collection technique such as documentary or data analysis procedure such as categorizing data that generates or uses non-numerical data.

In this research, when the key points that emerge from observation were summed up, a set of written-up notes as a working document as suggested by Saunders et al 2007¹³ were established for further reference and to take details of progress. The summary aims to describe the purpose of the document, which contains the information on what is found, what to do in order to improve the quality of data and to seek alternative explanations and what is needed to achieve the essential identified by the previous analysis. It is seen as a useful tool when further analysis must be undertaken as to refer to sources of data and the way in which categorical data have been categorized into their component parts.

The chosen companies for this study are based on certain criteria in that they are Swedish corporation doing business in Sweden regardless of what industry they are. In particular, the companies from medium to large size were selected because these companies are comprised of certain characteristics that appeared to be more reliable and credible when engaging with a large number of stakeholders that are interested in corporations' business performance. Other criteria are that companies must have experience in preparing CSRs¹⁴ and work continuously with CSRs as this enables to facilitate in finding the available information. The third criteria is that companies' CSR should be listed at Global Reporting Initiative's homepage¹⁵ due to the reason that GRI is the most general accepted guideline that is commonly used worldwide. It presumes that many companies worldwide have claimed that they experienced using the GRI guidelines as it is the most suitable for organizations that can be adopted no matter what level of initiative they are.

¹³ M. Saunders, P. Lewis and A. Thornhill (2006) *Research Methods for Business Students*, p. 489

¹⁴ The term, 'CSRs' will be used throughout this paper to refer to corporate social responsibility/sustainability reports.

¹⁵ Global Reporting Initiative: <http://www.globalreporting.org>

2.3 Data Collection

2.3.1 Primary Data

During the overall process of conducting this study, the theories had been changed overtime to adjust the empirical findings as well as the purpose. The study is mainly conducted by using primary data from selected organizations' social and environmental sustainability reports as well as relevant information sources that can be found directly on the chosen companies' homepages. It can be noted here that some companies named the report as 'Corporate Social Responsibility', and other, 'Corporate Sustainability Report' which are similar in nature of detail. Likewise, the reports were produced explicitly in hard copy format that can be ordered and also are available in PDF format that can be downloaded directly from the companies' homepage. The advantage of using primary data is that the companies in this study published the reports annually and consecutively, which provide the most updated and fair amount of information available. The primary data collection significantly presents in chapter four, the empirical findings chapter.

2.3.2 Secondary Data

Secondary data is information gathered and recorded by someone else prior to the current needs of the researcher. Not only it would be inefficient to conduct a new research in this field but also lead to more unnecessary work, when the information can be acquired readily by using secondary data collection. The benefit of secondary data is that it is less costly than acquiring primary data.

Since there are already existed a number of works done by other researchers, the secondary data collected for this study is carried out and based solely on relevant articles from academic journals which can be found on internet database. The theoretical framework is collected from books and publications in the study area of organizational behavior, organizational communication, management studies, and business ethics. However, secondary data alone may not be sufficient due to the bias of incompleteness and the lack of relevant information, therefore the primary data is accompanied throughout the analysis chapter.

2.4 Method Criticism

As it is important to explain the research process and the choices made in order for the study to be trustworthy, this section therefore examine the research based on the validity and reliability.

2.4.1 Validity

Saunders et al, 2007 suggests that validity concerns whether or not the study clearly gains access to the experiences of those in the research setting. In this research, the study strives towards describing the empirical results by investigating the chosen organisations' CSR reports. The data are available in both English and Swedish that understood by researcher and can promptly be collected through companies' homepage. Even though, there may be a bias to organisations in that the reported information is self-serving. However, due to the fact that all chosen companies apply GRI guidelines which are generally accepted worldwide, it is then believed that all chosen organisations' CSR reports have sufficient degree of information that are qualified to justifiable and possible explanation that have already been reflected by organisations through the length of time each company takes on processing report and preparation. This enables to secure that reported information is coherently and consistently in compliance with the guidelines. Moreover, it is decided that secondary data, which will be discussed in the next section, should also be accompanied in order to ensure that data analysis procedures yield consistent findings. Despite, interviewing was not intended to use, as a source of data in this study due to assisted information is already available through companies' CSR reports. Therefore, interviewing may lead to a duplicated work and time spent unnecessary.

2.4.2 Reliability

Reliability refers the extent to which the data collection techniques or analysis procedures will yield consistent findings. Reliability also means the transparency in how sense was made from the raw data as indicated by Saunders et al, 2007. Both primary data and secondary data are collectively used in this study to ensure the reliability of the findings. First, primary data is conducted through the available selected companies' sustainability reports and second, secondary data is gathered from relevant articles and books, which produced by scholars that published their works on trustworthy publication in academic journals. This is to ensure

greater consistency and fairness of information that will be applicably analyzed and contributed to the research finding.

CHAPTER 3: THEORETICAL FRAMEWORK

This chapter explores in detail with the writing of a literature review. Its purpose is to set the study within its wider context and to show the readers how the study supplements the work that has already been done on this topic as well as serves the purpose of enriching the conclusion by using theories and models that can be a useful tool for analyzing empirical data.

3.1 The PESTEL Framework

Exhibit 3.1 shows the examples of ways in which strategies are affected by some of the macro-environmental influences that might affect organisations and the ways in which organisations reflect to handle aspects of their environment. Adopted by Johnson et al 2005¹⁶, The PESTEL framework categorizes environmental influences into six main types: political, economic, social, technological, environmental and legal, which are linked together. Therefore, it is useful for researchers to understand how these external factors might impact on and drive change in affect to the competitive environment in which organisations operate. In particular, the framework is used to look at the future impact of environmental factors, which may be different from their past impact where there are high levels of uncertainty about future changes in the environmental scenarios.

Exhibit 3.1: Examples of environmental influences, which can affect organisational strategies and performance:

First, environment: the growing consensus about the global climate change draws a significant amount on public attention which imposed by the Kyoto Protocol, an agreement among industrial nations with a commitment to limit the amount of CO₂. The new regulations consequently disrupt the flow of business, thereby corporations face a difficult situation where a range of alternative has to be chosen and decide to shift the way they operate.



¹⁶ G. Johnson, K. Scholes and R. Whittington (2005) *Exploring Corporate Strategy*, p. 65-68

Second, social-cultural: the growing health consciousness and social pressures on carbon dioxide (CO₂) emission in industrial countries have affected the way organisations operate in those markets. Public pressure has also led to strict regulations relating to how much industry can pollute CO₂, coupled with heavy taxes and lawsuits, which have influenced corporations' profits and share prices. Therefore, industrial companies have concentrated on their efforts on developing advanced technology.



Third, government action: the guidelines for external reporting by state-owned companies¹⁷ issued by the Swedish government offices, which administer fifty-five companies, both fully- and partly-owned. These companies represent substantial values and are ultimately the property of all Swedish taxpayers. The State, therefore, has a great responsibility to be an active and takes an important role to create value and to ensure that societal interests are fulfilled. Thereby, the Government adopted the guidelines for external reporting in complemented with clearer requirements on information about sustainability.



