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THE USE OF CORPORATE RESPONSIBILITY DATA FOR BUSINESS BENEFITS

**Facilitating data collection, distribution and use with
information systems and knowledge management principles**

Master's Thesis
in International Business

Author:
Markus Penttinen 9723

Supervisors:
D.Sc. Esa Stenberg
D.Sc. Mélanie Raukko

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Turun kauppakorkeakoulu • Turku School of Economics

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1 INTRODUCTION

This is a study of using corporate responsibility (CR) data for purposes other than external CR reporting. It aims to find out if the phenomenon exists at all, and if it does exist, chart the purposes that data is being used as well as the ways in which companies use it. This theme has so far received very little attention and therefore deserves to be charted, even if the scope permitted by the master's thesis format is rather limited. Furthermore, the theme is a promising development in the field of CR research, as it provides further proof to support the claim that engaging in CR activities is good for a company's business.

1.1 Background for the study

The inspiration and motivation for the author to do this particular study, comes from the social theory's assumptions that corporations are operating inside the society, not parallel to it, and therefore have an implicit "social contract" with the surrounding society. This contract obliges the company to not only conform to laws and regulations, but also to an array of ethical standards and norms that are commonly held appropriate by the citizens. Therefore, the company must strive for fulfilling this implicit contract by acting responsibly by the society's standards, in order to keep its licence to operate in that society. (Deegan 2002) However, looking at the world, especially the western developed countries, it seems that most societies have thrown in the towel and given a large proportion of their power to corporations and their representatives. This is because the worshipping of economic growth has raised it into a position of a desired end, even if rightfully it should be treated as mere means to an end: a society that serves its citizens well. Private corporations are seen as the sole possible creators of economic growth and therefore have been given a lot more say in the society's decision-making than they deserve.

This has led us to a situation where there are very few things besides financial incentives that will change their behaviour. They can take forms like public pressure and fear of losing vital reputation or the society giving incentives through taxation or other regulations. For the reasons described in the above chapter, betting on the latter to happen is not a smart move. The first one, however, has already started to happen and corporate responsibility is no longer regarded as a waste of shareholder's money. To further boost this development, it is necessary to "make these things [CR] visible in the top management's wallet", like one of the CR experts interviewed as a part of the empirical research put it. The author's motivation then, is to search for things that would further strengthen the foundations on which the business case for CR is built.

The issue of using CR data and information for alternative purposes has received little attention, but those who have studied it, call for more studies. Adams and Frost (2006) tried to find out about companies' CR information's role in their strategic decision-making, and underscore the need for more of the same:

“Many failed to provide insights into how they incorporated the social and environmental information they were reporting into their strategic decision-making processes. Given the increasing pressure on companies to report, along with the development of sustainability reporting guidelines such as those of the global reporting initiative, this raises questions about how much social and environmental performance information they are collecting and whether they are using it when making strategic decisions.” (Adams – Frost 2006, 35)

1.2 Purpose of the study

The purpose of this study is to find out if there is such a practice as distributing CR data for alternative uses, and to describe these practices. Furthermore, among these practices, the author wishes to find the ones, which would be recommendable to other businesses as well. As a result, the research question is of the form: *do companies that report their CR, also use their CR data in other functions besides CR reporting, and just how they are doing that.* In order to be able to answer to this question, the following sub-questions are presented: 1) Do companies that report CR use CR data in their other functions? 2) For what purposes do they use that data? 3) How are they distributing and using that data, and 4), Could knowledge management principles and the use of information systems enhance the process of distributing and exploiting CR data?

The theoretical framework consists of theories of corporate responsibility, itself based on stakeholder and social contract theory, theories of CR reporting, strategic and proactive approaches to CR, and knowledge management theories. Methods used in empirical research include a web-based survey and semi-structured expert interviews. The survey is used as means to verify the suspected existence of the phenomenon of using CR data for purposes other than only CR reporting and present a preliminary list of alternative uses, while the interviews are supposed to dig deeper into those uses, and the practical issues companies might face when doing so.

A word about the structure of this thesis: Chapters two to five present the theoretical framework. Chapter six describes the empirical research processes and discusses the relevant methodological issues. Chapter seven lays out the results of the empirical research, chapter eight concludes the results gotten and presents theoretical and managerial contributions, while chapter nine summarises the entire thesis.

2 CORPORATE RESPONSIBILITY

2.1 Corporate responsibility, its history and theoretical foundations

Corporate responsibility, or CR, is a term that refers to companies responsibilities to the natural environment and society they operate in. It is often regarded as an ambiguous term as there is an on-going academic debate about what it actually includes. Commission of the European Communities defines it as

“voluntary integration of social and environmental concerns into a firm's business operations. To realize this objective, firms' investment in human capital, environmental protection and sustainability, and stakeholder relations will have to exceed that which is required by law.”
(Commission of the European Communities 2001; Nielsen – Thomsen 2007)

Another widely used definition is that of the World Business Council for Sustainable Development:

“Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large.” (WBCSD 1999, 3)

As a phenomenon it is nothing new. It is said to have been around for as long as there has been capitalism; only the forms of it have changed with the times. Some of its concepts date back to the nineteenth century, when the second phase of industrial revolution changed the society. The patrons stepped in to being the missing link between the new society and old systems relying on the church and family. They created welfare for their workforce in various forms: housing projects, schools for their children, healthcare and so forth. The logic behind it was very much profit-oriented at the time. The patrons wanted to keep the workforce happy, because it would also keep the labour unions happy, and prevent any costly disputes with the unions. They could also lure new workforce for them and use their philanthropy for promotional purposes. The motives were not solely selfish, since most of the patrons happened to be very religious, and felt they also had a religious duty for doing good things. (van Tulder – van der Zwart 2006) Also famous is the example of Henry Ford, who insisted that the workers in his factory needed a salary high enough to be able to buy one of his products for their families.

In the latter part of 20th century, paternal philanthropy made way for a model with more focus on the company's relations and obligations towards its stakeholders, i.e. all

individuals and groups that are affected or have interests in the company's operations, also including the society as a whole. (Reynolds – Yuthas 2008)

2.1.1 Stakeholder theory and social contract

Like CR, stakeholder theory is not developed in the 1990's, even though it may seem so. The first remarks of it date back to early 1960's, and the ideas behind it are even older. It was quickly forgotten by all but the Scandinavians, only to emerge again with Freeman (1984). (Näsi 1994, 19-20)

Stakeholder theory has its roots in social theory and the notion of a social contract between the company and its environment. Social theory and social contract, in turn, have their roots in political economy theory. They build on the idea that companies are a part, like every other individual, of the society they operate in, not parallel to the societal institutions. Therefore, they are not inherently legitimate to operate, but need permission, a legitimisation, from the society. To get this permission, they have made a contract with the society, promising to do their respective parts of the deal. The idea of social contract between the company and its surroundings has been around since the 16th century and suggested by the likes of Jean-Jacques Rousseau. (Deegan 2002)

The companies' parts of the deal have been defined in many ways. Some regard that a company has to deliver the society as a whole, and its stakeholders something they want (usually economic welfare). Some think the respecting the laws and paying taxes is only the explicit part of the deal, and the other, unwritten, part are the implicit expectations of the society and stakeholders. The contract is dynamic in nature, that is, both parts of the demands to the company keep changing. Changes in the written part are easy to find out, but that is not always the case with those implicit expectations. How the company deals with the changing implicit expectations of the society is dependent on the management's abilities to spot the changes, and their perceptions of the company's responsibilities in general. (Deegan 2002; Reynolds – Yuthas 2008)

The punishments following breaches of the written, legal, part of the contract are familiar to everyone. Not adhering to the implicit expectations the surrounding society holds might lead to boycotts, strikes, and/or increased demand for more regulation that would put an end to the unwanted behaviour. (Deegan 2002)

There are two branches in stakeholder theory: ethical and managerial. Ethical branch is focused on the responsibilities of corporations towards their stakeholders and providing advice on how to take their concerns into account. What exactly constitutes a stakeholder is also defined quite widely, compared to the managerial view. Managerial view is more concerned of the company's wellbeing and profitability, and focuses on how managers can effectively manage the stakeholders in order to keep the company in

shape. As the economic impacts of stakeholders (to the company's operations) are the primary concern, the definition of stakeholder is somewhat more limited; only stakeholders with significant power over the company are included. (Deegan 2002) In this thesis, a relatively neutral approach of stakeholder theory is adopted. However, as the thesis is about corporate responsibility, the adopted view is probably closer to the ethical branch than the managerial one.

The main elements of stakeholder theory itself are stakeholders and their stakes, the firm and its goals, and the management of these often contradicting interests. Stakeholders are defined as groups or individuals, who can affect or are affected by the achievement of a corporation's purpose or even its existence. Typical stakeholders are customers, suppliers, communities, governments, unions, employees and NGOs. (Näsi 1994, 21-22)

As can be seen from the above listing, the field is wide. Therefore stakeholders are usually categorised to make the field more manageable. Some techniques divide them on the basis of the environment they operate in, like social and economic environments. Others divide them by the types of changes they promote, like internal or external change. The third, and perhaps the most used way, is to divide them into primary and secondary stakeholders. Primary (or key) stakeholders are those that hold the most power in relation to the company, or are greatly affected by its operations. They include shareholders, customers, suppliers, financiers, employees and unions, relevant governmental institutions, and local communities. Secondary stakeholders may not have that much power, or are not greatly or directly affected. They include NGOs, media, society, public sector, and government in general, as well as key rivals/competition. (Näsi 1994, 22-23)

One of the key principles of stakeholder theory is that firms have to interact with the stakeholders in order to exist and achieve the goals that have been set for the firm. This interaction cannot be sustainable or take place in the long run, if stakeholders and the firm do not interact and make transactions in a way that satisfies them both. The firm's first priority is of course survival. That can only be achieved by keeping stakeholders satisfied so that they will keep on interacting with the firm. (Näsi 1994, 24)

This task lies ultimately in the hands of management. Management must take care of the balance between different stakeholders and their different needs. In order to be able to do this, management must also be aware of the stakeholders' needs. It is not always easy for the management to navigate in this “broad and complex network of expectations and demands”. (Näsi 1994, 25)

This view of stakeholder theory presents two functions for the management: *interpreting and balancing function*. Interpreting, as management has to interpret stakeholders' way of thinking and shape them into real-life goals for themselves. Balancing, as management must balance the activities of the firm in such a way that the

balance between the firm and its stakeholders (and between different stakeholders) can be maintained. (Näsi 1994, 25)

Within the ethical branch of stakeholder theory, there is a view according to which, companies need to be accountable to their stakeholders. At the current economic system in place in western world and almost globally, companies are held accountable only for their financial performance and acting according to the laws. The stakeholders other than shareholders are left with little or no power to hold the company accountable for its environmental and social effects and performance that are not covered by law. So there is a situation, where there are expectations that rise from the surrounding society towards the company, and the company should act accordingly to keep itself legitimate. However, not complying with these expectations is left unpunished, simply because the stakeholders lack the tools to hold the company accountable for any breaches of the social contract. (Cooper – Owen 2007) For example, a company is not required by the law to report its economic, environmental and social performance the same way that it is required to report its financial performance. If it makes a fraud, it will end up in court. If the company acts in a way that is not held ethical or sustainable by the society, what are the consequences? It may lose some goodwill or its image will be hurt, but its share price is hardly going to drop; usually it rises, because the financial markets see the company is prepared to breach the contract in exchange for fast money, most of which ends up in the shareholders' pockets.

Cooper and Owen present a novel approach to how corporations should be governed in order to increase their accountability to their stakeholders: “For stakeholder accountability to be established, a far more pluralistic form of corporate governance would be required. There would need to be a clear recognition that there are other normatively legitimate stakeholders than simply equity shareholders alone. Other groups after all, particularly employees, make firm specific investments and incur risks in the same way in which shareholders do. To deny them representation in the governance of the company therefore appears somewhat difficult to justify on moral grounds.” (Cooper – Owen 2007, 664-665)

2.1.2 *Combining the theories*

Archie B. Carroll has been credited for building a bridge between CR and stakeholder theories. (Näsi 1994, 20-21) Carroll clearly represents the ethical branch of stakeholder theorists. He introduces three moral types of management and connected them first to CSR and then to strategic management stakeholder thinking. (Carroll 1994)

The point of departure is Carroll's definition of CR as an equation that consists of economic, legal, ethical and discretionary (or philanthropic) responsibilities. A

company should fulfil all these requirements in order to be socially responsible, that is, be profitable, obey the law, be ethical and be a good corporate citizen. Carroll's moral models of management rise from ethical responsibility, which he defines as operating above what is required by the law, and “embrace the range of norms, standards or expectations of behaviour that reflect a concern for what consumers, employees, shareholders and the community regard as fair, right, just, or in keeping with the respect for or protection of stakeholders' moral rights”. (Carroll 1994, 50)

The three moral models of management are immoral, amoral, and moral management. The first one means managers who behave in a manner that is opposite to what is considered ethically right by the community. They do not consider stakeholders' interests; the success of the firm and/or their personal success always comes first. For them, the law and ethical rules and norms are merely obstacles in their way to success. Immoral managers will consciously go around, over or under these obstacles just to achieve their goals. (Carroll 1994, 52)

Moral management model is the antithesis of the immoral model. These managers not only act according to the ethical norms, they present high standards of righteous behaviour. They also present ethical leadership, and act according to both the letter and the spirit of laws. Moral management model seeks to make profit just like the immoral model did, but the difference is, that moral management model always keeps in mind what is just or right according to laws and norms, and sees to that the stakeholders' rights are not violated. (Carroll 1994, 53)

The third model, amoral management, is about managers who act according to the letter of the law, but fail to comply with the other issues that moral management takes care of. They do not see the ethical side-effects of their actions, and think they are doing exactly what is expected of them by the society. Carroll divides these managers into two groups: unintentional and intentional amoral managers. The latter group thinks that ethics and business simply do not belong together and therefore forget about ethics once they step into their offices. Their difference to the immoral management model is the compliance with laws and the recognition of ethical norms, even if both eventually fail to comply with those norms. (Carroll 1994, 54)

The unintentional amoral managers are the ones that are well intentioned, but simply do not understand the ethical side of their work, and the effects that their actions have on their stakeholders. For these managers, the letter of law seems to be the place they seek for ethical guidance. According to Carroll, most of the amoral managers are of the unintentional type. (Carroll 1994, 54)

Connecting these models with the four dimensions of CR discussed earlier in this sub-chapter, we can see that while all the models present a significant consideration to their economic responsibilities, it is only the moral management model that really takes all the aspects of CR into consideration. Amoral management model gives some

consideration to legal responsibilities and very little to ethical and philanthropic responsibilities; the immoral model concentrates on its economic responsibility, with only casual considerations to legal and philanthropic responsibilities. As Carroll puts it, “The immoral management model simply does not live up to anyone's definition of CSR.” (Carroll 1994, 55)

As for stakeholder thinking, the immoral management model clearly rejects it. These managers do not see that it could be useful in their pursuit of success for the company and themselves. In other words, they only consider the owner stakeholders and themselves obviously. The amoral management model is interested in stakeholder thinking only for profitability reasons. They see it as a way of helping them achieve their profit and growth goals. Moral managers on the other hand embrace the stakeholder theory for normative reasons, i.e. they think it is the right thing to do for them. In their eyes their business has effects on the society it works in, and they want to be making profit for the firm in a way that minimises the negative effects on stakeholders and maximises the positive ones. They recognise the entire stakeholder field of their company and take them all into consideration. (Carroll 1994, 63)

These management models can be extended into strategic management as well. The difference to “normal” management is that the decisions that are made are strategic in their nature. Hence, moral strategic management does all its business with their stakeholders in mind and presents ethical leadership in its strategic decision making. Immoral strategic management on the other hand takes the opposite view, not giving any thought on their stakeholders and making corrupted decisions at the top level, only concentrating on how to guarantee financial success for their firm and themselves. (Carroll 1994, 66 & 68)

2.1.3 *Corporate responsibility today*

The modern day view on CR is that corporations' responsibilities can be divided to three different types: economic responsibility, environmental responsibility and social responsibility. Economic responsibilities include being profitable (also, and especially in the long run), generating value for the shareholders or owners, and, through that, generating economic welfare in the society in its home country. Additionally, these include positive economic effects on the local communities where the company has its operations, like using local suppliers and workforce. Environmental responsibilities include protection of water, soil and atmosphere, efficient use of natural resources, and environmental responsibility of their products' entire life-cycles as well as the whole chain of operations. Social responsibilities include taking care of workforce, product responsibility and consumer rights, human rights issues, and generally good practices

when operating in the communities. This approach has also been called triple bottom line -approach (introduced by John Elkington in 1997), as there are two other bottom lines to watch for, besides the obvious financial one. (Juholin 2004; WBCSD 1999; van Tulder – van der Zwart 2006; Ho – Taylor 2007)

How do companies react to the expectations they face, then? Van Tulder and van der Zwart present four approaches to CR, which could also be called CR strategies if they are implemented by companies. They are inactive, reactive, active, and pro-/interactive. They are somewhat distinct from Carroll's management models, but the two still do overlap. However, where Carroll's management models and definition of C(S)R had little concern of environmental aspects so important nowadays, van Tulder and van der Zwart definitely represent the modern day view better. (Carroll 1994; van Tulder – van der Zwart 2006, 144)

The first one, “inactive” approach, is based on profit maximisation and just “doing well”; it is about self-responsibility. This approach is rather close to Carroll's immoral manager. CR practices are limited to PR and sponsoring; anything that management can point out to have a direct effect on their margin. (Carroll 1994; van Tulder – van der Zwart 2006, 143)

The second, “reactive” strategy, basically says it all in the name. The company *reacts* on things like mistakes or accidents that come up, but is not being active or proactive. It is about responsiveness for having done things the wrong way and gotten caught. The company seeks to operate within the legal restrictions imposed upon it, but is not prepared to do nothing more, not unless it faces substantial public pressure that might hurt its business. Carroll's amoral manager, whether intentional or accidental, is in this category, but also immoral managers, that are forced to act reactively under public pressure. (Carroll 1994; van Tulder – van der Zwart 2006, 144)

“Active” approach is described with the terms responsibility, long-term profitability and integrity. The company is operating inside the society, not next to it. The company embraces the themes of corporate citizenship and accountability, aims for greater transparency, and just generally act responsibly. This is not because it is “forced” to do so, but because the management thinks it is the right thing to do. (van Tulder – van der Zwart 2006, 144)

The last one, “pro-/interactive” approach is about “doing well by doing good”. Proactive means that the company is taking its stakeholders into account from the very beginning of issues' life cycles. Interactive approach is of course about interacting with the society, being involved and engaged in it. At its best, the pro-active company is setting examples for others (May they be other businesses or members of the civil society) to follow. Carroll's moral manager, is closest to this last category, but also contains elements of the active approaches. (Carroll 1994; van Tulder – van der Zwart 2006, 144)

It has to be mentioned, that there is another way of being proactive. Many large companies and industrial organisations, try to proactively influence both parts of the social contract they have with the society through lobbying and media. Lobbying is trying to influence people in charge of the legislative process to produce legislation that favours the interests of the relevant company or an entire industry. Through media the public opinion, and thus the implicit expectations, can be (or at least tried to be) influenced. (Deegan 2002)

Van Tulder and van der Zwart (2006) present the term "CSR regime". They define it to consist of "all the actions, interactions and rules that influence the nature of societal interfaces." This regime "determines to what extent CSR strategies are voluntary or mandatory and whether they can be considered successful or not" and "is the result of past bargaining processes and sets the framework for future bargaining processes." It consists of three parts: Legal requirements, government policy practices, and nature of interaction between business and civil society. (van Tulder – van der Zwart 2006, 221-222) As already explained, lobbying is a major part of this bargaining process.

Legal requirements include things like legal traditions, reporting requirements, the degree of which a company is responsible for its actions abroad, safety regulations, transparency, competition policy, intellectual property policy etc. Government policy practices include for example general strategies of government, public advocacy of CR and tolerance of corruption. The last part includes community involvement of companies, standards for labour, supply chain responsibility, human rights, corporate governance, voluntary transparency etc. (van Tulder – van der Zwart 2006, 221-222)

There are major differences in how CR is viewed in different parts of the world. In the United States there is a stronger emphasis on corporate volunteering and philanthropic activities in society, where as in Europe it is all more about regulation-oriented codes and reporting and higher transparency. There have even been claims of the US being ahead of European countries because there are more laws about corporate ethical conduct there. (van Tulder – van der Zwart 2006, 229; Juholin 2004; Nielsen – Thomsen 2007) In the US, as well as other liberal countries, the CR regime is legalistic and instrumentalist-oriented, which makes the general orientation to CR very much reactive. Responsible way of doing business is generally seen as obeying the law and regulations. Corruption is one of the biggest concerns, and therefore corporate governance (CG) plays a large role, and socially responsible investment is also closely related to scrutinising CG. (van Tulder – van der Zwart 2006, 225)

While the American CR approach was labeled as neo-liberal, European CR regime is described as neo-corporatist approach. Where the American regime allowed companies to adopt a reactive approach, the European regime is formed in cooperation with all the stakeholders, from corporate world, civil society and the government. This makes the standards and codes "feel" more obligatory, since they have been agreed upon together.

The rules are stricter than in the US, but the sanctions are weaker, all of which is meant to encourage companies to take a voluntary and more active approach to CR. (van Tulder – van der Zwart 2006, 226-227, 229)

The Asian regime earns its corporate-statist name by putting only the well-being of national economy or the international competitiveness of an industry ahead of a firm's quest of profits. Relationship with CR is rarely anything more than reactive, and it usually lingers somewhere between inactive and reactive. On environmental responsibilities there has been some development, but sadly it seems that it is not an active approach, but only the fear of losing market share in the western markets that drives this development. (van Tulder – van der Zwart 2006, 228-229)

CR also has an international dimension, referred to as International Corporate Responsibility (ICR). While CR itself is not an issue that is very simple to comprehend, ICR can be even more confusing. One has to add to the regional or national CR regimes all the different agreements, guidelines, frameworks and codes negotiated under such international institutions like WTO, OECD, UN, IMF, World Bank, EU, ILO, ISO, just to name a few. Together those agreements, guidelines and frameworks form the ICR regime. It is nowhere near finished, and is constantly being negotiated under a number of institutions, which makes it highly unlikely that any type of universally accepted definition or framework of ICR would appear in the near future. (van Tulder – van der Zwart 2006, 248-249)

Van Tulder and van der Zwart (2006) present three dimensions that further complicate the international CR compared to national/regional CR: increased bargaining dynamics due to larger regulatory voids; increased importance of rivalry; increased complexity of issues. By increased bargaining dynamics it is meant that there is still no global, common legal and institutional framework, but a company must try to navigate its way through hundreds, maybe thousands of stakeholders and numerous arenas for bargaining with them. In the absence of a comprehensive internationally accepted legal system, and the relatively stronger bargaining position of the large multinationals, compared to the national/regional regimes, there are many more opportunities for irresponsible behaviour in the international arena. Rivalry and differences between legal and societal systems have increased. Furthermore, issues that the companies have to deal with are often viewed very differently in different social and cultural settings, which also presents additional challenges along with all the other issues already covered in this chapter. In the international marketplace, multinationals wanting to act responsibly need to be more active about their CR approaches, because they are often faced with more freedom and less monitoring than in their respective home countries. (van Tulder – van der Zwart 2006)

2.1.4 Benefits of corporate responsibility

The business case for CR has been under much scrutiny since the introduction of the idea. Many see it as mere philanthropic practices that, by definition, cannot be expected to offer any returns. Others think even philanthropy can be turned into business outcomes, and that there are CR investment opportunities out there, which will benefit both the company and society at the same time. Most commonly mentioned sources of benefits for responsible companies include cost savings, enhanced risk management, better reputation and increased goodwill.

Cost savings are said to be a common type of benefit for a company engaging in CR. A closer monitoring of things like energy consumption, materials consumption and waste generation, might be initiated to cater for information needs of the team or individuals that compile the company's CR reports, but often reveal potential sources of cost savings. Just like energy and raw materials, different spills, leaks, as well as pollution and contamination all cost money to the company, and eat away the profit margins. Minimising operating costs and avoiding fines for polluting is as wise a business move as any, but this one also has positive effects on the environment and the company's stakeholders. This is because the latter group will be offered better quality CR reporting, since the companies' desire to reduce costs requires better control systems and thus produces more, as well as more reliable data that can be reported. (Adams 2002)

In some companies, CR is considered as a part of risk management. Accidents that include spillages or contamination are often very costly to handle, and thus present an important risk to manage. Other benefits that come to the company through better risk management, enabled by CR practices, include better control of reputation and identification of emerging issues that could affect their business. Those emerging issues can be changes in the public's opinions or regulative frameworks, and changes in society's structures. (Porter – Kramer 2006; van Tulder – van der Zwart 2006)

Public opinion on the importance of fighting climate change has changed dramatically during the last 10-15 years, and has had profound effects on some industries. Some (eg. Steel industry) face ever tightening greenhouse gas emission allowances and emissions trading schemes, while others (eg. Renewable energy solutions) see their products' demand go through the roof. Regulations, that seek to mitigate the health effects of tobacco or unhealthy foods, severely damage industries that were earlier considered totally legitimate. There are not that many asbestos companies around anymore are there? If companies follow the trends in the surrounding society carefully enough, they can be prepared if they, someday, face a situation where their business loses its legitimacy in the eyes of the society. It can, and most industries do, try to influence public opinion and upcoming regulations through lobbying,

communicating in medias, or other PR strategies. In cases where the companies are clearly doing the wrong thing, this strategy can produce rather sad examples of desperate fights that are likely to buy nothing more than a little more time. (Goldenberg 2010; Larrinaga-González et al. 2001; van Tulder – van der Zwart 2006)

The worst case of this could be the recent efforts of US based oil, coal and gas industries to shoot down the climate bill introduced by Obama's government. They included a TV ad that urged viewers to tell their senators and congressmen, that "... CO2 [carbon dioxide] is not pollution and more CO2 results in a greener earth." (co2isgreen 2010)

Changes in society's structures can cause shortages of workforce, or sufficiently skilled workforce. To businesses operating in the parts of Africa where AIDS is spreading pandemic-like, its effects on getting enough and qualified workers are very real. Fighting HIV/AIDS might not be in those companies' visions or strategies, but it will undoubtedly help both, the local communities and the companies. Same goes for education: in some places it is necessary for the companies to train their own workforce, if the local educational systems are not there or are lacking in some ways. (Porter – Kramer 2006)

A company's reputation has been recognised as one of the sources of sustainable competitive advantage. Part of a company's reputation is formed by its merits in the field of CR. "Companies are increasingly being judged on their treatment of the environment, involvement in the communities where factories and offices are located, and their support of charities and social causes. They need to demonstrate that they have heart and soul, ..." (Alsop 2004, 24)

CR reputation of a company can help it prosper in at least three ways: in the consumer markets, capital markets, and labour markets. Additionally, it can help the company in its dealings with other companies that value a good CR reputation, as it could prove harmful to (CR) reputation do business with irresponsible partners. A good (CR) reputation increases a company's so called reservoir of goodwill, which will cushion the impact a crisis has on the company. If rumours or bad news spread, in case of a company with poor reputation, people are more likely to believe what they hear and even think they might only be cap of an iceberg. Vice versa, a company with good reputation might get away with very little damage. (Ho – Taylor 2007; Knox – Maklan 2004; van Tulder – van der Zwart 2006)

Studies have found that consumers do take CR reputation into account when they do their shopping. Products, brands and companies with a poor record of CR are avoided, where as the ones with good CR reputation are perceived as better products and better deals. However, communicating CR activities to consumers is a tricky business. People easily see it as rhetorics only, or even outright lying in cases when a company has been gotten caught doing something that is against its own ethics/CR codes. Defensive and

arrogant approach is not the one to choose in that situation. (Alsop 2004; van Tulder – van der Zwart 2006)

In the capital markets, a company can prove itself a good investment opportunity by having a good CR reputation. Socially responsible investment, SRI, is on the increase on a global scale, and the positive and negative screenings investors make before including a company in their funds, are becoming more and more inclusive in terms of what is considered irresponsible behaviour. SRIs started screening out industries like tobacco, arms, nuclear power and alcohol, but are moving on to a larger set of qualifications that include an increasing number of different environmental and social issues. (Alsop 2004; van Tulder – van der Zwart 2006)

Labour markets also reward a good CR reputation. Many young graduates would not choose to work for a company without a CR policy if there was an alternative. A company that is investing into CR is regarded to take good care of its own workforce too, and thus makes for a good place to work. Also current employees are likely to be more motivated and loyal if they feel they are working for a responsible company. (van Tulder – van der Zwart 2006)

2.1.5 Critique

Corporate responsibility has also been faced with substantial criticism. Back in 1970 economist Milton Friedman wrote his famous article where he argued that the only way for a company to be socially responsible is to increase its profits. He thinks that the businessmen speaking for CR, are in fact “preaching pure and unadulterated socialism” and that the discussions about corporate responsibilities of businesses “are notable for their analytical looseness and lack of rigor.” (Friedman 1970)

According to Friedman, only people can have responsibilities. Thus, corporations as such, cannot have responsibilities in more than a vague sense. The responsible ones are therefore the businessmen. Friedman focuses on corporate executives since “most of the discussion [...] is directed at corporations”. (Friedman 1970) He sees the individual proprietor as somewhat less meaningful in the discussion. After all, they are spending their own money, to which they have every right, and usually have far less possibility of monopolistic power, and thus less “side effects”. (Friedman 1970)

He explains how the corporate executive is an employee of the owners, stockholders that is, of the firm, and has therefore a responsibility to conduct business in whatever way the owners prefer. Usually this is the way that enables the firm to make as much profits as possible while still obeying the law and common ethical customs. (Friedman 1970) It is interesting that Friedman fails to see, or at least fails to point out, any connections between these ethical customs and corporate responsibility.

Friedman's view is that as an individual, the executive can do as much good as he wants, since it is his own money he is spending. But, if he chooses to run the firm to pursuing common good or anything else than what the owners want, he is using their money to act in a way that is not in their interest. If this leads to the firm operating less efficiently, the manager is also spending the customers' money in the form of increasing prices, or employees' money in the form of decreasing salaries. Friedman compares this to imposing taxes and at the same time deciding how to spend them. Thus the executive raises himself into a position where he is responsible of all the three administrative powers: executive, legislative and judicial. In Friedman's words, he becomes a civil servant in the society, but one that is not in effect chosen by the political process, but by the stockholders in order to serve their interests. Looking at it this way, the corporate executive might not be serving the interests of neither the owners nor the society. (Friedman 1970)

Lantos (2001) holds a view similar to that of Friedman's, but extends the discussion by making a distinction between altruistic CR (Lantos originally used the term CSR), ethical CR and strategic CR. He stated that any purely altruistic deed from the company is not within its responsibilities. However, it is hard to find an act of charity that was not considered to build a company's image or increase goodwill. Any CR activity that has been done with some kind of benefit to the company in mind should be considered strategic CR. Ethical CR, i.e. adhering to the laws and regulations and what is commonly held ethical in the society should be mandatory according to him. (Lantos 2001)

There is criticism inside the school of thought as well. Peter Frankental from Amnesty UK criticises CR in his article as being only an invention of PR. He states that before certain changes in the markets happen, corporate social responsibility doesn't have a chance of actually changing anything. He lists six paradoxes that need to be examined and cleared before any real CR can take place. (Frankental 2001)

His first paradox is *corporate governance*. His view on corporate governance is that the governance of companies does not reflect any other interests than the ones of the shareholders. As an example he uses the UK Company law, which, according to him, does not support the CR view of the company having multiple accountabilities. Frankental's view is that a different legal framework is needed for efficient and real CR. (Frankental 2001)

His second paradox is how the companies are being judged in the markets. For example, he insists that markets do not reward ethical companies, because "There is no overwhelming evidence that a company's share price is affected by a lack of social responsibility, even when this results in reputational damage. Stock markets are not unduly concerned when a company suffers a reputational crisis, because it is assumed that the crisis will blow over and that the company's underlying profitability will not be

affected.” He states that CR has to be rewarded by the financial markets before it can truly happen. As a solution he offers *triple bottom line* –thinking introduced by John Elkington in 1997. (Frankental 2001) Triple bottom line idea is basically that the company must be financially secure to be sustainable. Then it should minimise its negative environmental impacts and act according to the societal expectations it faces. The company would then be judged by its performance in environmental and social issues too, not only by financial performance. (Frankental 2001) Frankental thinks that transition to triple bottom line –auditing would be “a multi-billion pound industry in the making”. (Frankental 2001)

Thirdly Frankental insists that CSR is an ambiguous term. Therefore it needs to have a commonly understood definition, established processes and ways of monitoring their performance. He doesn’t see much true value in today’s CR reporting, but admits that any movement is good as long as it is going in the right direction. (Frankental 2001)