THE ENTERPRISE

3.1.1 Key Drivers of Change

The PESTEL factors might be of limited value if they are merely sense as a listing of influences. It is therefore important to identify a number of key drivers of change, which are forces likely to affect the structure of an industry, sector or market as follows:

As there is an increasing trend to market globalisation¹⁸, in some market, one can expect to see that there is an increasing homogeneity of consumer tastes in goods and services. For example, the automobile industry is highly globalised with the major manufacturers operating in most parts of the world. Customers may search for suppliers who can operate on a global basis. In case of automobile example, a global client of an automobile is in search for automobile companies to provide a product in respect to global environment standard. The development of global communication and distribution channels may drive globalization,

¹⁷ Regeringskansliet, Guidelines for external reporting by state-owned companies, p. 1

¹⁸ G. Johnson, K. Scholes and R. Whittington (2005) *Exploring Corporate Strategy*, p. 69

which provides opportunities for transference of marketing¹⁹ across countries. Increasingly, it is obvious that marketing policies, brand names and identities of any organisation can now be developed globally. Furthermore, this does not only provide cost advantage for global operators but also generate global demand and expectations from customers. Cost advantage may give potential for competitive advantage since some organisations will have greater access to and be more aware of these advantages than others. This is especially the case in industries which large volume standardized production is required for optimum economies of scale, as in many components for the automobile industry. Other cost advantages might be achieved by central sourcing efficiencies from lower-cost suppliers across the world where labor or exchange rates encourage business to search globally for low cost as way to matching the costs of competitors that have such advantages because of their location. The activities and policies of governments²⁰ have also tended to drive the globalisation of industry. The impact of globalisation on environment and changes of policies meant that almost all industrialized nations function with market-based economies and their trade policies have tended to encourage free market between nations. Moreover, globalisation has been encouraged by technical standardisation between countries of many products. For example, this can clearly be seen in Sweden, where the State²¹ argues that all companies bear responsibility for issues relating to sustainable development, such as ethical issues, the environment, human right, gender equality and diversity, but the state-owned companies are to set an example and be at the leading position.

Changes in the macro-environment are increasing global competition, which encourages further globalisation, i.e. the level of exports and imports between countries are high, it increases interaction between competitors on a more global scale which in turn place globalisation pressures on competitors and businesses competing globally. It may also be that the interdependence of a company's operations across the world encourages the globalisation of its competitors. For example, if a company has sought out a way to achieve environmental friendly solution, this might give such organisation a competitive advantage to support competitive activity against competitors, thus encouraging them to follow similar strategies.

One should also keep in mind that the impact of these forces may be different in different parts of the business and the specific drivers will vary by industry or sector. For example, an

¹⁹ G. Johnson, K. Scholes and R. Whittington (2005) *Exploring Corporate Strategy*, p. 69

²⁰ G. Johnson, K. Scholes and R. Whittington (2005) *Exploring Corporate Strategy*, p. 70

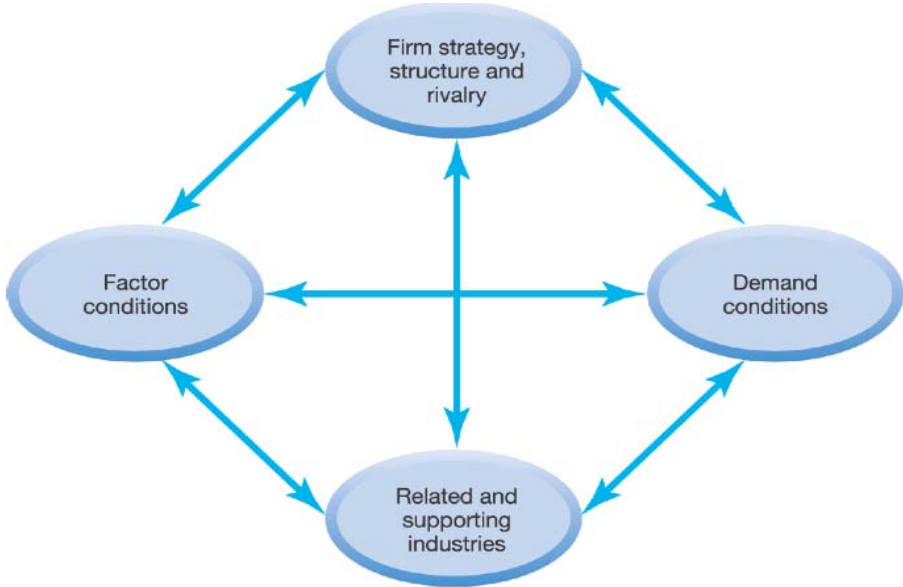
²¹ Regeringskansliet, Guidelines for external reporting by state-owned companies p. 2

energy producer may primarily concern with developments in the technological environment that lead to product innovation, while managers in a state-owned company are likely to be concerned with changes in public policy.

3.1.2 Porter’s Diamond

Porter’s Diamond model²², is invented by Michael Porter suggests that there are inherent reasons why some nations are more competitive than others, and why some industries within nations are more competitive than others. The model is used to exemplify how the impact of macro-environment factors on the competitive environment should be followed to encourage the competitive advantage of the industries in which firms operate. Johnson et al²³ suggests that governments can act to foster such advantage by ensuring high expectations of product performance, safety or environmental standards, or encouraging vertical corporations between suppliers and buyers on a domestic level, which could lead to a significant change in development. Individual organisations have also used the model as a way to identify the extent to which they can build on national market based advantages to create competitive advantage in relation to other on a local and global arena.

Exhibit: 3.1.2 Porter’s Diamond



²² M. Porter, *Competitive Advantage of Nations*, Macmillan, 1990.

²³ G. Johnson, K. Scholes and R. Whittington (2005) *Exploring Corporate Strategy*, p.71-72

Porter's diamond²⁴ shows that there may be specific factor conditions that help explain the basis of advantage on a national level and provide initial advantages that are subsequently built upon to yield more advanced factors of competition. In Sweden, for example, where either legislation or custom means that it is difficult to lay off labor. This results in a greater incentive towards autonomy of industries.

Furthermore, home demand conditions provide the basis upon which the characteristics of the advantage of an organisation are shaped. For example, Swedish customers' high expectations of safety and environmental-friendly automobile have provided an incentive for those industries in Sweden leading to global dominance of those sectors. Nevertheless, One successful industry may lead to advantage in supporting industries. For example, in a renewable energy industry, the national nuclear power plant industry may be supported by the intellectual engineer and architecture services, which benefit from one another. Lastly, the characteristics of firm strategy and industry structure in different countries also help explain bases of advantage. In Sweden, the tendency for inventive and productive process of management has been successful in providing innovative products in many industries.

3.2 The Stakeholder Theory

The Stakeholder Theory is developed to understand the expectations of other groups who are not in the corporate governance chain that functions to distribute power among different stakeholder in an organisation. For example, suppliers, customers and local communities collectively exist both outside and inside an organisation. This helps to explain the extend to which they are likely to seek influence over an organisation's purposes and strategies and how they might differ from each other.

As suggest by Johnson et al²⁵, organisational stakeholders are those individuals or groups who depend on an organisation to fulfill their own goals and on whom the organisation depends. Stakeholders can be distinguished in two dimensions: internal and external. Internal stakeholders inside organisation may be those who have sufficient power to determine unilaterally the strategy of the organisation. The latter is external stakeholders, which can be divided into two types in terms of the nature of their relationship with the organization. First, stakeholders are from the market environment such as suppliers, competitors, distributors, and shareholders. These stakeholders have an economic relationship with the organisation and

²⁴ M. Porter, *Competitive Advantage of Nations*, Macmillan, 1990.