As his fourth paradox, Frankental names systematic denial of wrongdoing. In short, companies should admit that their shortcomings and mistakes. How can a company increase its CR efforts and do more good when it thinks status quo is just fine. They must recognise their faults in order to learn and improve. As an example he uses the human rights violations and the denial of them ever taking place. He criticises companies, especially the ones operating in remote corners of the world, of looking away and hoping that no-one will notice, while they leave their (at times) very negative footprint on local societies. (Frankental 2001)

His fifth paradox is the lack of compliance mechanisms with regard to human rights. The view, that companies’ only responsibility is to comply with law, and that the states alone have the responsibility of furthering human rights, leaves room for a paradox. The companies are not obliged by the international human rights instruments, because it is the states that sign them. Frankental states that from a legal perspective the companies cannot possibly violate the human rights. As a solution, he suggests that there should be human rights treaties for companies as well as states. (Frankental 2001)

As his sixth and final paradox he presents the fact, that in the organisational structure, CR is usually located in the periphery, within external, corporate, or community affairs. In his mind, this is a good indicator of the real value that the companies attach to CR. (Frankental 2001)

2.2 Managerial tools for CR

There are a number of management tools developed for implementing CR from the pretty statements into corporate reality. However, to date, there has not been introduced a single framework of generally accepted standards and tools for managing corporate

responsibility. This array of different tools can be divided into three subgroups: normative frameworks, management systems and process guidelines. (Ligteringen – Zadek 2005)

2.2.1 Normative frameworks

Normative frameworks could be described as a sort of a checklist for managers, “i.e. what to do”. (Ligteringen – Zadek 2005) With the help of these guidelines managers can get a good clue of what is expected of them if they want to call themselves responsible. The most important ones are UN Global compact principles and OECD Guidelines for MNEs (MultiNational Enterprises). Ligteringen and Zadek also include the ILO Tripartite declaration of principles concerning MNEs and the UN conventions and declarations on sustainable development issues in their frameworks-subgroup. ILO’s tripartite declaration is very close to the Declaration on fundamental principles and rights at work, which forms the basis for labour standards of UN’s Global compact. Similarly, the environment principles of Global compact originate from the UN conventions and declarations on sustainable development issues, and therefore only the OECD Guidelines and the Global compact will be covered in more detail. (OECD 2000, Global compact 2005)

UN’s Global compact was initiated by secretary general Kofi Annan in his address to the World Economic Forum on 31 January 1999. It is an initiative that “seeks to promote responsible corporate citizenship so that business can be a part of the solution to the challenges of globalisation.” (Global compact 2005) Global compact is based on ten core values in the areas of human rights, labour standards, the environment and anti-corruption. These core values or principles are derived from the Universal declaration of human rights, ILO’s Declaration on fundamental principles and rights at work, The Rio declaration on environment and development and The United Nations convention against corruption. Principles number one and two in the area of human rights:

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

Labour standards cover principles 3-6:

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

Principles 7-9 ask the businesses to respect the natural environment:

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

The anti-corruption thesis is clear:

- Principle 10: Businesses should work against all forms of corruption, including extortion and bribery (Global compact 2008)

There is more information available on the Global compact home-page; about the origin of the ten principles mentioned above, their objectives and more accurate guidelines for enacting these principles.

The initiative does not include a mechanism for the businesses that have signed the initiative, but they are expected to hand in an annual report on their activities on the CSR field. (Niskala –Tarna 2003, 40-41)

The OECD guidelines for multinational enterprises date as far back as the year 1976. It differs from Global compact in the sense, that it has been signed by governments instead of businesses. All 31 member countries and eleven non-members have accepted the guidelines. These governments are supposed to set up, or already have set up “national contact points”, which promote the guidelines among multinational enterprises operating in or from their territories. The guidelines themselves are “a set of voluntary recommendations to multinational enterprises in all the major areas of business ethics, including employment and industrial relations, human rights, environment, information disclosure, combating bribery, consumer interests, science and technology, competition, and taxation.” As these rules of conduct are voluntary, there is very little or no monitoring at all, of these MNE’s. The guidelines were last revised in 2000, but in April 2010, the adhering countries decided to go forward with plans for another revision round. (OECD 2000; OECD 2010)

A more recent set of guidelines is the ISO 26000, a guidance standard on social responsibility, which should be published by November 2010. It is only meant as voluntarily applicable guidance for organisations and will not be a certification standard. It has been in the works for many years, and the work has involved a significant representation of developing countries and NGOs, as well as corporations and western developed countries. ISO themselves say that the standard is expected, by the markets, to deliver:

- “Global agreement on SR [social responsibility] definitions, and on the principles of SR
- Global agreement on the core subjects of SR

- Guidance on how to integrate SR throughout an organization” (ISO 2010b)

The standard should make it easier for organisations to ensure they are acting responsibly by providing guidance for issues like stakeholder identification and engagement, creating trust between the organisation and its surroundings, and ensuring credibility of their reporting. Other goals include keeping governments in charge of regulating social responsibility issues, creation of common terminology for SR, and generally spreading awareness. (ISO 2010c)

2.2.2 *Management systems*

Management systems “provide integrated or issue specific management frameworks to guide the ongoing management of environmental and social impacts.” (Ligteringen – Zadek 2005) In short, management systems are there to help managers build their CR strategies and integrate them into their business strategies. As management systems, they list the AA1000 Framework, ISO 14000 –standard series and the proposed ISO social responsibility guidance, SA8000 –standard and sigma guidelines. From their list, only the best known and most used systems will be gone through. (Ligteringen – Zadek 2005)

The AA1000 (AccountAbility1000) is a series of standards developed by UK based Institute of Social and Ethical Accountability, ISEA. One of its specialties is improving organisations’ stakeholder interaction. AA1000 is focused on process-thinking, which means that it will not answer to questions like “Are we doing enough? Are we acting responsible?”. Instead, it describes a process of business management and monitoring that includes stakeholder interaction and the integration of this process into a part of the “usual” processes in a firm. It is a process that aims to continuous learning and improvement. It helps the organisation to define those issues of corporate responsibility that are central to their line of business, prioritising those issues, to set their goals, measuring their performance, reporting that performance, and acquiring verification for their reports. In short, the AA1000 permits the organisation to better understand the consequences their actions have, to steer their actions to a better direction and to report to their stakeholders about the things that matter to them (the stakeholders) specifically. It remains a lesser known tool, as it is criticised, among other things, of being complex. ISEA is trying to develop the standard into a clearer and easier to approach –direction. (Niskala –Tarna 2003, 61-62, 65)

ISO 14000 family of standards is quite well known, one could say even famous when compared to AA1000. ISO 14000 –series is concerned with environmental management, and it is probably the most widely used standard when it comes to environmental issues and business. Like the even better known ISO 9000 family, it is a

so-called generic management systems standard. Because of that, it can be used in any type of organisation, no matter what size, or whether it is a non-profit, public or private organisation. Its central parts include: defining key environmental issues and how to deal with them, setting goals and objectives, and the creation of an environmental programme. (ISO 2010a; Niskala – Tarna 2003, 45)

SA8000 (SA = Social Accountability) is a tool for organisations to assure that their, and their suppliers' employees' working conditions are humane. It was developed by SAI (Social Accountability International), by their own definition, an international non-profit human rights organisation dedicated to the ethical treatment of workers around the world. The SA8000 standard includes a factory level management systems requirement for on-going compliance and improvement, independent verification by auditing bodies accredited by SAI, involvement by all stakeholders, public reporting on the SAI web page, and with the previous methods it helps the company to harness consumer and investor concern. The SA8000 standard is based on International workplace norms in the ILO conventions, UN's Declaration of human rights and the Convention on rights of the child. (SAI 2008) It proposes requirements for the following areas: child labour, forced labour, health and safety, freedom of association and right to collective bargaining, discrimination, discipline, working hours, compensation, and management systems. (Niskala – Tarna 2003)

2.2.3 Process guidelines

Process guidelines “enable measurement, assurance and communication of performance.” As process guidelines the, the writers propose the monitoring and reporting parts of the AA1000 standard and the GRI sustainability reporting guidelines. (Ligteringen – Zadek 2005) The latter, GRI, is short for Global Reporting Initiative, but is more familiarly known as mere GRI. In the following only the AA1000 standard will be gone through, as GRI has its very own sub-chapter in this thesis.

AA1000 was already covered quite extensively in management systems, but there is more to it. The process it proposes to managers is focused on accounting, auditing and reporting ethical and social issues, and stakeholder dialogue and quality assurance. In AA1000, monitoring and reporting the process of responsible management is only a part of the standard. Its main focus is on helping the organisation to find their key issues, and the process of responsible management underlying the social and ethical performance that is to be accounted, audited and reported. (GRI, Niskala – Tarna 2003)

3 CORPORATE RESPONSIBILITY REPORTING

The reason for taking a closer look at CR reporting is in the usual process of adopting the CR principles, and how the CR reporting process is largely responsible for creating the CR data, the use of which will be dealt with later on. The most common reason for established companies to start paying attention to their responsibilities towards their stakeholders and society is that they are faced with some kind of external pressure to do so. This may come from the general public's opinion, or some unethical business practice or an accident surfacing in the media. Publication of a CR report, and/or other PR efforts to convince the company is behaving ethically and responsibly, are common countermeasures to such PR nightmares. (Adams 2002; Adams – McNicholas 2007; Nielsen – Thomsen 2007; Quinn 2007) However, being able to write a CR report, the employee(s) need CR performance data. Thus, the companies that report on their CR, almost automatically have data collection procedures in place, may they be the use of pencil and paper or something more sophisticated. The result is, that the companies have CR data they have collected for their CR reports, and later on in this thesis, some additional ways of using that data shall be presented.

3.1 Reporting corporate responsibility

3.1.1 Social contract and stakeholder theory

Theoretically, reporting represents the companies' dialogue with their stakeholders, and therefore has its roots in social theory, via stakeholder theory and corporate responsibility theories. The underlying assumption is the existence of a, social contract between the company and the surrounding society/-ies it operates in. The contract is short-term, so the company has a duty to legitimise itself over and over again by reporting on its balance of payments (financial, social and environmental) between itself and the society and its stakeholders. However, at the moment, the political atmosphere in the western world does not hold the corporations as an integral, equal, accountable part of societies. The result is that only financial disclosures are mandatory, which makes the stakeholders other than shareholders, dependent on the companies' good will to publish information that is relevant to them. From a social theory perspective, stakeholders and the society lack the tools, and thus also power, to truly hold the company accountable. (Deegan 2002; Nielsen – Thomsen 2007; Reynolds – Yuthas 2008)

Ideally, the company should be in a continuous dialogue with its stakeholders and the society as a whole. Usually the dialogue ends up being one-dimensional, though, meaning the company issues its CR reports and assumes the stakeholders are happy with that. However, as Adams (2004) points out, “If [CR] reports are to be complete covering all material aspects from a stakeholder perspective, then key stakeholders must be consulted.” (Adams 2004, 732) Therefore, if a company would truly want to act responsibly, it should at least identify its stakeholders and engage in a dialogue with the key stakeholders in order to even know what to report. After all, the ideal reports should cover the issues (both negative and positive) that the stakeholders want and need to know, instead of the issues the company is prepared to share. (Adams 2004)

Simply having a dialogue with key stakeholders is not enough, some argue. The company should also have procedures or structures in place to make that dialogue with its stakeholders (at least the key ones) an on-going and, most importantly, a two-way discussion. Another concern is the lack of power on the stakeholder's side. The stakeholder dialogue is in danger of being limited to rhetoric, if the stakeholders lack power to influence the company's reporting practices. The average situation in reporting companies today is that there is little or non-existent stakeholder dialogue. Even in those cases where there is a dialogue, in the end it is up to the company's good will to take the stakeholder's concerns into account and act upon them. Instead of being in the centre of the reporting process that should cater for *their* information needs, the stakeholders are left in the periphery of the process. The obvious conclusion is that stakeholders need to be engaged into a continuous dialogue and empowered as well; only thus can the reporting company be held accountable. (Adams 2002, 2004; Cooper – Owen 2007; Reynolds – Yuthas 2008)

For reporting organisations, there are tools for developing the reporting process into a more open and democratic one. These include the AA1000, GRI, and the still-in-the-works AA1000 Stakeholder Engagement Standard (a draft version published in 2005 already). (Like the relationship between consistent CR reporting and actual CR performance, engaging in the kind of stakeholder dialogue described above, should benefit the completeness of the company's reporting and thus stakeholder information needs. It also makes sense to the reporting company, as including stakeholder engagement into governance processes has been found to improve image through gained trust, manage risks better, and enable them to design better products, govern better, and enhance their decision making; all with the information the company receives in the stakeholder engagement process. (Adams 2002; Reynolds – Yuthas 2008)

3.1.2 *Why bother?*

So why do companies want to report their CR operations, even though reporting them is not yet obligatory in the same way that financial reporting is? Some companies and their management actually are interested in being responsible and sustainable, and see reporting on it as a way to enhance their CR performance as the reporting process itself is thought to help integrating the issues better into their decision-making. A more pragmatic approach is that issuing reports means that the company acknowledges the likely economic influences of its stakeholders, as well as the society as a whole, and tries to use reporting for building a better relationship with them and cater for their information demands and needs. Also, if the company has done philanthropy or other things that make it look good in the eyes of the public, it would be plain foolish not to tell the world about it. Some count CR reporting as a part of the bargaining dynamics that was discussed in more detail in chapter 2. (Adams – McNicholas 2007; Idowu – Towler 2004; Nielsen – Thomsen 2007; Reynolds – Yuthas 2008; van Tulder – van der Zwart 2006)

Quite often the decisions to start reporting are made under, or after, public pressure. It also affects the extensiveness of reporting, and the willingness of companies to report. The reasons therefore lie in the companies' urge to manage their reputation and image risks, not desire to be accountable towards stakeholders and society. Other reasoning for CR reporting include seeking for legitimisation, reinforcing reputation (by reporting and performing CR better than competition), attracting and/or retaining talented and motivated workforce, increased customer loyalty, and risk management in the sense of scanning the regional, national, or even global opinion climate for issues that might affect the company in the future (like boycotts etc.). To many companies CR reporting is a corporate communications tool, and one that is equally important for internal, as well as external communications. Internally, it can also be used as a management tool to spread awareness of CR issues. This is of special interest to large multinationals and groups, as it would enable them to effectively communicate their core values (at least those related to CR) to all the subsidiaries. Although this would require the staff to actually take interest and read the report carefully, no matter whether it is a small or medium-sized company or an entire global group with dozens of subsidiaries. (Adams 2002; Adams – McNicholas 2007; Idowu – Towler 2004; Nielsen – Thomsen 2007; Quinn 2007; van Tulder – van der Zwart 2006, 246)

Some seek the answer from the shareholders' perspective. In today's world share prices have become the driving force for many stock listed multinational companies (MNCs), and CR reports have been considered to have a positive impact on them. Due to continuously growing public interest in environmental and social issues, the possibilities for affecting share prices by being a good corporate citizen and reporting

about it seem to be on the increase. From a shareholders perspective, CR reports could indicate financial consequences, like cost or liability avoidance, cost savings, revenue generating, or simply signals of good management practices. Companies also see the chances of getting into ethical investors' lists (or less ambitiously, just out of their black lists) as a potential way towards higher share prices. (Adams 2002; Murray et al. 2006)

Getting back to using the CR reports as a corporate communications tool, companies have been found to use them not only for proving their credentials as responsible companies, but also to try to change the public opinion of what actually is considered to be responsible behaviour of companies. Larrinaga-González et al. (2001) studied environmental accounting and organisational change. They found that their nine Spanish case companies, although some changed their structures following the environmental accounting process, did not change their views of the environmental agenda to any more environmentalist direction. Quite the contrary; they actually were found to be using their environmental reporting as a tool to control and change the agenda to suit their views and financial objectives. (Larrinaga-González et al. 2001; van Tulder – van der Zwart 2006, 246)

Not all companies report their corporate responsibility, however. Actually, the majority of all the firms in the world, or even in western countries do not. Global Reporting Initiative (GRI) is considered to be the most used set of reporting guidelines in the world. However, in 2009, only 1371 GRI adhered reports were registered at GRI. Not all of them are from companies, but the number includes significant proportion of public and non-governmental organisations as well. (GRI 2010) The prevalent factors for choosing whether to report or not, as well as the extent of reporting, seem to be related to the level of public pressure, national regulatory climate and national and regional practices and extent of other companies' voluntary disclosures. Company specific reasons for the extent of reporting include: company size, industry, and profitability. Interestingly enough, Ho and Taylor (2007) discovered that companies with lower profitability were more likely to disclose CR reports than the ones with high profitability. A probable explanation is that firms with lower profitability tend to try to prove themselves as good investment opportunities, or even disguise their weak financial performance by disclosing as much information as possible. (Adams 2002; Ho – Taylor 2007)

Further research may be required on the connection between profitability and reporting extensiveness, though. Contrary to Ho and Taylor (2007), Murray et al. (2006) found, that the willingness of companies to voluntarily disclose social and environmental responsibility information in their annual reports seems to follow closely their financial performance. The researchers refuse to speculate the reasons for this connection further, but the author of this thesis would like to suggest that the companies that voluntarily disclose more responsibility information also make other strategic

decisions better than companies with lower levels of voluntary disclosure and financial performance.