²⁵ G. Johnson, K. Scholes and R. Whittington (2005) *Exploring Corporate Strategy*, p. 179-180

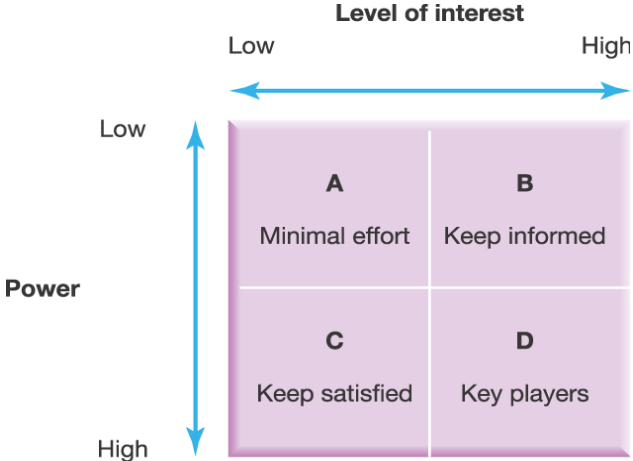
influence the value-creation process as members of the value network. Second, stakeholders from social/political environment such as policy makers, regulators, government agencies whom will influence the social legitimacy of the strategy are particularly influential in the public sector context.

One should keep in mind that the expectations of stakeholder group differ in nature. It is common for conflict to exist regarding the importance or desirability of many aspects of strategy. For instance, in order to grow, corporation may consider sacrifice short-term profit and pay-level as well as a decline in quality standard. Meanwhile, public ownership demands more openness and accountability from the management. Conflicts can result because of a division's responsibilities to the company and the degree of expectations, which vary from stakeholders. In most situations, a compromise will need to be reached between expectations that cannot all be achieved simultaneously. Furthermore, the dialogue of accountability to stakeholders clearly has a major influence on the processes through which strategies are developed. For example, in public sector organisations where a wide range of stakeholder interests need to be taken into account explicitly. Strategy development in this organisation usually involves a major process of consultation with stakeholders with the lengthening of time scales for the adaptation of new strategies.

In order to support stakeholder expectations and power, Stakeholder mapping²⁶ helps in understanding political priorities. It underlines the importance of the issue of how interested each stakeholder group is to impose its expectations on the organisation's purposes and choice of specific strategies. Stakeholder mapping might help in understanding better some of the issues whether the actual levels of interest and power of stakeholders properly reflect the corporate operation and whether repositioning of certain stakeholders is desirable. It does this by classifying stakeholders in relation to the power they hold and the extent to which they are likely to show interest in supporting or opposing a particular strategy. The power/interest matrix can be seen in the following.

²⁶ A. Mendelow, Proceedings of the Second International Conference on Information Systems, Cambridge, MA, 1991.

Exhibit 3.2: Stakeholder mapping: the power/interest matrix



The matrix indicates the type of relationship, which organisations typically might establish with stakeholder groups in the different quadrants. Stakeholder groups contain a variety of sub groups with different expectations and power. It is useful to know if a new individual in that role would shift the positioning as serious misjudge that can be made if proper care is not leaded to the point. Maintaining the level of interest or power of some key stakeholders may be essential. For example, public endorsement by powerful suppliers or customers may be critical to the success of a strategy. Equally, it may be necessary to discourage some stakeholders from repositioning themselves. This is what is meant by keep satisfied in relation to stakeholders in segment C, and to a lesser extent keep informed for those in segment B. The organisations might address the expectations of stakeholders in segment B through information The use of corporate social sustainability report to stakeholders as a means of securing the acceptance of new strategies has been regarded as a key maintenance activity to raise the level of interest of powerful stakeholders so that they can better be fulfilled their expected role within the organisation framework.

Stakeholder mapping may help to understand political priority but it also has some criticism in that ethical issues arise for managers in deciding the role they should play in the political activity surrounding strategic change. For example, are managers answerable to one stakeholder such as shareholders, and hence is their role to ensure the acceptability or their strategies to other stakeholders. Buchholz and Rosenthal²⁷ further discusses the key problem with the concept of social responsibility was that the concept did not take into account the competitive environment in which corporations function. Many advocates of social responsibility treated the corporation as an isolated entity that had almost unlimited ability to

²⁷ R. Buchholz and S. Rosenthal (1998) *Business Ethics: The Pragmatic Path Beyond Principles to Process*, p. 6

engage in unilateral social action. Eventually, it was recognized that corporations are severely limited in their ability to respond to social problems. If a firm unilaterally engages in social action that increases its costs and prices, it will place itself at a competitive disadvantage relative to other firms in the industry that may not be concerned about being socially responsible.

3.3 Corporate Social Responsibility - What is CSR? Who is it for?

Corporate social responsibility²⁸ concerns the extent in which an organisation goes beyond the minimum obligations to stakeholders specified through regulation imposed by organisation. This includes considerations as to how the conflicting demands of different stakeholders will be reconciled. The CSR policies of companies will be important to different level of stakeholders in that it can be useful to study how expectations from society can have an impact on organisations and how such impact influence on an organisation’s purposes. The following table outlines examples of issues in which responsible organisations should be accountable for, comprising of universal elements, from their actions in terms of corporate social responsibility both internal and external aspects.

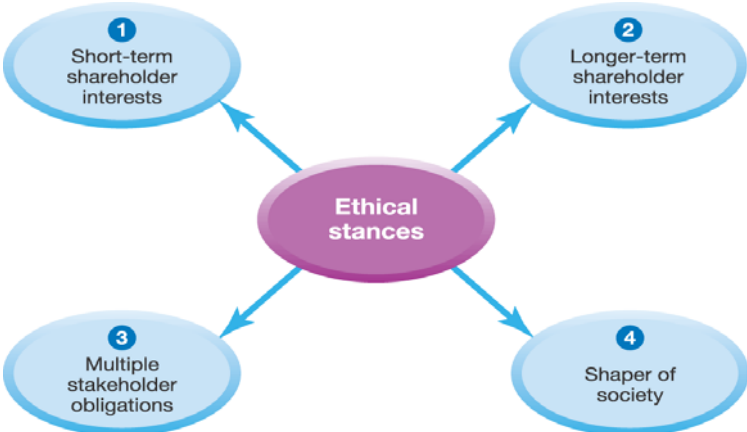
INTERNAL ASPECTS
Employee welfare: providing medical care, extending of sick leave, and other kind of assistances.
Working conditions: job security, minimum safety standards, workforce development, etc.
Job design: a matter of working life balance
Employment: maintaining job, fair recruitment

EXTERNAL ASPECTS
Environmental issues: reducing pollution to below legal standards
Products: product safety
Suppliers: fair terms of trade
Human rights: child labor, workers rights

²⁸ G. Johnson, K. Scholes and R. Whittington (2005) *Exploring Corporate Strategy*, p. 188-194

It can be clearly seen that the actions of one company may have an impact on other people, for an example, a manufacturing company may pollute harmful wastes which does not only hurt environment but also the health of people in the community where it operates. Therefore, there is an increasing demand to understand the characteristics of an organisation's strategies in order to determine which factors of organisation's strategies can impact society by using ethical viewpoint which characterizes the extent to which an organisation will exceed its minimum obligations to stakeholders and society at large.