Some companies also consider reporting not to be worth the effort, since there is some scepticism in the air regarding the credibility of companies' voluntary reports, and some managers just share Milton Friedman's view of companies' responsibilities towards their stakeholders and the society. (Adams 2002; Ho – Taylor 2007; Quinn 2007)

3.1.3 The different ways of reporting

Throughout the 1990s there were almost as many different types of reports as there were reporting companies; ranging from environmental, social or financial reports to sustainability reports. A sustainability report usually covers all the aforementioned three areas. (van Tulder – van der Zwart 2006; Niskala – Tarna 2003; Juholin 2004)

There is a great diversity of regulations for corporations' external communications, most of which are related to financial reporting. Whether or not environmental reporting is regulated, depends entirely on the national laws, and, in the case of social reporting, regulation is practically non-existent. Some countries already have regulation that demands the companies to report on their environmental responsibilities. Even if there are regulations for reporting practices (like in the case of financial reporting), they are often country specific and/or voluntary. Many organisations (industrial organisations, NGOs, governments, other institutions) around the world have developed their own frameworks and guidelines for companies, and this has prompted worries of confusion and comparability between the highly heterogeneous CR reports. Although most of the really big companies in the world operate globally with big impacts to a large number of stakeholders, to date there is no global standard, that all companies would have adopted, of what the reports should include, like they have in financial reporting. The creation of a legally binding one seems highly unlikely. Until then the reports' comparability remains low. (Adams 2004; Niskala – Tarna 2003; van Tulder – van der Zwart 2006)

The level of CR reporting varies significantly across continents, countries and cultures. In many studies, the countries with highest levels of responsibility reporting are western, capitalist, high-income, developed industrial countries. The list includes countries like the US, UK, Germany, Sweden, Netherlands, Canada and Japan, to mention a few of the most obvious ones. (Ho – Taylor 2007) Like noted earlier in this chapter, a common driving force related to companies beginning to report, is public pressure. Tighter regulations, free and aggressive (towards misbehaving companies, that is) media, and public interests in environmental and social agendas are common factors among the countries on the above list. They are also factors, which can be related to

increases in public pressure that requires corporate responsibility and CR reporting from the companies.

3.1.4 Challenges and organisational influences

Reporting CR is not an easy task, especially when starting it from scratch. Inside the organisation, there are usually a multitude of opinions, and there can be heavy resistance to change and increasing workload.

From the corporate perspective, the first challenge is to convince shareholders, as well as employees, that spending time and money to CR is worth the while. Especially with employees, there can be some resistance as there always is when changes are introduced. This might not have to do with attitudes towards CR per se, but with the perceived increase in their workload. In many companies, there are simply not enough resources to hire extra staff only for CR and its reporting, and so the work ends up to be done by original employees alongside their “normal” routines. Furthermore, the goals of CR performance that the company has set for itself, as well as the notion of accountability to stakeholders, need to be incorporated into strategy. To know what to report, the company needs to speak to its stakeholders, for whom the report is produced. However, setting up the systems for stakeholder dialogue can also be tricky, especially if one is to start from scratch. In addition to what the outcomes of stakeholder dialogues are, the company would do wisely if it would look into all the different frameworks and guidelines there are for CR reporting; they are not all alike. This time going with the flow, i.e. choosing the guidelines most commonly used across industries, is not unimaginative like it would be in a marketing context, but doing a favour to the users of the report because it increases comparability. The choice of reporting framework or guidelines would be good to make with plenty of time for thoughts as sticking with one model for a longer period always enhances the consistency of a company's CR reporting. Last, but definitely not least, all relevant data should be included in the reports. Leaving the negative news out will only come haunt the company later on, as can be seen later on when credibility issues are discussed. (Adams 2004; Adams – McNicholas 2007; Nielsen – Thomsen 2007)

As for the factors inside the company that have an influence on the reporting practices, the attitudes of top management and relevant managers seem to have the most importance. The way these people see the relationship between perceived costs and perceived benefits of CR reporting, has a tremendous effect on reporting practices. The corporate culture of the company also plays a part. If the culture includes a Friedmanite view of a company's responsibilities, it is not very likely that the CR reporting would get much attention or resources from the (top or middle) managers. An interrelated issue

is the ownership structure of the company. Public listed companies are more concerned with maximisation of shareholder wealth, where as in state-owned companies the room for appreciation for a larger group stakeholder is much easier to find. Also, where the CR-embracing manager only has the attitudes and change resistance of the employees to fight against, the must also convince the shareholders that the dividends this year are better to be invested in CR to ensure future dividends. (Adams 2002; Adams - McNicholas 2007)

The company's dealings with its key stakeholders have an effect on its reporting practices, too. As already noted, stakeholder dialogue reveals the company the issues that are relevant to its stakeholders. Reports that have been produced without this dialogue and only looking at guidelines can vary considerably from what the stakeholders would want to see. (Adams 2002)

Whether or not the company is prepared to publish its shortcomings in CR as well as the “good news”, influences the reporting practices, too. This issue actually boils down to attitude towards fully accepting the idea of accountability and a true desire in the company (practically in the top management) to be accountable. Attitudes also have an effect on who in the company has the responsibility to handle the CR reporting. If the top management is more concerned with window dressing than actual responsibility and accountability, the result is what Frankental (2001) describes in chapter 2.2, and the PR/communications is more likely to get the assignment. (Adams 2002; Frankental 2001)

3.1.5 Credibility

An issue that is often mentioned to plague CR reporting, is the low credibility, both actual as well as experienced. For example, Adams (2004) studied a large chemicals company's reporting and compared it to what she could find in the media about the company's shortcomings in CR. She found that the company had omitted from the reports much of the negative issues that could be found in the media archives. As the researcher quite simply states “This degree of incompleteness would not be tolerated in financial reporting.” (Adams 2004, 749) The company in question was actually following the industry's own guidelines for CR reporting, amusingly, or maybe not, the more one thinks of it. (Adams 2004) Terms like greenwashing and window-dressing are not likely to go away from talks of CR reports, if this kind of reporting goes on.

Furthermore, it is argued, that even the most extensive CR reports do not explain how the data is collected, and there seems to be a gap between the stakeholders' expectations and the actual contents of these reports. Besides this gap, there is the issue of trustworthiness. Since the reporting is still voluntary, the media is relatively sceptic

(and the public even more so) about the true objectives behind companies' reports (Adams 2004; Quinn 2007).

Quinn (2007) recognises three factors for adding to trustworthiness. Firstly, the reports should be verified by someone independent outside the company. This someone could be an accountant, a CR specialist, a public figure of good reputation or an entire group of qualified people. Secondly, reporting companies should be more frank about any failures they have had in operating according to what they have promised to do or what is expected of them. Additionally, they should give clear plans of how they are going to deal with the failures and stop them from happening again. Her third factor is reporting against recognised codes or standards of reporting in order to increase the clarity and comparability of the reports. (van Tulder – van der Zwart 2006; Quinn 2007)

External verification is an issue that has gained momentum throughout the first decade of the new millennium. It has been long missed by both the stakeholders and researchers in this field of studies, because “An un-audited CSR report leaves room for companies to make exaggerated claims that may be unverifiable.” (Idowu – Towler 2004, 434) It too has its problems, though: Not all verifications can be labelled 100% trustworthy, there are a lot of different verifying bodies, and some do not even stand behind their own verifications. Adams (2004) suggests, that in order to the reports to be truly credible, the verification/auditing process should be done by qualified people who embrace the idea of corporate responsibility, and moreover, a common set of guidelines must be created for CR report auditing. Without reliable verification processes and standards, the stakeholders will not be able to hold the companies accountable for their impacts. (Adams 2004; Cooper – Owen 2007; Idowu – Towler 2004)

3.1.6 CR reporting and decision-making

Although there are still companies that do not report their CR at all, some companies are starting to think alternative uses to the CR data they are collecting. Adams and Frost (2006) conducted a study of 200 organisations' CR reporting practices. In the organisations' external reporting, there was very little evidence of environmental and social data to be included in the organisations' decision making. Because of the thin results of the first part of their study, they decided to do case studies of four companies from the UK and three from Australia, all of which had a reputation of leadership in the field of CR. They found that in these companies, the environmental and social indicators are slowly making their ways into the companies' decision making processes, risk management and strategic planning. However, they did not find any common pattern in the way these companies executed the inclusion of CR information into their

decision making processes. Each company had their own history, methods and reasoning in using the data. (Adams – Frost 2006)

One reason, for using CR data internally, that is often mentioned is cost savings in areas like energy and materials consumption, and waste generation. Although the initial reason might be selfish and only related to maximisation of shareholder wealth, the stakeholders will benefit too. The company's desire to make cost savings in some area requires the improvement of internal systems and increased control. That, in turn, will lead to development of the reporting on those areas. (Adams 2002)

Adams and Frost present an interesting point in their article: “Many failed to provide insights into how they incorporated the social and environmental information they were reporting into their strategic decision-making processes. Given the increasing pressure on companies to report, along with the development of sustainability reporting guidelines such as those of the global reporting initiative, *this raises questions about how much social and environmental performance information they are collecting and whether they are using it when making strategic decisions.*” (Adams – Frost 2006, 35, italics added)

There seems to be a research gap here, as the companies have already begun, from their own initiative, to include CR data into their decision-making processes rather than just deal it out to their stakeholders. Researchers have only noticed this development, and it needs to be examined closer in order to define it better and find out, what kind of procedures work best and what the benefits are. That there are benefits to companies that include CR data into their strategic decision-making, is highly probable, since large multinational companies rarely start collecting and using data if they cannot see the added value of doing so.

What would be really interesting, and is the focus of this thesis, would be to find out how the CR data could be best used in the decision-making processes.

3.2 Global reporting initiative

GRI is an initiative to create an internationally accepted, “trusted and credible framework for sustainability reporting that can be used by organisations of any size, sector or location.” (GRI 2006, 2) The process was started by Coalition for Environmentally Responsible Economies (CERES) in 1997 and the UN Environmental Program (UNEP). Dozens of other, smaller organisations also assisted in the process. The original goals include: to create reporting guidelines for environmental and social responsibility, to guide the development of best practices, and to improve the comparability in sustainability reporting. The guidelines are compatible with the approaches of ISO 14000 and World Business Council for Sustainable Development.

(GRI 2006; Niskala – Tarna 2003; Reynolds – Yuthas 2008; van Tulder – van der Zwart 2006, 248)

Today it seems that the initiative has achieved at least a part of its goals, as it has become the norm of sustainability and/or CR reporting. For example, the European Parliament endorses GRI. (van Tulder – van der Zwart 2006, 248)

Compared to other tools, the GRI guidelines are mostly concerned with the contents of the reports, that is, what indicators, statements and issues covered should the CR report comprise. For reporting processes, there are better tools, like the AA1000 from AccountAbility. (Adams 2004)

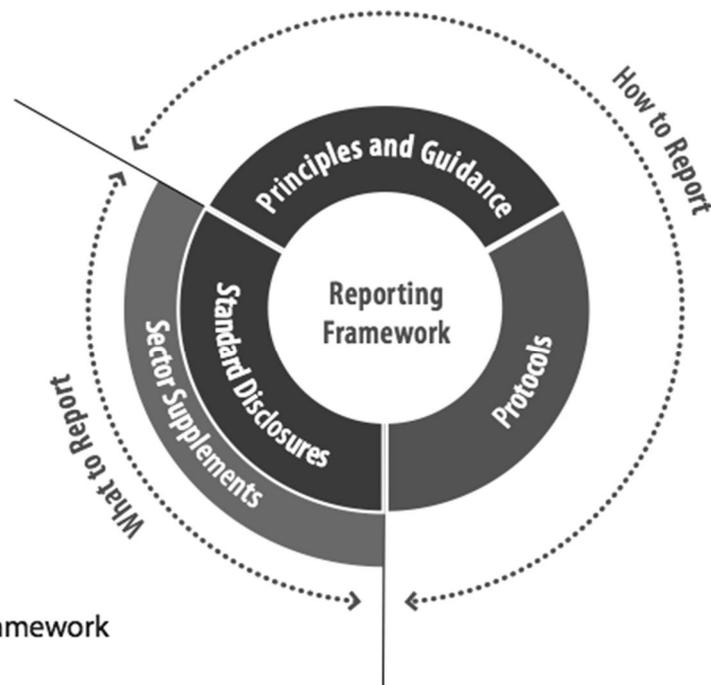


Figure 1: The GRI Reporting Framework

Figure 1 GRI reporting framework (GRI 2006)

GRI guidelines are now in their third step of development, the G3. The GRI G3 Guidelines were released in October 2006. The latest version is made up of three parts: Principles and guidance, Standard disclosures, and General reporting notes. (GRI 2006)

Principles and guidance offers guidance on 1) defining report content 2) ensuring quality of information, and 3) setting report boundary. On defining what kind of information the report should consist of, the guidelines help the reporting organisation in issues like materiality, which stakeholders (and what parts of their information needs) to serve, and report completeness. Quality issues include balance, clarity, accuracy, timeliness, comparability and reliability. Setting the boundaries of reporting requires the organisation to think what parts of their supply chain(s) they have influence or control over, and how significant the parts' impacts on their surroundings are. Insignificant

impacts are not required to be reported, nor are impacts of the parts of their organisation or supply chain that they do not control or have influence over. The level of influence and control over the entity that has significant impacts, affects the reporting to the extent of where in the report to place that information. (GRI 2006)

Standard disclosures outline disclosure expectations for 1) strategy and profile 2) disclosure on management approach, and 3) performance indicators. Strategy and profile should be written to help the reader by providing context for the performance indicators. They should include an analysis of the organisation's strategy to sustainability, profile of the reporting organisation, disclosures of how the report has been put together, and how the reporting organisation is governed, what external commitments it has made, and an overview of its stakeholder engagement. Disclosure on management approach and performance indicators should be following each others; management approach disclosure should be placed before economic, environmental, and before each of the social performance aspects in order to provide sufficient context for the reader to place the reported performance in. (GRI 2006)

Performance indicators are divided to three main aspects: economic, environmental, and social performance. Social performance is further divided into the following sub-aspects: labour practices, human rights, society, and product responsibility. Each of these categories include a number of indicators, some of which are so-called core indicators and others additional indicators. The first are considered to suit all kinds of organisations, where the additional ones are material only to some. Reporting entities should report at least on the core indicators, but depending on materiality issues, it may leave out some core indicators and include additional ones, as long as the choices are thoroughly explained. (GRI 2006)

The last part, general reporting notes, considers reporting processes such as: frequency, medium of reporting, assurance, and continuous improvement. (GRI 2006)