Exhibit 3.3: The Ethical Stance



According to the ethical stance model, the first group represents a perspective where short-term interests of shareholders is the only responsibility of organisations, i.e. to make a profit, pay taxes and provide jobs. Because of legislation and regulation in which government prescribes results in constraints to impose on businesses in their pursuit of economic efficiency only that companies are expected to exercise social duties in order that organisations' power can be strengthened. Therefore, relationships with stakeholders in this organisation are likely to be in one way rather than interactive unilaterally, which may seem against how society expects organisations to act in reality. Despite, it seems that society increasingly expects more from large organisations that they should play a more proactive role in society.

The second type of ethical perspective focuses on the long-term financial benefit to the shareholder and relationships with other stakeholders. The justification for social action is that an organisation's reputation depends on its long-term financial success. An implication is that strategy development depends on time scales that may lengthen as these stakeholder interests

are considered that can be achieved by setting up policies to ensure compliance with best practice and begin to monitor their social responsibility performance.

The third ethical perspective describes that stakeholder interests and expectations should be more explicitly incorporated in the organisation's purposes and strategies beyond the minimum obligations of regulation and corporate governance. This group would argue that the performance of the organisation should be measured in a much more incorporate way than just through its focus on financial wealth being. This type of view can only be seen in organisations that meet high standards of social responsibility in their activities. However, it is a difficult issue of balancing the interests between different stakeholders. There are many public sector organisations that are positioned within this category as they are subject to a wide conflict of expectations and unitary measures of performance are often inadequate in reflecting this diversity. Longer time over the development of new strategies will be needed in this type of organisation as long as they are committed to wide consultation with stakeholders.

The last group concerns only with shaping society and view the financial aspect as secondary importance of organisations. The capability in which organisation can achieve successfully depends on regulation, corporate governance and accountability. The empirical achievement of public services with mission driven in this way can be seen as they are supported by political framework. However, in many countries there have been challenges to the legitimacy of this mission-driven viewpoint of public services in contrast to demands for citizens (as taxpayers) that expect clearly apparent best value from them. It is fundamental to their existence that they are keen to improve the interests of particular groups in society, but they also need to remain financially success, which can lead them as being seen as over-commercial or spend more efforts on promotional activities.

3.4 The Introduction to Global Reporting Initiative

The Global Reporting Initiative guidelines for sustainability reporting²⁹, first published in 2000. The GRI guidelines provide the generally accepted set of sustainability reporting guidance available to organisations wishing to report publicly on their sustainability performance. The mission of GRI was to rectify the weakness of requirements for consistency and comparability by providing a standardized and generally accepted sustainability report framework.

²⁹ The Global Initiative, The GRI's Sustainability Report July 2004 -June 2007, p. 3

The GRI is multi-stakeholders initiative bringing together reporting organisations, such as the NGO and investment communities, employee groups and regulators. Some 500 organisations from over 40 countries around the world were citing the 2002 GRI guidelines in their annual non-financial reports by mid 2004.

The guidelines represented a significant step forward for sustainability reporting, containing an improved set of environmental indicators, alongside with sets of social and economic performance indicators. The guidelines are divided into four parts which first contain the description of how to prepare a sustainability report by using the guidelines and who should use them. Second part gives a cohesive framework of reporting principles in accordance with the principles set out in this section. The third section provides a description of the content of a GRI report concerning performance indicators covering economic, environmental and social performance issues with glossary in final section.

In addition to GRI guidelines, the Swedish government adopted CSR guidelines for external reporting by state-owned companies in November 2007. The government views the companies as a positive example of the value of sustainability. Ultimately the responsibility of the government is to citizens who desire openness and access to information.

According to the state ownership policy, the boards of the state-owned companies should take responsibility for issues relating to sustainable development in accordance with GRI guidelines. They are also responsible for ethical issues, issues around the area of human rights, gender equality and diversity³⁰.

All companies bear this responsibility, but the state-owned companies are seen as needing to set an example and to be at the leading edge of this work. The government, therefore, is strongly reinforcing its ambitious targets in this field and making clearer demands for reporting and accountability.

³⁰ Regeringskansliet, Guidelines for external reporting by state-owned companies p. 1-3

CHAPTER 4: EMPIRICAL FINDINGS

The aim of this chapter is to communicate the findings collected in the course of this study in order to help answering the questions previously discussed in the introduction chapter. It gives an opportunity to report the facts that this research discovered in a clear and logical manner, and illustrates such findings in an easily understood manner by using tables. First, it starts with companies' general background, and then companies' CSR activities. Later it discusses how the companies process CSR development and how they communicate CSR strategy. Lastly, it introduces the possibility or likelihood of some future event occurs in the organisations.

The data primarily comes from social and environmental sustainability report conducted from four Swedish companies across different industries that are listed on GRI guideline as described in the methodology chapter.

Table 1: Company studied (data for year 2008)

Company name	Industry sector	Number of Employees	First CER published	Number of CSRs
Vattenfall*	Energy	32000	2001	4
SAS AB	Air transports	25516	2001	7
Volvo Car Corporation	Automobile	24384	2000	7
ITT Flygt	Pumps and valves	4500	2001	5

*State-own company

4.1 Company General Background: Core Business and Industry

Vattenfall Group³¹ operates in all segments of the value chains for electricity and heat production, transmission of electricity, distribution and sales. It also conducts energy trading and lignite mining with the operations in Europe. Vattenfall manages many different

³¹ Vattenfall, Corporate Social Responsibility Report (Narrative section) 2006, p. 2

technologies and has a diversity of energy sources such as hydropower, coal, nuclear power, biomass, wind power and waste.

*'It is our job and our responsibility to provide energy solutions that meet our customers' needs and that contribute to sustainable development in society. Such solutions must include consideration for the environment, customers, employees and society in general.'*³²

SAS AB is Scandinavia's largest listed airline and travel group. The Group offers air transport and related products from its based in Northern Europe. The Group also includes companies supporting the airline operations such as ground services, technical services and cargo.

*For the SAS Group economically sustainable profitability is closely connected with environmental and the ability to take social responsibility characterized by ethical conduct in all business relations'*³³.

Volvo Cars Corporation³⁴ has developed into one of the best-known car brands in the world and has a strong position in the premium car segment and is an international company with sales in over 100 countries. Its mission is to create the safest and most exciting car experience for modern family. Volvo Cars has been a wholly-owned subsidiary of Ford Motor Company since 1999 with the 'Volvo' name is the property of Volvo Trademark Holding AB, which is owned jointly by Volvo Car Corporation and AB Volvo. It also provides after-sales activities that include accessories, parts, workshop services, and financial services of various types.

*'Sustainable mobility: The ability to meet the needs of society to move freely, gain access, communicate, trade and establish relationships without sacrificing other essential human or ecological values today or in the future'*³⁵.

ITT Flygt³⁶ is the supplier of submersible pumps, mixers and accessories since 1940. ITT Flygt products are used within construction, mining, wastewater handling and numerous other industries. The company is a worldwide corporation, and has subsidiaries operating in over 130 countries.

³² Vattenfall, Corporate Social Responsibility Report (Narrative section) 2006, p. 2

³³ SAS Group Annual Report & Sustainability Report 2007, p. 99

³⁴ <http://www.volvocars.com/>

³⁵ Volvo Car Corporation, Sustainability Report 2006, p. 8

³⁶ ITT Flygt sustainability report 2002-2004, p. 12

'To be a good corporate citizen, a business must be a responsible neighbor, employer, supplier, buyer and manufacturer. At ITT, we strive to be all of these things and are guided by a commitment to do the right thing always, in all facets of our operation'³⁷.

4.2 CSR Activities

Vattenfall has published CSRs since 2001, with the latest report, fourth edition issued in 2006. Vattenfall's CSRs apply in accordance with Global Reporting Initiative's (GRI) 2002 Sustainability Reporting Guidelines³⁸ in which follows the GRI indicator framework with the provided references. The latest report consists of the environmental, social and economic performance sections that are each introduced by comments on the results, as well as a listing of various stakeholder groups' expectations, feedback and suggestions³⁹ to pinpoint areas for improvements and develop their reporting. Within sphere of activities, Vattenfall presents visions for sustainability, current CSR activities⁴⁰ in which its focuses are placed in particular on environmental protection, production safety, investing in renewable energy and what it have achieved throughout CSR operations. In addition to the parts mentioned, the report also describes the governance structure and management systems. It also provides a comprehensive content index according to GRI standards to maintain an open dialogue concerning environmental aspects of management, operations and products. Vattenfall handles many different environmental issues and regards the management of greenhouse gas emissions, air quality, soil protection, land use, water protection, waste management, nuclear safety and energy efficiency as the main focus areas.

SAS AB has published CSR reports since 2001, with the latest report, seventh edition, issued in 2007. The report is accompanied by annual report and was prepared in accordance with the SAS Accounting Principle Sustainability Reporting for 2007 and also with the Global Reporting Initiative Sustainable Report Guidelines⁴¹. The reason for integrating the sustainability information into the Annual Report is primarily to provide investors and

³⁷ ITT Flygt, Do The Right Thing Always: 2006 Global Citizenship Report, p. 2

³⁸ Vattenfall, Corporate Social Responsibility Report (Narrative section) 2006, p. 4

³⁹ Vattenfall, Corporate Social Responsibility Report (Narrative section) 2006, p. 20

⁴⁰ Vattenfall, Corporate Social Responsibility Report (Narrative section) 2006, p. 3-17

⁴¹ SAS Group Annual Report & Sustainability Report 2007, p. 96

stakeholders with a more complete and easily accessible overview of the SAS Group's most important activities contributing to sustainable development and to strive to increase shareholder value⁴². On SAS's homepage⁴³, it provides a tool to estimate share of aircraft emission for cargo and passengers in case they wish to buy CO₂ offset. SAS's major CSR activity is to continuously develop air transport efficiency, and fleets improvement to achieve less CO₂ emission. The Group's sustainability report describes the essential environmental, social aspects and its operations to be of interest to its main target groups and stakeholders. SAS Group's sustainable policy⁴⁴ indicates the purpose of contribution to sustainable development by giving tasks to all employees to take the Group's financial performance into account. Moreover, the consideration over environmental and social impacts on the community in their day-to-day work throughout the entire SAS Group must be put in place. Thereby, it sets out policy in different areas; environmental policy where describes what SAS will do in order to achieve the environmental goals and activities in coordinated with other production, quality and financial targets.

Volvo Cars Corporation has published CSRs since 2000, with the latest report, the seventh edition, issued in 2006. The current report is divided into three main areas – safe and sustainable mobility, globalisation and people. This structure allows the company to better meet their own and stakeholders' demand for a transparent and relevant report. It can ensure readers that the company continuously reports on issues that are connected to core values. With the scorecard indicators and the comments on the results are meant to help readers to judge their performance in key areas⁴⁵. Volvo clearly identifies what is important for their stakeholders and defines responsibilities in terms of their important roles as a carmaker. Volvo takes a serious concern over its operation which impacts on environment. The chapters in the report contain information on how the company works to innovate within each area and how they strive to increase efficiency with the aims that their continuous work within these areas will bring business sustainability and contribute to a sustainable society both in a short-to-medium and in a long-term perspective. An increasingly amount of research investment can be seen through CSR activities, primarily Volvo concentrates on the development on

⁴² SAS Accounting Principles for Sustainability Reporting 2007, p. 3

⁴³ www.sas.se

⁴⁴ SAS Group Annual Report & Sustainability Report 2007, p. 99

⁴⁵ Volvo Car Corporation, Sustainability Report 2006, p. 3

more efficient diesel engines, hybrids and alternative fuel vehicles, while continuing to meet customer expectations for safety⁴⁶.

ITT Flygt has published CSRs since 2001, with the fifth report issued in 2007⁴⁷. It has identified a continued evolution and expansion from the environment, safety and healthcare issues by closely adheres to the Global Reporting Initiative guideline. It also represents the environmental impact of sold products as the most significant concern. 'Design for Environment'⁴⁸, a development program in which ITT Flygt invented for better products' energy efficiency which concerns environmental impact that occurred as a result of energy consumption from the whole life cycle of products during the design process. The corporation also established R&D department working according to its development program where certain tests and documents have to be represented and verified before the products can be passed. The so-called tollgates include activities to verify the environmental performance of the new product through Life Cycle Assessments, checklists and a control against list of restricted material and substances that have been done for a majority of product portfolio and that environmental issues are integrated early in the design process. The aim is to offer the customers a solution that results in low costs during the life cycle of the product, high efficiency, low maintenance needs⁴⁹.

4.3 CSR Development Processes

Vattenfall, as mentioned, applies the GRI principles and protocols when preparing the CSR reports which is in accordance with criteria of the 2002 GRI guidelines⁵⁰. The reporting process is continuously developed based on experiences from both external stakeholder dialogues and internal feedback on the reporting process and report content. The Vattenfall Public Affairs provides input from the different countries and Business Groups in the draft procedures and are responsible for CSR communication. Whereas the Group Functions are responsible for collecting information and ensuring the relevance and accuracy of the

⁴⁶ Volvo Car Corporation, Sustainability Report 2006, p. 13

⁴⁷ ITT Flygt, Do The Right Thing Always: 2006 Global Citizenship Report.

⁴⁸ ITT Flygt, Actions Speak Louder Than Words, ITT Flygt sustainability report 2005-2006, p. 5

⁴⁹ ITT Flygt, Actions Speak Louder Than Words, ITT Flygt sustainability report 2005-2006, p. 5

⁵⁰ Vattenfall, Corporate Social Responsibility Report (Narrative section) 2006, p. 23-24

information provided in the reporting sections. In doing this, they consult their Group-wide networks, which comprise of specialists and generalists in relevant areas to produce a report that is as accurate, complete and reliable as the data reporting systems allow. Executive Group Management provides final approval of the report but was not audited by a third party⁵¹. In the environmental performance section⁵², it includes environmental expectations and performance in brief which set out presumption that driven by stakeholders, for example, 'Supply energy with as little impact as possible', 'Supply more electricity and heat from renewable sources', complied with how Vattenfall stand at the point where it stated in the presumption and the development it can make in order to achieve the objectives.