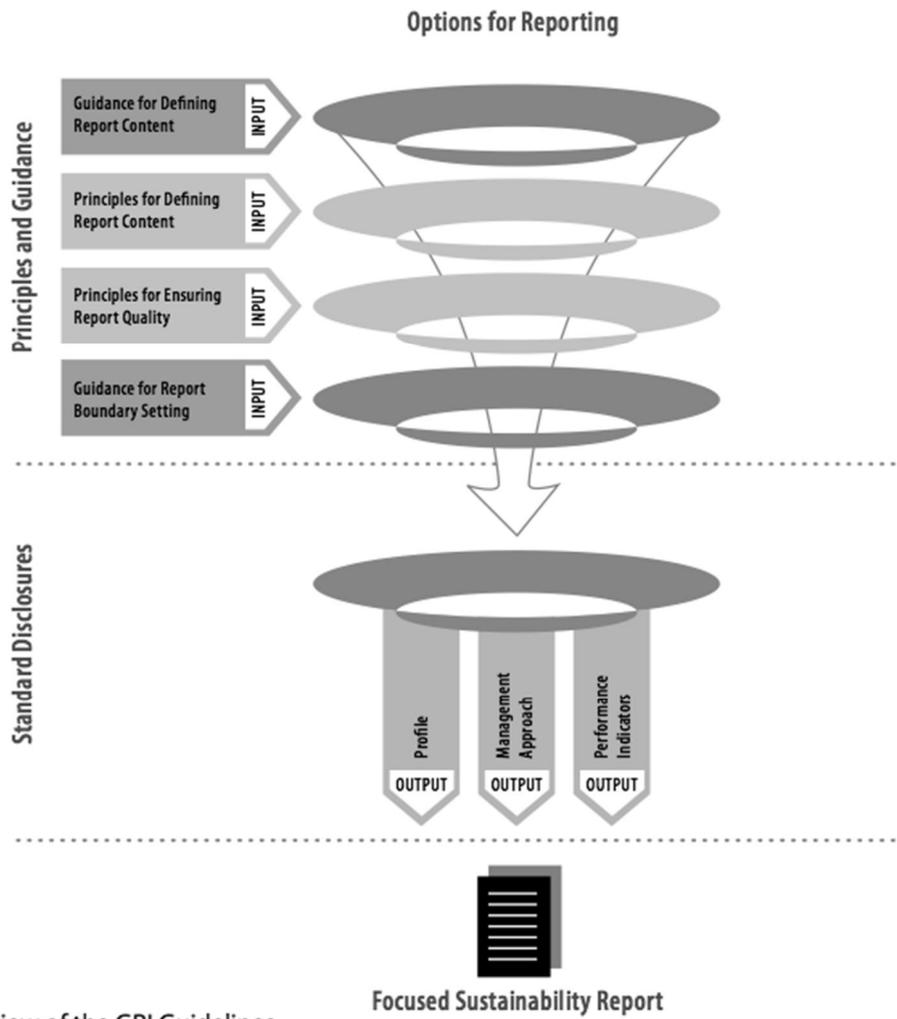


Figure 2: Overview of the GRI Guidelines

Figure 2 Overview of the GRI Guidelines (GRI 2006)

4 STRATEGIC CORPORATE RESPONSIBILITY

4.1 Strategic CR

What exactly constitutes a “strategic” matter is rather difficult to define. In the business world, some use the term just to make what they are talking about sound more important, others use it very sparsely. In this chapter, as well as for the rest of the thesis, strategic corporate responsibility is defined as corporate responsibility that at least supports the chosen business strategy of a company, versus indiscriminately throwing money at random charity projects. Corporate responsibility should not be seen as a yet another cost brought on by the regulations and public pressure, but something that the company can use for differentiation, to stand out from the competition (Peng 2006, 495).

Although CR issues have broken through in the business and management world, they do not touch all industries equally significantly. Industries that are major polluters (steel, cement, energy, chemicals, transport, etc.), or face social responsibility and human rights issues (textile, sports equipment, electronics assembly, arms, pharmaceuticals), are more likely to be affected by the ever increasing public pressure to open up their operations and take responsibility for their value chains' effects on their surroundings. Vice versa, IT consulting as an industry, for example, is not in a position where there are major risks of environmental damage or human rights issues stemming from its day-to-day operations. Size of the company and the spread of its value chain are also related to the possible adverse effects of its operations; a small or medium-size enterprise cannot possibly do as much damage to its surroundings as an MNE, even in the same industry. (Peng 2006, 495)

Considering that the companies' value chains' effects on their surroundings and the related possibilities of public pressure differ so much, their approaches to CR should be different as well. From a business perspective, an IT company with ten employees does not need to scan the worldwide opinion trends as closely as an MNE with extensive global operations that have equally extensive environmental or social effects. Also, from the society's point of view, the two companies have totally different ranges of responsibilities towards the society. If we think of those two companies, and imagine they both suddenly decide to minimise all of their adverse effects, it is quite obvious that the MNE's CR initiatives are likely to deliver a lot more social goods for every dollar spent. (Peng 2006, 495; Porter – Kramer 2006)



Figure 3 Factors that influence CR strategy formulation

In the above figure, there is a description of how the CR strategy should be formulated. It should take into account:

- Internal strengths and weaknesses, that stem from the resources and capabilities of the firm
- Industry considerations, meaning the competitive dynamics inside the firm's industry
- Institutional environment, meaning the relevant regulative framework(s) and the current public opinion climate as well as any predictable trends in it

- Business strategy; CR strategy should complement the business strategy

There are as many ways to organise CR as there are companies. As noted earlier, the relationship between a company's business strategy and CR approach or strategy can depend on the industry and its competitive forces, size and resources of the company, the impacts of its value chain to its surroundings, and the management's personal views on CR. Just *how* strategic CR becomes for a company, has a lot to do with the aforementioned relationship. If there is no relationship at all, the CR is hardly strategic, but practiced entirely separate from the day-to-day business. In the middle there are the various types of relationships, where CR strategy is more or less in sync with the business strategy, and, getting nearer to the other end, has a real influence on it, in the same way it affects formulation of the CR strategy. (Peng 2006, 492-495; Porter – Kramer 2006)

Strategic CR is about the fit between a company's CR activities and its business strategy. It combines the quest for products, services, and ways of producing them that are more and more sustainable, with contributions and initiatives that do good in the society while changing the context where the company operates in its favour. Companies should not engage in every initiative that sounds like a nice thing to do, but to choose more carefully “a small number of initiatives whose social and business benefits are large and distinctive.” (Porter – Kramer 2006, 88) Those chosen CR initiatives and activities should be able to use the companies' resources and benefit from the expertise that has accumulated inside the organisation. Resources and capabilities should be examined in terms of their value, rarity and imitability. The resources that could prove useful in CR activities can be anything from processes, technological know-how and networking connections to professional competences, personal beliefs, attitudes, and commitment to responsibility practices that lie in the work force and management. Company's surroundings, or competitive context, should be scanned for society's shortcomings that would need the company's valuable, rare, and hard-to-imitate resources and capabilities to be properly addressed. Further competitive benefit is achieved, when the company can find itself its very own CR niche that it alone, with its hard to imitate resources, can fill. From that foundation CR initiatives could be formulated to be the kind of recipe that would become strategic CR. When the recipe works, the company has its business and CR strategies working hand in hand, creating not only benefits for the society as whole as well as its business, but simultaneously changing the rules of the game in the company's competitive context, in its favour of course. Furthermore, continuous CR activities also create more, and/or develop the existing valuable, rare and hard-to-imitate CR related resources and capabilities, enabling the company to stay ahead of its competition in CR issues as well. (Peng 2006, 495-499; Porter – Kramer 2006)

The IT consulting company used as an example before, might want to donate or give large discounts to schools for its services. By doing that, it would be effectively helping the society to educate its children, and at the same time it creates goodwill and reputation for itself in the short term, and in the long term, it is investing in getting enough qualified work force in the future. A grocery shop could educate its clientele on the benefits of fair-trade, organic, and locally produced products, thus creating consumer preferences for choosing the ethical product over the cheaper rival. This would increase its sales and profits as these products are usually slightly more expensive, while simultaneously producing goodwill and reputation as a responsible company. A manufacturing company that invests in R&D aimed at creating more environmentally friendly products, is not only being responsible to its surroundings, but also ensuring their products remain competitive in the future, where there are predictably stricter regulation and consumer preferences for environmentally conscious products. With its investment, it is creating itself competitive advantage in comparison to its rivals.

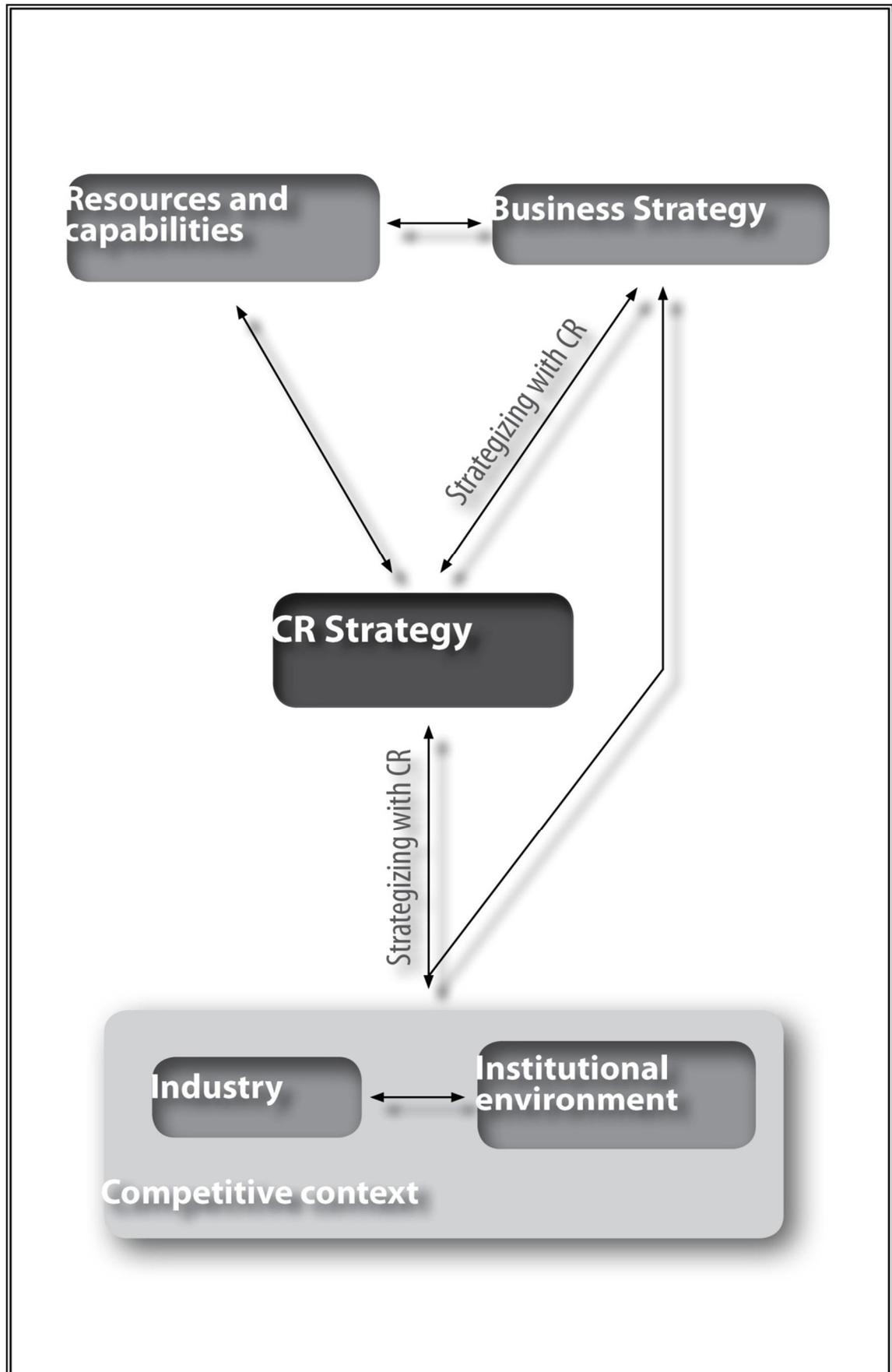


Figure 4 Strategizing with corporate responsibility

Figure 4 illustrates how in the real world, things are far more interconnected than in the simplified illustration in figure (CR strategy 1). Inside the firm, resources and capabilities affect the formulation of both business and CR strategy. However, they both still have an influence on the company's resources and capabilities, through investment, training and development decisions as well as conventional learning-by-doing. Inside the competitive context, industry competitive forces and the larger institutional environment with its regulative frameworks, technological development, culture and public opinion climate, are very much interrelated, institutional environment probably being the more powerful variable in the equation. Successful companies can be able to change, or at least have an effect on their competitive context, both through their business and CR activities, as well as their engagement in lobbying and policy discussions. Examining this framework, it would seem that the best performers would be those companies, which best work out how to manage all the connections between all the parts in the equation in a way where the CR strategy and business strategy are working together as a “team”. Thus the company will be able to create synergies to the strategies' positive effects on resources and capabilities, and the competitive context.

4.1.1 Different relationships between CR and business strategies

In the far end of the CR strategy – business strategy relationship spectrum, is an approach to CR where CR strategy actually defines the business strategy. In this approach, the management feels the company is a tool to achieve their personal goals in social or environmental issues. These managers are usually so passionate about their cause, that they might overlook the competitive side of running a business, and end up pursuing an irrational business strategy (from a traditional management perspective, that is). The result is that the company's financial performance may suffer, damaging the sustainability of their company, or their tool, and ultimately, fulfilling their goals of improving the society's conditions. (van Tulder – van der Zwart 2006, 145)

Therefore, having too much of an idealistic view of the company and its role can actually turn on itself in the end. Blending in some pragmatism is far more likely to produce enough financial performance to make sure the company remains sustainable, which makes it possible to keep on improving the world through the company's CR contributions. Integrating CR strategy and business strategy, instead of letting the former define the latter, seems like a recommendable solution. This is one step further from the strategies working as a team, since here the CR strategy and activities become very hard to separate from the rest of the business strategy and operations. Many in the academic community view this approach as the one that, from a business perspective,

gets the most out of CR. (Peng 2006, 508; Porter – Kramer 2006, 89; van Tulder – van der Zwart 2006, 374-376)

This more holistic approach to CR, the “proactive” approach, is about making the CR practices an integrated, inseparable part of the company's business strategy, like illustrated in the figure below. The responsibility is visible in all aspects of its operations, from sourcing to transport, marketing to accounting, choosing an environmentally friendly energy provider and refusing to buy from suppliers that are unable to guarantee labour and human rights for their work force. The company with a proactive CR strategy uses its bargaining power as a buyer to pressure its value chain partners to embrace their responsibilities as well. It makes sure its operations are sustainable in all aspects of CR: economic, environmental and social, and reports its performance in those areas, against previously set targets, to stakeholders through the company's CR reporting. (Peng 2006, 503-504; Porter – Kramer 2006, 89-90; van Tulder – van der Zwart 2006, 270-271&384) Figure 5 illustrates this approach.

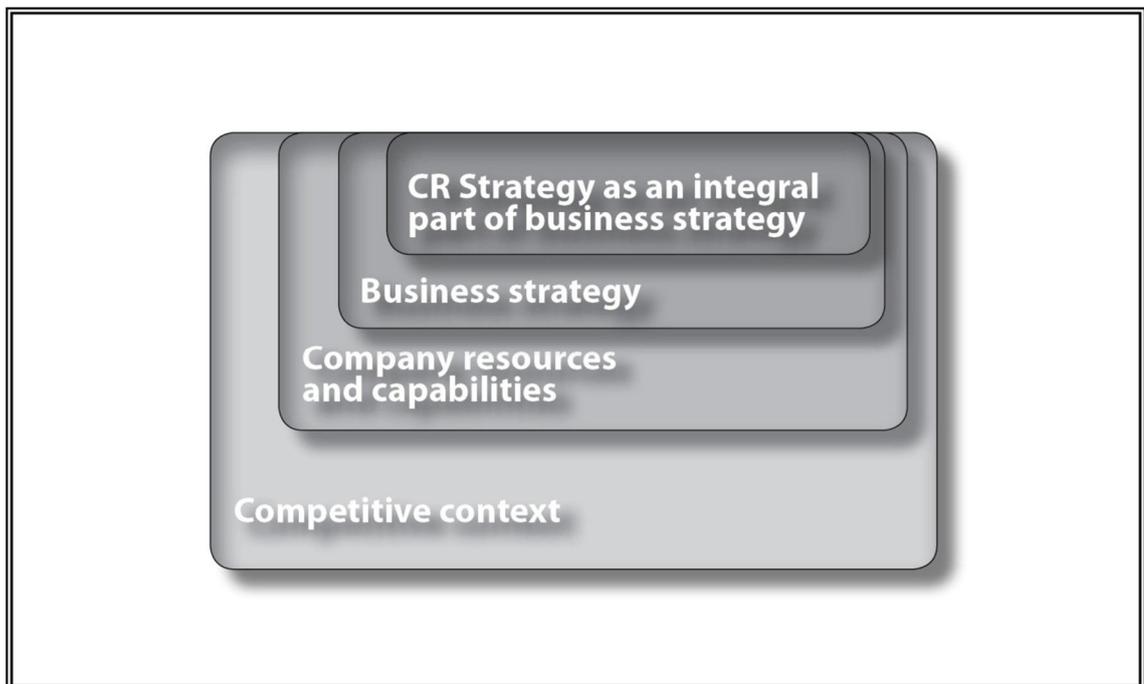


Figure 5 Proactive approach to corporate responsibility

The proactive company has an on-going, active, range of discussions with its primary stakeholders to find common ground and shared concerns. It chooses those shared concerns that it has the best suited resources to solve, and it builds alliances with stakeholder groups to tackle the issues together. It does not remain a wallflower in the society, but takes part in the policy discussions that are taking place. Not only does it conform to regulations, but seeks to voluntarily do more than is required. Being proactive by taking part in policy discussions and discussions with stakeholders mean it

will be able to foresee much more emerging issues and risks than other companies, and take appropriate actions on time; the company's risk management is greatly enhanced. Eventually, CR becomes an intrinsic part of the value offering the company makes to its customers. (Peng 2006, 503-504; van Tulder – van der Zwart 2006, 270-271)