SAS AB operates in several different countries, has a long tradition of reporting on environmental indicators and constantly strives to achieve comparable environmental and social indicators. The Group realizes that sustainability information in the report is affected by the changes in terms of accounting and calculation principles overtime. Therefore it introduced a new climate index, which describes emissions contributing to climate change relative to production and includes other discharges on environmental impact on group level. It aims to allow for improved internal comparisons in addition to measuring each entity's relative change⁵³. SAS Group indicates whom in the report it is to focus on, different type of stakeholders and goals are presented. The SAS Group supports and participates in the research and development of more fuel-efficient engines. SAS works together with the Swedish Aviation Administration to fit out a completely unique ambulance aircraft with medical flight deck and cabin staff as well as presents discussions on extending the project in collaboration with United Nations Development Projects are in progress.

Volvo Car Corporation's relevant and important issues included in the report were identified through an intensive internal and external dialogue. Reported issues are of significance to Volvo cars as well as to their stakeholders, therefore, the issues need to be within the boundaries of their business aims and ability to effect change in which pertains three core values as carmaker, global company and local player⁵⁴. The company established the Sustainability Council to get input through different departments, from surveys, media, customers, and also working with other actors such as legislators, governments, academia,

⁵¹ Vattenfall, Corporate Social Responsibility Report (Reporting section) 2006, p. 3

⁵² Vattenfall, Corporate Social Responsibility Report 2006 (Reporting section), p. 5-6

⁵³ SAS Accounting Principles for Sustainability Reporting 2007, p. 3

⁵⁴ Volvo Car Corporation, Sustainability Report 2006, p. 6

nongovernmental organisations as a way to increase customer acceptance and pave the way for more sustainable products⁵⁵. A materiality analysis is made and issues that are of importance to stakeholders are examined in the context of their significance to Volvo Cars. On the basis of the analysis and the selected issues, the Sustainability Council proposes a draft scope to the Corporate Sustainability Steering Committee, which is responsible for the final decision⁵⁶.

ITT Flygt engages with its coalition partners and others to help refine the content outlines and decide what issues and topics should be addressed. Its goal was to ensure that they were focused on sustainability issues that are relevant to ITT's stakeholders⁵⁷. Through the pyramid of sustainable development⁵⁸ which represents sustainable development concept in which the stakeholders are its foundation through dialogues providing the input based on company vision, core value, focus areas and way of working. Then set goals and plan with organisation resources to achieve the ambition development. Later, the duty passes on to employees and management work in processes to deliver products and services offering to stakeholders. At the top level contribute to the highly visible where all the other elements create company identity, image and brand.

4.4 Communication of the CSR Strategy

As mention in CSR activity section, **Vattenfall** reports in accordance with Global Reporting Initiative's (GRI) 2002 Sustainability Reporting Guidelines as reasoned that the Guidelines are the most widely accepted with more than 1,000 companies around the world applying the guidelines and to be able to measure performance, achieve transparency and international comparability in sustainability performance reporting. Moreover, it represents a balanced and reasonable presentation of organization's economic, environmental and social performance. Vattenfall⁵⁹ pinpoints that the report is an important tool for communicating their efforts to act as a responsible company in society and reflects the areas where it can make a contribution to the development of a sustainable development of society. The scope of the report describes Vattenfall providing examples from operations in the various Business Groups in which the company has full control over data collection and information quality. Vattenfall's CSR can be found through the company website on environmental performance

⁵⁵ Volvo Car Corporation, Sustainability Report 2006, p. 10

⁵⁶ Volvo Car Corporation, Sustainability Report 2006, p. 34-35

⁵⁷ ITT Flygt, What is it all about?: ITT Water & Wastewater Sustainability Report for 2007, p. 1

⁵⁸ ITT Flygt, What is it all about?: ITT Water & Wastewater sustainability Report 2007, p. 12

⁵⁹ Vattenfall, Corporate Social Responsibility Report (Narrative section) 2006, p. 3

section. Both current and previous reports can also be downloaded in PDF format. The current report can be found with the use of reporting and narrative approach to facilitate readers a simple way to communicate its CSR activities.

SAS AB reports its CSR through company website which can be downloaded through PDF file or order to the reader's address both in English and Swedish. SAS Group's Sustainability Report aims to facilitate the assessment of stakeholder value and overall understanding of the Group's operations and to give an overview of the Group's structured sustainability work. The goal of the SAS Group's Sustainability Report is to disclose all conditions necessary to provide the reader with a fair view of the SAS Group's environmental, social, and financial responsibilities in which to create long-term growth in stakeholder value and help the Group reach its goals⁶⁰. Beside creating growth in shareholder value, the Group's sustainable development efforts are driven by expectations and demands of keeping stakeholders and others through stakeholder dialogue and business intelligence as a precondition for creating value⁶¹. Apart from SAS Groups' annual and sustainability report, it also divided into four areas of communication through complementary information, first accounting principles, Cross reference list, Glossary and Stakeholder Dialogue to understand how stakeholders view the company's activities.

Volvo Cars Corporation discloses its CSRs through two of the company's vital communication media: Volvo Car's in-house magazine, and Agenda Magazine which has recently won a Swedish publishing award for the third consecutive year. In addition, the Volvo Cars website, www.volvocars.com which has been ranks the eighth in a worldwide survey⁶². Volvo Cars stated in the report that sustainability reporting is a way to demonstrate transparency and engage in dialogue with stakeholders. The reporting process also provides an opportunity for discussion, evaluation and reflection on an annual basis, supporting the efforts to develop business in line with ambitions in the area of sustainable development⁶³. Volvo Cars intend to continue to report on sustainability issues on an annual basis with the aim to report in a transparent manner that also involves stakeholders and pushes organisation learning. Volvo Cars also facilitate the assessment performance in a number of key areas by using the sustainability scorecard with additional reporting based on GRI guidelines is available on its homepage. It aims to facilitate comparison between companies and to allow

⁶⁰ SAS Accounting Principles for Sustainability Reporting 2007, p. 3

⁶¹ SAS Group Annual Report & Sustainability Report 2007, p. 96

⁶² Volvo Car Corporation, Sustainability Report 2006, p. 38

⁶³ Volvo Car Corporation, Sustainability Report 2006, p. 34

stakeholders to judge their performance. Volvo Cars have conducted an independent stakeholder assessment, and commissioned an external consultancy to perform a report benchmarking to secure the interest of progress and transparency as well as input for improvement.

ITT Flygt, the fifth edition sustainability report 2007 aims to inform customer more about the company's commitment to conduct business in a financially, environmentally and socially responsible way. ITT Flygt have used the United Nations Global Compact principles as preparation for their reports in which intended to check actual performance against their commitments. In current annual reports, ITT Flygt have closely followed the Global Reporting Initiative's guidelines for sustainability reporting. The final section in the 2007 report, shows where the company stand that explains what it have and have not accomplished with respect to key issues for sustainable development. Primarily, public communication was released through internet since 2001, while internal communication was first released in 2002, through information meeting explaining sustainable development and the UN Global Compact principles were held for all employees worldwide in 2002 and Code of Conduct workshops were held in 2004.

4.5 Prospects

Vattenfall's highly ambition which is manifested through five strategies is be in the lead, profitable growth, number one for the customer, the environment and set a good example in the markets it operates as the benchmark of the industry and employer of choice. Not only this is to enhance customers' needs, environment and quality of life through efficient energy solutions but also to contribute to sustainable development through the accumulation of knowledge that benefit the society as indicates in the report while continuously making improvements as company long-term goals. The scope of Vattenfall's ambition does not limit in that, but also according to Vattenfall's vision⁶⁴, it should actively contribute to sustainable development in society by developing energy solutions for the future. Creating economic value in Vattenfall's operations will not only provide the long-term ability to invest in new sustainable energy production but also achieve its long-term visions.

SAS AB launched a new strategic plan, Strategy 2011 which further highlighted in the formulation of sustainability reporting and aimed at ensuring profitable growth for SAS, rests

⁶⁴ Vattenfall, Corporate Social Responsibility Report (Narrative section) 2006, p. 1-2

on five pillars: focus on airline operations, concentration on geographic position in Northern Europe, harmonization and development of products and services to customers, being able to implement a cultural turnaround with greater attention to customer needs and a deeper commitment from employees and competitiveness in all parts of operations⁶⁵. An ambitious environmental strategy, the vision for Group companies is to emit 20 percent less of CO₂ than today by 2020. It also states⁶⁶ that SAS are working assiduously to improve environmental performance and further set a goal to be at the forefront of environmental and climate adaptation to meet demand from themselves and all stakeholder groups in society. Environmental targets indicates long-term goal for environmental work by having zero emission for air transport, meaning that the vision is to be realized by no later than 2050 through a combination of new technology, more efficient air traffic management, new fuels, and coordinated action to improve the conditions under which air transport operates and its infrastructure.

Volvo Cars Corporation stated in the report that innovation is an important way of moving a company forward by focusing on efficiency from a societal perspective and keeping the challenge of climate change and energy efficiency. Volvo continues their efforts at improving fuel saving of current car models and developing alternative drivelines for the future. Their focus in the safety area is to prevent accidents from happening while continue improving protective systems. To meet future challenges, Volvo has developed Volvo Cars' Vision 2020⁶⁷, which is a road map toward more sustainable mobility solutions. The focus of Vision 2020 is to continue to increase the offer of common good factors while ensuring that private benefits are tangible and attractive.

ITT Flygt stated in the report⁶⁸ that it will continue to strive and improve their efforts in both sustainable consumption and sustainable production in which focus on all relationships, locally and globally which includes suppliers, distribution channels, service partners and customers as well as employees. ITT Flygt is committed to sustainable development be managing every aspect of their business in a responsible way – i.e. providing solutions that cover the complete water lifecycle. Their focus is not only on high-quality products, but also on giving customers a peace of mind. In their view, corporate social responsibility is a natural part of competitiveness. By extends beyond to the company and its shareholders to involve

⁶⁵ SAS Accounting Principles for Sustainability Reporting 2007, p. 6-8

⁶⁶ SAS Group Annual Report & Sustainability Report 2007, p. 96

⁶⁷ Volvo Car Corporation, Sustainability Report 2006, p. 9

⁶⁸ ITT Flygt, What is it all about?: ITT Water & Wastewater sustainability Report 2007, p. 2

and engage all the stakeholders in the society, such actions and relations can build a long term business⁶⁹. It will continue the dialogue with NGOs and other organisations about barriers to sustainable development within the company through various partnerships include customers, local community representatives and universities. Its interest is to identify innovative ways of doing business responsibly that add value to both company and stakeholders.

⁶⁹ ITT Flygt, Sustainability Report 2002-2004, p. 3

CHAPTER 5: ANALYSIS

The purpose of this chapter is to present an analysis of the empirical finding from data collected through corporate social responsibilities reports published by chosen companies in support of the theoretical framework. First, the chapter discusses what constitute incentives for companies throughout the sustainability reporting process. Second, it analyzes how companies come up with ideas to start publishing the report. Third, a discussion about GRI guidelines and CSRs is presented to explain the main finding of reasons why companies apply GRI guidelines in their CSRs.

5.1 Why Companies Publish CSRs

5.1.1 Corporate Social Responsibility Model

As stated in the theoretical framework using corporate social responsibility model, a first consideration is that organizations need to meet the minimum obligations imposed by their stakeholders. The organisations in this study initiate their CSR policies with different purposes but generally attention is placed on internal aspects such as employee welfare, and external aspects such as environmental issues. The advantages of this are to strengthen long-term financial benefits and also to be seen as taking action on social issues as claimed by the second ethical perspective, where an organization's success depends on its long-term financial performance.

Communication with shareholders must be actively pursued and policies to ensure compliance with best practice must be put in place. This can be found in the third ethical stance where it argues that stakeholder interests should be more explicitly incorporated in the organisation's purpose beyond the minimum obligations. After that, the corporation must begin to monitor its social responsibility performance to ensure high standards and expectations in regard to its activities.

5.1.2 The Stakeholder Theory

Both internal and external stakeholders in the stakeholder theory consider the performance of an organization as more than an emphasis on financial status alone. They also wish the organization to maintain transparency and avoid missed communication among them. In this way long-term profit depends not only on organizational performance, but also on social and environmental performance.

According to the Stakeholder mapping, which illustrates the balancing of the interests of different stakeholders such as bankers and shareholders, obstacles may be presented. As one type of stakeholder might be needed to keep inform or demand more satisfaction over another. Maintaining the level of interest or power of some key stakeholders may be essential due to the reason that there often is a diversity of expectations. Therefore, corporations publish their social information as a means to secure the acceptance of activities in which firms want to engage. Moreover, the variety of social responsibility may depend on regulation and accountability of corporate governance. In a country like Sweden, where some companies are owned by the government and supported by a political framework, there are public ethical demands that must be met.

In practice, the companies in this study were particularly interested in reporting their environmental and ethical social data in relation to the impact on stakeholders. It was common that the companies included in this study began determining who demanded the report. This not only helped them narrow their efforts, but also helped them decide which stakeholders to address first.

ITT Flygt set up a dialogue to provide input based on the company's vision, core values and focus areas. Stakeholders were seen as the foundation of the pyramid of sustainable development. Vattenfall and Volvo Car corporations have internal focus groups concentrating on sustainability and have developed a document control procedure for this process. The focus groups are representative the company and are cross-functional, i.e. top-bottom down process. This is linked with stakeholders group meetings from which essential inputs are derived.

Other companies see the general public and shareholder as target groups. Such as SAS provides sustainability information in regards to important activities contributing to sustainable development to investor and other stakeholders to increase their values. It shows

information on sustainability efforts to the outside community so that their stakeholders can compare the reports with other companies.

Likewise, SAS also find employees as a target group of their sustainability efforts as they had the intention to use the report as education material internally in the company, employees can learn more about how the company operates and the benefits in which they can expect to be informed.

5.1.3 Porter's Diamond

Furthermore, not only do organisations respond to stakeholders who view social responsibility as helping to increase long-term profits, but also to gain competitive advantage thereby benefiting society and business. In connection to that, Porter's Diamond explains how the impact on competitive environment can be followed to gain the competitive advantage of industry in which firms operate.

Empirically, Volvo produces cars that reduce carbon emissions and improve passenger safety. Safety and sustainability are natural grounds of competitiveness. Where local demand condition provides a source of input that characterizes an advantage over a company. Moreover, such activities consequently result in firms being awarded from what they achieved in their efforts through prizes and award-winning program. As seen, disclosure can significantly allow the market to reward those that produced useful and valuable information and may allocate misinformation punishing for those who do not.