A good example of how CR can be applied throughout a company's operations and an essential part of value offering is the Axel Hotel of Guldsmeden chain of hotels in Copenhagen, Denmark. The chain has been trying to be as ecological as possible right from the start, and their latest addition in Copenhagen is no exception. They buy only renewable energy, plan to start producing it themselves as well, and even collect and use rain water to water their plants, so as to not use potable water for such trivial purposes. All their beauty products, food and drinks are organic and/or locally produced, from the soaps in the spa to cocktails in their bar. A delightful way of taking social responsibilities into account in a highly strategic manner is the way they try to improve their local community, which coincidentally is the red lights district of Copenhagen. The staff regularly try to recruit the girls working on the nearby streets as new employees in the hotel. Succeeding in this not only helps calm down the area, but the hotel will also have a supply of (probably) highly motivated employees, a true asset in an industry usually associated with a high employee turnover rate. (Mondo 2009a; Hotel Guldsmeden 2010)

Another example from Copenhagen: A café called Estate Coffee serves both organic and/or Fair Trade coffee varieties. They import their beans themselves, straight from the producers, and roast them in Denmark. They try to achieve longer contracts with higher prices with their producers, but in return expect them, among other things, to improve their working conditions and invest in education in their local communities. The people from Estate Coffee also regularly visit the producers to be sure their requirements are met. Those producers that do meet the demands continue to get the better price and prolonged contracts, making it easier for them to plan their production and investments. (Mondo 2009b)

As already noted, many academics think that strategic CR is one of the ways companies will beat their competition in the future. The key here is how well and effectively the company is able to integrate its CR activities into their business/core strategy and day-to-day business. Efficiency (business strategy; profitability) has to meet ethics (CR strategy; people and planet), and become effectiveness; “doing the right things right” (van Tulder – van der Zwart 2006, 384). Only when they have been successfully combined, will the company be able to distinct its value offer from its competitors in the long run, and enjoy a *sustainable* sustainable competitive advantage (SSCA). (Peng 2006, 508; Porter – Kramer 2006, 89-90; van Tulder – van der Zwart 2006, 384)

4.1.2 *Greater benefits for the society as well*

Strategic CR is also considered to be much more efficient than the CR activities that are done for PR reasons only, as damage control, or just to mimic the competition. In strategic CR, the initiatives are chosen on the basis of common ground and shared concerns between the company and its stakeholders and society as whole. The initiatives, therefore, tend to be ones that the company too has a stake in, and even more importantly, has the resources and expertise to make a big difference. All the better for stakeholders and society, since the strategic CR brings them greater social good that the company is happy to contribute, instead of the stakeholders having to fight it in order to make it take responsibility. (Porter – Kramer 2006, 92)

To find the common ground, much interaction between the company and stakeholders is required. It means the current tug-of-war between them needs to come to an end, and an open discussion to search for the opportunities of shared values needs to be started. The change in attitudes needs to happen on both sides. Businesses have to start thinking of CR as a source of differentiation and competitive advantage instead of an additional expense, and the emphasis of CR performance reviews should move from image control and keeping all the stakeholders happy, to substance and the actual difference made through the initiatives and practices. In the other trench, the stakeholders need to find ways to convince the company representatives that their cause will eventually benefit the company as well. (Porter – Kramer 2006, 83-84 & 92)

4.2 Further benefits out of strategic and proactive CR by using CR data

The following formulation of a theoretical framework for distributing CR data is based on the theoretical foundations discussed in chapters 2, 3, and 4.1. The logic behind distributing CR data across the organisation is to provide the staff with more information of CR issues and thus contribute to the implementation of strategic CR, along with its business benefits discussed in the previous chapter. The enhancement of strategic CR on the other hand, is based on the assumption that the staff would be able to combine their existing knowledge with the CR information that has now been made available to them, and come up with more responsible and sustainable products, processes, operations and business practices. If a company wants to make improvements in the way they produce whatever it is they are producing, they go and ask the people in charge of production if they have any ideas. Likewise, if the company wants to make its production less polluting, use less materials or energy, they are most likely to ask the same people. Only this time, they might not have all the knowledge needed. This is

where the distribution of CR data becomes relevant. It has the potential to help the staff to complement their existing knowledge with the information they would now have access to.

As always, companies seek to continuously improve their processes and product offerings. By communicating the aim of enhancing the sustainability of its practices to the staff, and additionally providing them the information they need to understand the issues, the company is making sure the staff has everything they need to come up with the ideas that make it possible to achieve the new goals.

The result should be products and services that are as competitive as always, but now have the added benefit of being sustainable and having a more responsible value chain behind them. Because the staff already know their own work inside and out, they have the insight of what are the best ways to pursue the new objectives. With their knowledge and expertise, the company would be able to avoid any unsuitable or costly ways of improving CR performance, and instead, choose the ones that enable it to get the most out of its investment.

Another activity that could be helped by extending the CR data use is interaction with the company's stakeholders and the society around it. The more information one has on the issues that the stakeholders are concerned about, the easier it is for a company representative to sit down with them and have a discussion. For stakeholders as well, it is far more meaningful to discuss important issues, when the company has some factual information to present about its activities and performance, instead of the stakeholders having to rely on some nice words and good intentions. Furthermore, taking part, and especially achieving a pleasant outcome in policy discussions, is also much easier when armed with a bunch of hard facts.

Distributing and using CR data across the organisation is even more of importance to a company pursuing the proactive CR strategy, as it would probably find it very hard to do without the CR data. Without that information, the departments would have little foundation on which to build their strategies of integrating responsibility issues into their day-to-day activities. After all, it is impossible to know where to go, if one has no idea of current whereabouts. Furthermore, in the proactive CR strategy, it is integrated into the business strategy, and the two interactively affect the formulation and fine tuning of each others. For that to be done effectively the management needs to have all the relevant information of the company's CR activities and, respectively, the company's performance in pursuing the goals set for them. Especially, as already described with the strategic CR approach, the proactive company can benefit from the new knowledge its staff have developed by combining their existing knowledge to CR information. That knowledge would help the company deepen the integration of CR into its value offering to customers.

Considering discussions the proactive company would be having with its stakeholders, as well as taking part in policy discussions in the society, distributing CR data to the departments responsible for those tasks, has also significant potential to improve those processes. Finding the common ground in stakeholders' concerns becomes significantly easier, when the ones responsible for the discussions know more about the company's CR strategy, its goals, and the current situation in terms of CR performance. Being more aware of the company's CR issues, activities and performance, also enables a more effective scanning of the institutional environment for any upcoming issues, as well as preparing for them. As already noted in the case of strategic CR, taking part in discussions about public policies, and succeeding in getting favourable outcomes would also benefit from the additional, relevant, and even vital information that would be available.

As the last point, but definitely not the least of them, is the potential and/or the need for CR data in the process of integrating CR strategy into business strategy. Without adequate information about the company's current status of CR issues and their relative performance, the integration process would be rather challenging, to say the least. Matching the two strategies together, and/or include one into the other, requires huge amounts of thinking and pondering, and information to assist them. Integrating the strategies means adjustments to the business strategies and without the proper, and accurate, information about the CR goals and performance, the adjustments made could prove counter-effective in the long run. Furthermore, as with all strategies, they need to address the challenges presented by the external environment of the company, and identifying those challenges and managing their respective risks, would benefit greatly from scrutinising the combination of 1) analysis of trends in the development public policies and opinion climate, 2) the use of the company's own CR data, and 3) the use of the feedback gotten from stakeholders.

5 KNOWLEDGE MANAGEMENT AND ITS POTENTIAL IN DISTRIBUTING AND USING CR DATA

5.1 Knowledge management

Knowledge management (KM) is a yet another rising trend among management theories. It has been widely accepted recently; especially so among MNEs, which some scholars even see as separated from “regular” companies by knowledge management alone. Managers in MNEs have discovered that information, while critically important, is not enough in itself. They also require *knowledge* doing their work properly. (Peng 2006, Nickerson 2001)

Knowledge itself has been defined as “a fluid mix of skills, experiences, and insights that provides a framework for evaluating and incorporating information” (Peng 2006), “the understanding that a person has gained through education, experience, discovery, intuition, and insight. It is the whole of what someone knows about a particular area.” (Nickerson 2001), or “information possessed in the mind of individuals: it is personalised information (which may or may not be new, unique, useful, or accurate) related to facts, procedures, concepts, interpretations, ideas, observations, and judgements.” (Alavi & Leidner 2001)

As already seen, knowledge is often said to be made of information. Information on the other hand, is usually described as being made of data, which has been edited into a useful form. Data itself, then, would be the raw, unedited outcome of a process of collecting data. (Like a figure from a machine measuring how much CO₂ comes out of a factory's pipe.) Some argue that the distinction goes the other way around: data is never “raw”, but always affected by the knowledge held by the person responsible for the process design and/or the actual deed of collecting the data. Additionally, information is actually codified knowledge, and therefore knowledge must be the underlying foundation for both data and information. (Alavi – Leidner 2001) Both points of view have their appeal, but in this thesis, data is considered to be the starting point, information is thought of as edited and/or summarised data, and knowledge as personal information that has been connected to and modified by other information, knowledge, and set of beliefs already held by the respective individual.

Knowledge is often divided into two types, *explicit* and *tacit* (also *implicit*). Explicit knowledge is the kind of knowledge one can easily be communicated in some way, be it in writing, graphically or verbally, from one human being to another. Implicit knowledge on the other hand is knowledge that is very hard or even impossible to communicate; it is an individual's understanding of an issue, often gained by experience. (Nickerson 2001, Alavi & Leidner 2001, Peng 2006)

The two types of knowledge are very much interconnected. It usually requires some common ground, or overlap, for two people to exchange knowledge, even explicit. It is the shared understanding, tacit knowledge, that helps us to interpret the explicit knowledge, and thus allows us to absorb it, and then later on use it in an effective way. (Alavi & Leidner 2001)

As Alavi and Leidner said it, knowledge is personal information. It lies in the minds of individuals. The individual knowledge that resides in a company's workers is called collectively by the name *organisational knowledge*. It can be regarded as just another important asset, or a resource, that a company has, and, like all assets, it too should not be left unmanaged. (Nickerson 2001)

Like other theories, knowledge management has many definitions. Knowledge management has been described as “the structures, processes, and systems that actively develop, leverage, and transfer knowledge” (Peng 2006), “identifying and leveraging the collective knowledge in an organisation to help the organisation compete” (Alavi – Leidner 2001), “the process of managing organisational knowledge and involves discovering, acquiring, organising, storing, communicating, and sharing organisational knowledge” (Nickerson 2001), just to mention a few.

Companies often find themselves in situations where they believe they already have the needed knowledge inside the company, but are unable to identify and find it. When you cannot find something, it is also impossible to try and leverage it. Being able to do all the aforementioned things is argued to bring substantial competitive advantages to a company. Knowledge management as a theory has its roots in the resource-based view of the firm. It considers the firm-specific resources as the factors that make or brake a company. As knowledge-based resources are hard to imitate, the competitive advantages brought by them could prove to be very sustainable. (Alavi & Leidner 2001; Peng 2006)

The ways in which a companies use KM, could be called KM strategies. The most common distinction between them is to define them by the type of knowledge they are designed to leverage. Codification strategy is designed to get the most out of the explicit knowledge that resides inside the organisation. It usually involves heavy use of information technology (IT) in order to spread that knowledge around. All relevant information is documented (codified, hence the name of the strategy), and can be accessed through an information (or KM) system, that manages a database set up for storing the information. This strategy is most often used by companies that have chosen the cost leadership -strategy as their business strategy, that is, they make standardised products in large quantities, compete mainly with low prices instead of qualitative factors and thus try to make their costs as low as possible to increase profits. If they find a way to lower costs in some process, they document it, and share the knowledge to all the other parts of the organisation. The type of knowledge to be spread, is, again,

explicit knowledge, that has been proven to be useful in practice, and has been documented in a way that enables it to be used again and again as widely as possible. With this configuration, the KM strategy supports the business strategy of pursuing cost leadership. (Hsi-An – Yun-Hwa 2005)

The other KM strategy is called the personalisation strategy. It focuses on getting the organisation's members to share and receive implicit knowledge. The methods include trying to increase the interactions, and thus communication between members, creating directories or yellow pages of who knows and what, and creating and nurturing practices for, as well as rewarding the sharing of knowledge between individuals and groups within the organisation. The aim is to make the important implicit knowledge, that would be very hard or in some cases even impossible to codify, move around the organisation, combine with the receiver's implicit knowledge and enhance creativity and learning in the organisation. The companies choosing this KM strategy usually have a differentiation strategy, and compete with the qualitative factors of their products, such as design or quality, and command a premium price. Furthermore, no matter which KM strategy has been chosen, the better it and the business strategy are aligned, the better returns the company can expect for its investment time and resources in developing knowledge management. (Hsi-An – Yun-Hwa 2005)

Both of the above strategies deal with transferring knowledge. Organisational knowledge is often spread out through the organisation, and is very hard to pinpoint, evaluate, retrieve and store. Another issue is to make sure everyone who needs that knowledge knows it, a) exists, and b) where to look for it. These problems could be summarised as the issue of knowledge transfer. Knowledge transfer is divided into five elements: 1) perceived value of the source's knowledge, 2) the source's willingness to share knowledge, 3) existence and richness of channels, 4) the receiver's willingness to receive knowledge from the source, and 5) the receiver's ability not only to acquire and assimilate, but also to use the knowledge. (Alavi & Leidner 2001)

Another issue to bear in mind, especially when pursuing personalisation KM strategy, is to create and leverage *social capital*. It basically means the informal benefits extracted out of managers' and organisations' social structures and networks. Leveraging a company's social capital greatly helps it to increase the flows of knowledge across the organisation, because people are more likely to be happy to provide knowledge and help to other parts of the company, if they have social connections between each others, i.e. have friends, acquaintances, or other types of relationships with people in those departments or functions. Besides, the company may try to introduce incentives or bonuses to reward the spreading of knowledge and information. Bonuses for the entire business-unit instead of individual bonuses encourage people to share knowledge, as do the creation of social capital in the form of informal integration, that is, promoting and

facilitating teamwork, conferences and the development of stronger corporate culture that supports co-operation between departments and/or subsidiaries. (Peng 2006)

5.1.1 Common pathologies in KM

There are some common pathologies in knowledge management too. Companies can spoil their possibilities to fully exploit knowledge management in a number of ways. First, they might have enormous R&D departments, but that does not guarantee success. A desire to invent everything “by ourselves” or in-house, and limitations on sharing the information (internally and externally) in fear of leaks has been the prevalent point of view for years, or even decades now. The latest trend however seems to be networking with various research teams inside and outside the company boundaries; with universities for example. (Peng 2006)

Suffering from a high employee turnover is the second pathology. This is at its worst, when the leaving employees could be classified as “key personnel”, resulting in serious information leaks as well as the loss of important human and social capital (see below for social capital). (Peng 2006)

The third pathology is failure in sharing the knowledge. Some people might oppose to sharing their knowledge with different departments because they view it as a waste of their already scarce time, or they might be opportunistic and hold on to their knowledge in order to gain more personal power in the workplace. (Peng 2006)

Fourth, inappropriate channels can hinder the spreading of knowledge across the company. Many firms have, in the wake of recent technological progress, experimented with virtual teams with members from different departments and/or geographical areas. The problem occurring, especially with the latter team composition, is that intercultural communication is a challenge as it is, let alone with limitations that written (e-mails) and spoken (telephone) communication present to body language and other means of expression. This may be helped by video conferences and/or properly introducing the team members to each other IRL (In Real Life). (Peng 2006)

The last, fifth, pathology is the receiving department's lack of enthusiasm and/or capabilities. They might be put off by the fact that the knowledge sent to them has been conceived in a rivalling department. Peng (2006) refers to this as the “not invented here” -syndrome. The department or its managers might also be lacking of the capabilities needed to fully exploit the knowledge. This may be due to failures in recognising the value of new information, taking it in, or applying it. (Peng 2006)

5.2 Information and knowledge management systems

Making decisions, be it a long-term strategic choice or something more mundane like choosing a bottle of wine for the dinner party, means choosing one course of action over several others. Both of the above examples have an element of uncertainty with them.

If I choose a bad wine, will my guests reject the invitation next time? Or if the strategic choice is wrong, will the company even survive? What if the decisions were right? What is the future like then? Better than with the wrong choices, probably, but by how much? Reducing this uncertainty is desirable when it comes to decision-making.

5.2.1 Information and decision support systems

How is it done best, then? By gathering as much information as is possible or reasonable. Information is vital in decision-making, both in wines and strategies. Having information about the wines means you have something you can base your selection on. A friend, a wine guide, or a sales person has told you that one of the wines is particularly good with the dish you plan to prepare in the evening. You can therefore assume that that wine will be a better match than a wine you have never heard of. Information helps reduce uncertainty, because with more information we are more likely to choose the right alternative, and thus end up with a more satisfactory outcome. (Nickerson 2001, 337)

Information systems are, usually computerised, systems, that provide decision-makers with information related to their decisions. (Nickerson 2001) With their help, decision-makers can do better decisions faster, because they are more aware of the factors affecting the decision and can make better assumptions of possible consequences for each of the courses of actions.

The levels of management decisions vary from operational decisions to strategic ones. Usually, strategic decisions are described as decisions that have a long-term effect on business, come about infrequently, and the process of decision making is unstructured. Operational decisions are just the opposite, i.e. have short term time horizon, have to be dealt with more frequently, and have a structured decision-making process. (Nickerson 2001)

Because management decisions differ so greatly from each other, they also require different kinds of information on which the manager can base his/her decision. The kinds of information needed for strategic decision-making tend to be mostly external (comes from outside the company) and summarised. External, because a strategy is often about adjusting the company to a better fit with the environment it is operating in; summarised, because strategies are about “big lines”, a direction to which the company

goes. Operational decisions are then about making the minor adjustments to make company follow the path that has been given in the strategy, and fitting the company to its external environment. Therefore, the case with operational decisions is quite the contrary if compared to the strategic ones. The information needed for operational decisions is usually internal and detailed. (Nickerson 2001)

Management information systems (MIS) “support management decision making by providing information in the form of reports and responses to queries from managers at different levels of an organisation.” (Nickerson 2001, 342) The systems usually have some sort of database for data collected from inside, and/or outside the company. The MISs can be either separate systems, or integrated as a part of the company's financial information system. Even in the first case, the MISs usually are capable of using, and/or have been granted access to the company's financial data as well, in order to better inform the managers on the financial effects of their decisions. Some systems have been built from scratch to serve all kinds of information needs. (Nickerson 2001)

As for the data itself, it comes from a variety of sources. From outside the company, useful data can be found in the Internet, research reports, periodicals, publications of governmental or non-governmental organisations etc. The internally collected data is usually financial in nature, but can also be anything from personnel records to energy consumption. This data is most likely to be stored automatically to MIS or financial databases, after someone feeds the data to the system. Managers may do it, or their assistants, or it can be a totally automated process. This depends mostly on the nature of the data; automated data entry is a lot easier when it comes to sales figures than it is with government publications or articles in periodicals. (Nickerson 2001)

An MIS has four main functions: the input function, the output function, the storage function, and the processing function. (Nickerson 2001)

Most of the data comes directly from the financial system. The rest of data input can be, downloaded from external databases, or entered “by hand” with a computer. Another example of input function are queries, or inquiries, that is, the requests by users. Usually they are done by computer, directly to the system. (Nickerson 2001)

The output function is producing reports and responses to queries from users. The difference between the two is that queries can be done at any given time, but reports are usually pre-programmed or “ordered” to be produced at a predetermined moment. For example, the system may be programmed to produce weekly, monthly, quarterly and/or yearly reports. These reports are called scheduled reports. All the reports may be either summarised or detailed (or something in between, the systems are usually made very flexible), depending on the queries, users and rules programmed for the scheduled reports. (Nickerson 2001)

Another type of report is an exception report. They could be described as warnings, as they are only produced when something is wrong. The system then reports, that

something is not as it should be, or moving into a worrying direction. Again, the rules for the system to identify these exceptions have to be programmed before. Examples could be a warning about the inventory getting too low, or a warning of rising greenhouse gas emissions. (Nickerson 2001)

The storage function is most often managed by databases, in which the data is being stored in files. The system uses the data it has access to and has been entered into it, and creates the database. It also updates the database, when it is given new data, or the existing data has been changed. The database can then be accessed to produce reports. (Nickerson 2001)

The processing function means computations done by the system, in order to produce the reports. The system may summarise a huge amount of data for a senior manager, or produce a detailed report for an operational manager. It can compare the database with the data in the financial system, and update its database accordingly. (Nickerson 2001)

In short, an MIS usually works as follows: User needs information to support his/her decision, and thus enters a request to the system. The system then accesses the database, searches for all the data needed for the specific request, retrieves it, processes it, and produces reports for managers to use to support their decisions. (Nickerson 2001)

Decision support systems (DSS) take this process a step further, as they not only summarise the data and produce reports of it, but they can also analyse the data. They function basically the same way, but with the exception, that they have an additional model database. They use the “regular” database and analyse the data by choosing the appropriate model with which they produce statistical calculation or mathematical modelling. The first one is used to draw conclusions of a great amount of data, which, on its own, might be almost impossible to interpret. Mathematical modelling uses equations to simulate real world. With the models it can make predictions about whatever it is that the manager is interested in at that particular moment. With the results from the calculations, the system then produces a report to the manager. (Nickerson 2001)

The best situations for using decision support systems are ones, which involve a lot of what-if questions. For example, “What would our turnover be in the next quarter, if we drop our prices 5%?” With a DSS, the head of sales can use mathematical modelling to try and predict how pricing decisions would affect their turnover. (Nickerson 2001)

As we stated earlier, the needs at the top of the organisation are different from the middle- or lower level managers. For top-level managers, there are specially designed systems called executive support systems (ESS) or executive information systems (EIS). The information a top-level manager usually needs, is summarised as s/he is responsible for the greater lines of managing the company. However, at times the manager needs to look at a specific topic more closely, which presents a challenge for the system. The system must therefore be able to provide regular and on-demand summarised reports

and be able to “drill down” to specifics and details when necessary. Drilling down means essentially investigating an issue by starting with the summarised data and going step by step towards the raw data to discover where the problem lies. (Nickerson 2001)

All in all, ESS systems need to be extremely flexible, because their users are too. Top-level managers work in very unstructured ways, because of they are the people who are most connected to the often turbulent external environment of a company. They need summarised as well as detailed information, internal and external information, and, they need to be able to access the system on-line from where ever they may be when they need the information or decision support. (Nickerson 2001)

5.2.2 Knowledge management systems

A knowledge management system (KMS) is by definition “an information system that provides capabilities for organising, storing, accessing, and sharing organisational knowledge.” (Nickerson 2001) With these systems, a company can organise, store, and share documents in order to spread explicit knowledge among the members of the organisation. They can sometimes contain also groupware applications, i.e. programs for facilitating intra-organisational communications and thus sharing information and knowledge. These are especially helpful in getting the members' implicit knowledge moving around the organisation. They can also contain elements of artificial intelligence and data mining tools, like programs, which independently search for more information, or programs that help the users in doing the same thing. Usually all the aforementioned is backed by a database for storing all that organisational knowledge. However, it is hard to specify or define knowledge management systems, as they are usually made up of parts (programs, that is) that have been originally designed for other purposes. As a result, they are often very much like other information systems, only modified with KM objectives in mind. (Alavi – Leidner 2001; Nickerson 2001)

The benefits of KM systems for a company pursuing the personalisation KM strategy lie in increasing “weak ties” between employees. Weak ties are informal and casual contacts, people you might share some knowledge with. Without the modern day means of communications many of these weak ties would not be there, effectively narrowing the base for knowledge sharing. However, it has been argued that IT solutions for knowledge management have the greatest impact when applied in a situation, where the organisation has a larger shared knowledge space, that is, the members have a lot of common tacit knowledge, have the same basic understanding of relevant issues. In a situation like this, often found in companies pursuing the codification KM strategy, there is a greater need for explicit knowledge. And, as stated above, organising, storing, and sharing of explicit knowledge is the key competence of KM systems. Therefore the

greatest value from the KMS comes in situation where the most important task for a KMS is the one KMS is at its best. (Alavi & Leidner 2001)

The above is particularly evident in the case of large firms and MNEs. In smaller firms, informal mechanisms like coffee break conversations, unscheduled meetings and so on, are more likely than in large ones to spread the shared knowledge space to cover the entire workforce. In large firms and MNEs this is just physically impossible because they often have multiple offices and locations. This underscores the need of KM systems in large firms and MNEs for facilitating the transfer of knowledge. (Alavi & Leidner 2001)

As was pointed out in the beginning of this chapter, knowledge transfer is divided into five elements: 1) perceived value of the source's knowledge, 2) the source's willingness to share knowledge, 3) existence and richness of channels, 4) the receiver's willingness to receive knowledge from the source, and 5) the receiver's ability not only to acquire and assimilate, but also to use the knowledge. It is particularly in the third element of knowledge transfer, that the role of IT and knowledge management systems come into light. (Alavi & Leidner 2001)

In personalisation strategy, KM systems can help people in their search for knowledge. With the systems in place, the company can create electronic bulletin boards and discussion forums, or corporate directories of “who knows what”, a sort of yellow pages of the organisation, available to all employees. This means their networks inside the company expand, and they have a larger audience for their requests of help. Without these systems, their first choice would be to ask their immediate co-workers, but as they usually share a lot of the same implicit knowledge anyway, they are unlikely to be able to offer any help. (Alavi & Leidner 2001)

5.3 Knowledge management and CR data

Additional support for the idea of sharing corporate responsibility data can be found in knowledge management theories. The very point of KM is to harness the existing knowledge found in the company, into productive use. In other words, to identify, develop, manage, store, transfer, communicate and share knowledge that is regarded to have potential to help the company achieve its goals. KM has its roots in resource-based view of a firm, and therefore it aims to develop this knowledge into a valuable, rare, inimitable resource, that would bring the company sustainable competitive advantage (SCA). Like all other important types of knowledge, knowing how the focal company could implement its chosen CR approach in any given part of its value chain, is definitely a valuable, rare and inimitable resource. This resource, however, could prove

to be even more beneficial, as with its help, the company could earn itself not only SCA, but *sustainable SCA* (SSCA).

That knowledge of how to implement CR strategy into practice in the operative level, would be conceived in the minds of individual employees. The idea is, that the employees possess implicit knowledge about the factors of their jobs, which would enable them to come up with the best solutions to make their parts of the value chain more responsible; if only they had the explicit knowledge of CR issues relevant to their line of work, that is. That knowledge (or information) is possessed by the unit or team in charge of CR issues and the logical solution is to make them share their largely explicit, relatively easier to teach, knowledge, so that it is available to the other members of the organisation. After all, there is hardly any point in trying to teach the CR team all the implicit knowledge possessed by the entire staff, so that they could plan the implementation of CR strategy. The employees could then assimilate that knowledge, combine it with their existing knowledge, and as a result, not only be the experts at what they do, but also experts of how to make their jobs in a more responsible way.

As knowledge management is also about getting the employees to share their knowledge with each others, the reasoning for distributing CR data would not stop here. Once the staff come up with the ways to make their respective parts of the value chain more responsible, that knowledge could be very useful to all the other employees with the same line of work. Sharing that new knowledge as best practices with other members of the organisation, would save them the time, effort and investments, and instead provide them with a ready road-map. Also, if they find an even better way, or room for improvement in the road-map, they would be encouraged to share that knowledge again with their colleagues. Considering that, it could be argued, that the real benefits would come only after the second or third cycle of distributing the company's CR data and sharing the best practices that have been developed.

5.4 The theoretical framework of using CR data

Considering the above theoretical discussion, we could formulate an assumption or a hypothesis, that making CR data available to personnel outside the function responsible for CR reporting, could have significant business benefits through its contribution to the implementation of strategic and/or proactive CR approaches in a company. Furthermore, knowledge management principles could have potential for facilitating that implementation and creating more expertise on bringing CR issues into operational level.

Because of time and other resource constraints, the researcher has no other choice, but to limit the scope of this thesis to a search for proof of the mere existence of these practices, and sampling some experiences gained from having such practices in an organisation. The goal of this thesis is pursued through a two-fold empirical research: A survey and some expert interviews. The descriptions of the studies can be found in chapter 6, and their respective results and analysis in chapter 7.

6 EMPIRICAL RESEARCH

6.1 Research design

From the basis of theoretical discussion and literature review in the previous four chapters, an assumption was made, that making CR data available to personnel outside the function responsible for CR reporting, could have significant business benefits through its contribution to the implementation of strategic and/or proactive CR approaches in a company. Furthermore, the ideas and practices found in knowledge management literature were also considered to have potential benefits in enabling and enhancing the said process. Therefore, the research question for this thesis is: do companies that report their CR, also use their CR data in other functions besides CR reporting, and just how they are doing that. In order to be able to answer to this question, the following sub-questions are presented: 1) Do companies that report their corporate responsibility, use CR data in their other functions? 2) For what purposes do they use that data? 3) How are they distributing and using that data? 4) Could knowledge management principles and the use of information systems enhance the process of distributing and exploiting CR data? In order to answer the research question and the sub-questions, an empirical research was conducted.

Looking at the purpose, research and sub-question(s) of the thesis, it becomes clear, that this is a descriptive study. A descriptive study is described as one, that aims to provide an accurate image of the object of the study, by documenting the distinctive qualities of the object, that are considered to be of interest and relevant to accuracy of the description. However, there are also features of an explorative study, which aims to find new perspectives, phenomena, and chart the phenomena that have not yet been studied thoroughly. The last point is especially fitting to this study, as distributing CR data has so far received very limited attention in literature. Also, explorative studies usually employ qualitative methods, which is the method providing most of the data here. (Hirsjärvi et al. 2001, 128)

The literature review and theoretical discussion of this thesis is admittedly wider in scope than the actual research question and the related empirical research. This is due to the constraints in time and other resources available for the making of this thesis, as well as the author's theoretical abilities colliding with personal ambitions towards the object of research. However, because of this gap between the scopes of theoretical discussion and empirical research, the author is able to make multiple suggestions for directing future research efforts.

The empirical research is dealt into two parts in this thesis. First, an internet survey was conducted, which is used to answer the first, second, and in some parts, third sub-

questions. The second part of research, executed by conducting four expert interviews, is used to answer the third, and in some parts to the second sub-question. The survey had rather low attendance, even if it was considered, from the start, to be a preliminary verification that the object of research even exists. This highlights the fact, that the bulk of the substance achieved through empirical research, comes from the expert interviews. The fourth sub-question, “could knowledge management principles and the use of information systems enhance the process of distributing and exploiting CR data?”, was considered from a theoretical perspective in chapter 5, and will be discussed in more depth together with the conclusions of the first three sub-questions that are drawn from the results of empirical research.

The reason for choosing a mixed-method research design, instead of a more traditional approach of using only one method, lies in the research question and its sub-questions. Finding out whether CR reporting companies use their data for other purposes as well, would have required a significant amount of extra time if qualitative method would have been used. The second sub-question is not that sensitive about the methods, but being able to use two different perspectives, should provide us with a much better understanding of the issue. Also, the researcher felt that a single survey would not give as detailed information about the practices of data sharing sought for in the third sub-question, as would the conducting of expert interviews. This view is supported by the academics who no longer want to set the quantitative and qualitative approaches against each other, but suggest they should be thought of as complementing methods (Heikkilä 2005, 16; Hirsjärvi et al. 2001, 124-126). Using a mixed-method approach is considered to bring advantages through validation and being able to dig deeper into the subject, thus resulting in a better description. Mixed-method approach has also credited for being especially suitable for the needs of international business studies, such as this thesis, since it is better equipped to map the complexities associated with the subjects of many IB research topics. Even though it is quite rare to use a mixed-method approach, the researcher is not alone here: in a recent review of 68 mixed-method IB studies, 45 of them used the same configuration of quantitative and qualitative data and analysis that is found in this thesis. (Hirsjärvi et al. 2001, 125-126; Hurmerinta-Peltomäki&Nummela 2006)

In this thesis, the mixed-method research design also gave the researcher advantages, as the quantitative survey was conducted before the interviews, and therefore provided the researcher with additional insight for choosing the themes and relevant questions for the semi-structured expert interviews. Hurmerinta-Peltomäki and Nummela (2006) call for the IB research community to give up on their fixation towards quantitative methods, and using qualitative approach for sidebar conversations only. In this thesis the author has attempted to do just that, although the underlying reasons were admittedly more complex and greater in number.