In addition, the state-owned government company, Vattenfall reports information in accordance to the guidelines for external reporting adopted by the Swedish government as obligations required by the government. The reason to that is the government supports the state-owned companies to foster competitive advantage by ensuring high expectation of local demand in product performance, safety or environmental standards. Therefore, significant changes are developed and the competitive advantage makes clear why a country like Sweden may become more competitive than other nations and why some local organizations are more competitive than others.

5.1.4 The PESTEL Framework

ITT Flygt acts on sustainability both locally and globally with customers. They try to strike a balance between financial results and strategic ethical and environmental initiatives and say

they wish to make a positive contribution to the development of society. The company regards sustainability as a business opportunity to create long-term value by taking on the challenges and managing the risks associated with economic environmental and social trends. These can be applied to the PESTEL framework where business strategies are affected by macro-environmental influences that might affect the ways in which organisations handle aspects of their environment.

Some companies in this study may feel that they have been treated unfairly. For example, SAS who provide air transport and other related services. In order to gain transparency and legitimacy, they provide information of what they are actually doing for ethical and environmental sustainability.

5.1.5 Key Drivers of Change

Importantly, the increasing trend to market globalization where stakeholders expect and demand more from the corporations can be seen as key drivers of change that affect how these companies attempt to change their ways of operations. Indeed, SAS and ITT Flygt maintain their efforts to engage in product development as technical standards tend to increase locally and globally. Furthermore, SAS goal as stated in the sustainability report, that it discloses all conditions necessary with a fair view of the SAS's environmental, social and financial responsibilities. Therefore, it has continuously participated dialogue with different stakeholders, for instance employees, shareholders and labor union to ensure that their activities meet stakeholders' expectation. Whereas ITT Flygt engages with its coalition partners to help refine the content outlines and decide what issues and topics should be addressed in the report with the goal to ensure that focuses on sustainability issues are relevant to its stakeholders.

5.2 Producing the Report

All of the companies studied produce the report themselves. They do not need to conform to outside reporting requirements. Moreover, the internally produced report provides a means of company-to-company comparison and provides internal educational material as well which ranges from employees to management teams. This has the advantage of allowing employees the opportunity to form a dialogue with their stakeholders.

In practice, as stated in the previous section, it was common that the companies included in this study began determining who demanded the report, i.e. stakeholders. This helped them to narrow their efforts and in deciding which stakeholders to address first.

Vattenfall reports information in accordance to the guidelines for external reporting adopted by the Swedish government as an obligations required by the government. The reason to that is the government views these companies as a representative of substantial values and ultimate common property of citizens.

According to the PESTEL framework and with the support from key drivers of change perspective, the government expects these companies to be an example and be at the leading edge of this work. Therefore the government is reinforcing its highly ambitious goals and making clearer demands for reporting and accounting through compliance with GRI guidelines.

The Stakeholders theory with support from ethical stance views that performance of an organisation should not be emphasis only on financial performance alone such that how much the profits are generated and achieved in earning revenue. On the other hands, it should retain uneconomic sense to preserve transparency and avoid miscommunication that it made when employing common goods, which own by society that corporations can gain from. Thus, long-term profit does not depend on economic accomplishment but on its social and environmental contribution. However, organisations face obstacle in that there may be a limitation in balancing the interests of different stakeholders, i.e. measuring performance may not be adequate in reflecting the diversity of expectation among different stakeholders. This can be seen, according to ethical stance and stakeholder mapping from theoretical framework chapter when public sector and activists aim to assure the benefit of society with demand of attention from organisations.

5.3 GRI Guidelines and CSR

Another finding of this study is that even though all the companies in the study applied some of the GRI guideline, not all indicators recommended by the guidelines are included in all companies. This may be due to the fact that the guidelines do not require that each of its suggested sections be included, but does suggest that if a section is excluded, and there should be some explanation as to why.

The guidelines are considered to be the generally accepted standard for developing and publishing CSR reports. Therefore, the companies view the consistent use of a common guideline to add credibility to the report. The guideline provides the companies with a good, established structure for their reports and includes a set of indicators in areas that are usually new to the companies. Thus, some companies convey the same information from year to the next irrespective of their changing needs and conditions.

CHAPTER 6: CONCLUSION

The chapter begins with final conclusions. Later it discusses own reflections and the lessons learnt from this study. At the end of the chapter, suggestions for future study are presented.

6.1 Conclusion

Based on the data gathered in this study and the analysis of it, one can see a number of reasons why organizations are interested in becoming focused on social responsibility. There has been a rising trend in requiring the release of the organization's information about social responsibility to those whose organisations depend it, i.e. stakeholders. As corporations need to meet the minimum obligations imposed by their stakeholders, financial reporting alone is no longer considered sufficient in the eyes of society. Thus stakeholder interests should be more explicitly incorporated in the organisation's purpose.

As the number of stakeholders increases and their interest grows, information gaps will narrow and more data will become available to maintain transparency and avoid missed communication between organisation and stakeholders. Indeed, sustainability efforts to the outside community so that stakeholders can compare the reports with other companies to ensure that corporations' activities meet stakeholders' expectation. In their efforts to collect the necessary data, organizations are finding out more about themselves and they are finding ways to turn that knowledge into competitive advantage. The GRI guidelines not only enable external reporting to foster competitive advantage by ensuring high expectation of local demand in product performance, safety or environmental standards, but also promote internal reporting to stakeholders within the organization.

GRI guidelines can be an effective tool to gain control of the bottom line on a corporate level and highlight the importance of collecting internal information. The transparency and credibility that are provided by a GRI report may narrow the gap between the organization and society as well as that between management and employees. It can also lead to further improvement by maintaining the level of interest or power of some key stakeholders, which then acts as a means to secure the acceptance of activities in which firms want to pursue. Thus, an organization can extend its business opportunity to create long-term value by taking

on the challenges and managing the risks associated with economic environmental and social trends.

6.2 Reflection

Each organization studied had different purposes in mind when they designed their reports, but there was a common reason and that was to improve communication about the organization's environmental effects and social responsibility.

Even though there is no law forcing organizations to disclose their information on social responsibility, they have been using the GRI format to do so. Those companies that are not using the GRI for this kind of reporting are increasingly seen as lacking in this regard. For that reason, without common format and verification corporate reports are seen as biased and self-laudatory and the reports are not seen as credible. Meanwhile, CSRs and the GRI guidelines could be used for internal capacity building and seen as a potential instrument for companies demanding a better view themselves from public attention.

6.3 Future Study

At this point, it is suggested that corporations disclose social and sustainability information in their reports for different reasons. Corporate social responsibility is a new issue and should be seen as in need of continuous study. The development of how corporations disclose information and the effect of contribution on such activities are still unclear.

Using CSR and public disclosure as a way to achieve stakeholders expectation does not necessary mean that corporations have accomplished what stakeholders expect from them, but it is a means to communicate what they have done to meet minimum obligation for society and their willingness to keep doing so. There are a limited number of works have that been done and future studies should be conducted in order to gain new knowledge. Future research could also be done to compare the perceptions between different stakeholders on corporate social responsibility in different industries and what might be needed for organizations to achieve long-term goals.

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