6.2 Data collection

6.2.1 *The survey*

The survey was conducted as a web-based questionnaire, to which the selected firms' CR representatives received invitations by e-mail. The firms were chosen on the basis that they had both published a CR or sustainability report in 2006 or 2007 at CorporateRegister.com, were marked "GRI adhered" at CorporateRegister.com database *and* are listed on FTSE's FTSE4Good index series. The reason why only so-called best performers were chosen, is that the theoretical framework presented earlier on in this thesis, suggests that the level of commitment and dedication of resources to CR and its reporting reveals a lot about the value CR issues (and CR data, respectively) have inside the company. That is, companies that are only beginning to report their CR, most likely do not have their CR practices fully up and running, let alone would be searching for alternative uses for the data they are able to gather. Therefore, an assumption was made, that if distributing CR data for alternative uses is taking place at all, it will most likely occur among the best performing CR reporters; hence the chosen sample. Another example of this rationale behind choosing the sample can be found in Adams&Frost (2006), where they only included reputed good CR reporters or good corporate citizens into their sample for studying the relationship between CR performance information and firms' strategic decision-making.

CorporateRegister.com is a global, online directory of CR resources. They provide a CR report directory (which was used for this research), a reporting partners directory, news and information, as well as research and publications. The reporting partners directory is free of charge, and covers thousands of CR reporting service providers. It is designed to help firms and organisations to find professional help for their reporting and the professionals to find work. CorporateRegister.com also conduct researches about the reports on their site, as well as offers tools for research. Their publications are freely downloadable from their web-site. (CorporateRegister.com)

FTSE is an independent company jointly owned by Financial Times and London Stock Exchange. It provides objective market information in the form of different indices. FTSE4Good index series measures the performance of companies, which "meet globally recognised corporate responsibility standards". (FTSE 2008a, FTSE 2008b)

No geographic, industrial, size, or any other further limitations to the sample were made, because they were deemed unnecessary in a study of whether a phenomenon exists at all. The companies are located on all of the continents of our planet and represent numerous different industries. The qualities that are in common to these firms

are limited to the ones reported above; they report their corporate responsibility, are GRI adhered, and are listed on the FTSE4Good index series.

The total number of these firms was 336. Of these firms' reports, retrieved from Corporateregister.com, the researcher was able to extract 154 e-mail addresses to which the invitations to the web-based survey were sent. 15 of these addresses had either expired or did not work for other reasons, which left 139 potential attendants. Before closing the questionnaire and survey, a reminder e-mail was sent, prompting a few more representatives to take the time to answer, after which the final closure was made. The total of 30 answers were received, which leaves the answering percentage at 21,6 %.

The survey's questionnaire itself was built to match the requirements presented by the theoretical framework and, of course, the research question. More specifically, the questionnaire's job was to provide answers to the sub-questions one, two, and three. It had 10 questions, nine of which were had multiple choices, and one question was an open one. Of the nine multiple choice -questions, one had an additional room for the respondents to name their own suggestions. The questionnaire can be found in the annexes (Annex 1).

The first sub-question is studied through questions five, seven, eight and nine in the survey. Questions six and ten are meant to provide answers to the second sub-question, whereas the third sub-question is answered through the questions two, three, four and eight (again). The first question, along with question seven, were intended to provide some additional information about the respondents' general attitudes towards CR issues. A comparison between these results, and the propensity to distribute CR data (questions 5 & 8), was thought to provide interesting results. Furthermore, for consistency reasons, as well as to make answering the questionnaire a more pleasant experience, question six was only presented to respondents who answered “yes” to question five.

6.2.2 *Expert interviews*

To answer the third, and in some parts the second sub-question, CR experts were interviewed. Interview was chosen as the method of data collection, for a number of reasons. It is widely used in the field of social sciences, and suits well to the explorative nature of this study. In a field that is not yet studied in detail, there are a lot of unknown factors. Therefore it was thought that using a survey would have constrained the respondents' answers too much, and valuable additional information could have been missed. It was also feared, that if approached through a survey, the respondents would refuse to give detailed enough information about the object of the research, given its possibly strategic nature. There is some scientific debate whether this is the case or not, but given the relatively weak percentage that answered the survey that had no questions

of such strategic nature, the choice was made use the interviews. (Hirsjärvi et al. 2001, 192-193) This latter point was also taken into account by guaranteeing the interviewees and their organisations anonymity. Getting detailed information confidentially, was seen as a prerequisite for being able to describe accurately enough the phenomena and practices found in the studied organisations. The choice of who to interview was limited to experts located in Finland because of budget and time constraints. The remaining three out of the four experts were found through the recommendations of the first expert to grant an interview. The three latter interviewees were responsible for, and/or aware of, their organisations' internal processes involving CR data, whereas the first one was working in a company providing expert help for CR reporting for companies. This first interviewee had an important role in making sure the researcher got a wide enough point of view, making him able to describe the phenomena well, irrespectively of interviewing only four experts in Finland. This was because this interviewee had had the opportunity to closely monitor, and therefore gain a lot of insight into, the evolution of CR reporting and data collecting processes of many large international companies.

The interviews were conducted as semi-structured interviews, i.e. the researcher had a list of questions, but could explore points outside the list, too, if anything interesting came up during the interview. (Hirsjärvi et al. 2001, 195-196) Peterson (2004) described the benefits of this approach as follows: “The nature of the semi-structured interview (in some cases as a pilot test, in others a follow-up to a survey) allows the researchers to ask each interviewee essentially the same set of questions, but also allows the interviewee to share insights on topics or issues that would never come up using only surveys.” (Peterson 2004, 34-35) Two of the interviews were made at the interviewees' offices; other two were made through telephone. All of them were digitally recorded on to a laptop's hard drive to be able to accurately analyse them later on.

The themes chosen for the interview came up from the theoretical framework and preliminary analysis of the answers received from the survey.

6.3 Data analysis

6.3.1 *The survey*

The survey's results were initially analysed by extracting percentage shares of the answers for each of the multiple choice questions. Because of the low number of responses, making any sophisticated statistical analyses would not have been possible, thus preventing any efforts to generalise the gotten results. However, this is not a reason to leave the results unreported, since the survey was of the explorative nature. That is,

the emphasis was on finding out whether the phenomena exist at all, rather than proving any generalisations of how widespread they are.

Most of the data was analysed by calculating percentage shares only, because the small size of the sample meant that the use of any in-depth statistical methods would have been a waste of time. The questions regarding the use of information management systems were analysed in more depth to find out the relationships between the respondents' answers to those questions.

6.3.2 *Expert interviews*

The expert interviews were first transcribed from digital recordings. From the transcriptions, the answers to each question, or theme, were reduced into essentials and written down on a separate document. The answers on this document were then arranged by the questions, as opposed to by interviewees like they were originally. This could be described as thematisation of the collected material. Each of the questions or themes was then sought for commonalities especially, but also interesting differences. The results of this process were then written down into the chapter 7.2.

6.4 Validity and reliability

Validity means the ability of the chosen method of research, to measure what the researcher has intended to measure. (Hirsjärvi et al. 2001, 213-215) In qualitative research, ensuring validity is to make sure there is enough rigour in the research, and it avoids becoming fiction instead of a bunch of hard facts. The overall validity of this study is increased because two different types of data collection methods and multiple data sources were used to approach the studied phenomena. (Andersen – Skaates 2004, 475 & 478)

Reliability of a research is its ability to produce results that are correct, not random or caused by chance. It is about arriving to the same conclusions every time the same research would be done, no matter who did it. This requires the use of generally accepted methods of research and applying them correctly. In quantitative methods, there are statistical methods that are proven to be reliable time and again. Qualitative methods, however, rely heavily on the researcher's accounts on how exactly the study was done, describing all of the relevant contextual issues in an interview, for example, but in the end the evaluation of reliability is left to the reader/user of the research. Overall, the reliability of this research is enhanced by the use of mixed method -

approach, which provides two different ways of triangulation: methodological and data triangulation. (Hirsjärvi et al. 2001, 213-215; Marschan-Piekkari et al. 2004, 260-261)

6.4.1 *The survey*

In the case of the web survey, validity was tried to enhance by keeping the questionnaire and individual questions simple enough. This is due to the fact that misunderstandings are one factor that might contribute to weak validity in survey studies. If the respondents understand some questions differently from the researcher, the researcher would still interpret those responses through his/her own understanding of the issue, and might not even notice what the respondents have meant with their answers. (Hirsjärvi et al. 2001, 213) All in all, the researcher believes the questionnaire has measured quite accurately the issues that it was meant to measure.

Reliability of the survey study, on the other hand, is more complex to evaluate. The usual means of increasing the reliability of quantitative research, i.e. extensive statistical analyses, were not performed because of the low number of responses to the survey. Furthermore, those low numbers themselves are an issue, since sample size is one factor that contributes to being able to generalise the results to the group from which the sample was taken. Given the small numbers and the probability to receive more answers from the best performers in this group made up of best performers, the generalizability of these results is virtually impossible let alone sensible.

However, the researcher would argue, that, because of the preliminary and explorative nature of the survey study, the traditional reliability issues are not entirely applicable. The sample size can vary greatly, according to the goals of the study, accuracy and generalisation goals, and how crude the studied differences are among the group. (Heikkilä 2005, 41-43; Hirsjärvi et al. 2001, 213&167) In this study, the goal was to find out if the phenomenon of CR data distribution existed at all, and to explore examples of how that is done and for what purposes. To that end, the web survey provided reasonably reliable means, especially for such a small number of response.

6.4.2 *Expert interviews*

Validity was defined as whether the ways of measurement are correct, i.e. measure exactly what was intended. In qualitative research, validity manifests itself as the fit between the conclusions and the results that they were drawn from. Reliability comes from that same fit, but can be increased by the researcher's accounts of how the research has been done. The actual evaluation of validity and reliability, when it comes to

research that has been done with qualitative methods, is mostly left for the reader or user. These studies often focus on something that is hard to generalise, and therefore the applicability of a study to some other case must be evaluated case by case. For making this decision, the reader/user should be provided with an accurate, detailed and informative description of how the research was done. (Hirsjärvi et al. 2001, 214) The researcher here has tried to open up the process of making this thesis as much as possible. No details were left out, except for the identity of the interviewees and their organisations, the reasons for which can be found in chapter 6.2.2.

7 RESULTS AND DISCUSSION

7.1 The use of CR data

The survey had 30 respondents. Of these 30 organisations, 73 % (22 attendants) used their CR data for other purposes than just reporting corporate responsibility.

Table 1 CR data use

Is Your organization's CR data used for any other purposes besides Your CR reporting or projects?

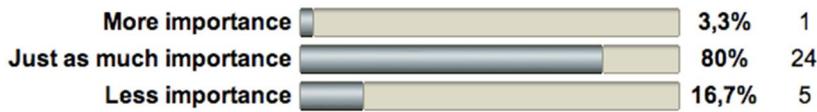


This number was relatively high compared to what had been expected. The aim was to find out whether this is happening at all, and it does seem to happen. What was surprising, was the high percentage. That may have something to do with the sample selection, Furthermore, it also might be that some of those who did not respond, chose to do so because they do not use their CR data for other than CR reporting, and thought they would not make any difference by answering. This result should therefore not be considered worthy of generalisation. In short, the sample was full of good candidates, so to speak, for CR data use, and those that did use their CR data, might have been more prone to answer the survey in the first place.

The respondents' organisations' attitudes towards CR data were further studied, rather bluntly, with question 8: “How is CR data treated in Your organisation? How much importance is it considered to have compared to other types of data?” The respondents were given three alternatives: more, just as much, or less importance. Predictably only one of them chose the first alternative, while the majority (24 respondents, 80 % of total) chose the second one; just as much importance. Five respondents however chose the last alternative, telling that their organisations do not consider CR data to have as much importance as the other types of data they handle.

Table 2 Importance of CR data

How is CR data treated in Your organization? How much importance is it considered to have compared to other types of data?

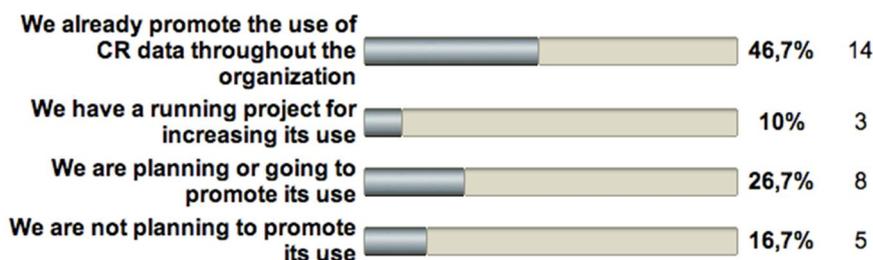


The reason for this question to be presented lies in the theoretical framework of this thesis, and in particular the step from strategic CR to proactive-/holistic CR. In the latter, the top management will probably understand that the implementation of that CR approach is relatively hard without the help of insights gotten from the use of CR data. Treating CR data as less important effectively goes against the implementation of proactive CR approach, whereas the equal treatment enables it. Treating CR data with more importance, would fit into the far end of the CR strategy – business strategy relationship spectrum, where the firm actually lets their CR strategy define the business strategy, which could in the long run do more damage to their business than they do good around them and eventually drive them out of business (see chapter 4.1.1). Again, one has to remember that the respondents are the kind of companies that already deal with their CR issues better than the majority of companies, so the result is far from a generalizable one. Probably most companies do not give much importance to CR data; if even among the top performers one in six thinks that CR data has less importance than the other types of data.

When questioned about their intentions to promote the use of CR data throughout their organisations, over half, 57 per cent, of the respondents told that they are already promoting the use of CR data or have a running project to increase its use. 8 respondents told that they are planning or are going to promote its usage, and 5 were not going to do anything about it.

Table 3 Promoting CR data use

Has Your organization been promoting, does it have a running project, or intentions to promote the use of CR data throughout the organization?



Judging by the answers to this question, less than a fifth of the respondents' organisations do not see any sense in promoting the use of CR data inside their

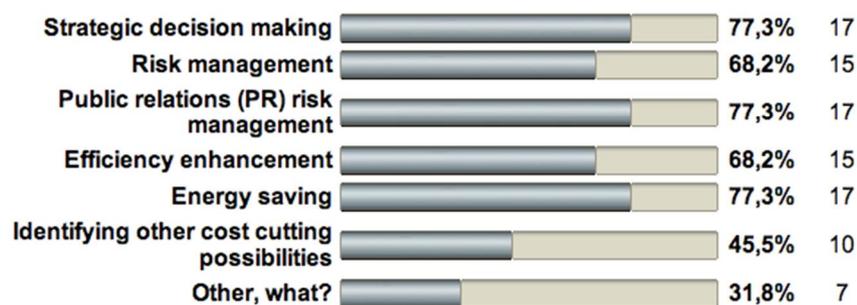
organisations. Comparing this with the percentage that was using CR data for those other purposes at all (73%), we could describe this as a trend of the best performers in CR reporting slowly understanding that there might be potential in the internal distribution and use of CR data. As noted already, the result can, unfortunately, hardly be generalised. However, within this group there seems to be a recognisable pattern, and the group could well be described as early adopters, when it comes to dealing with CR issues. After all, it does take some consistent work to get on indexes like the FTSE4Good, and these companies have managed to do that while the rest of the international business world is still trying to get their CR reporting processes even going.

7.2 Alternative uses and distribution practices for CR data

Favourite uses for CR data among the respondents were strategic decision making, public relations (PR) risk management and energy savings. All of them had 17 hits (out of the 22 that used CR data for other purposes than CR reporting). Risk management and efficiency enhancement were almost equally important, they both received 15 hits.

Table 4 Alternative purposes for CR data use

For which purposes is Your organization's CR data being used? (You can choose multiple alternatives)



“Other, what” was also quite a popular option with 7 respondents choosing to explain their CR use in more detail. Answers were all interesting, worthy of a list of the chosen best representatives:

- “Employee attraction, retention and engagement, community investment performance measurement, bidding on competitive proposals”
- “Opportunity identification”
- “Influencing sr mngt, external relationship building, internal best practice sharing” (Researcher assumes sr mngt means senior management)
- “Monitoring implementation of Group CR Policies”

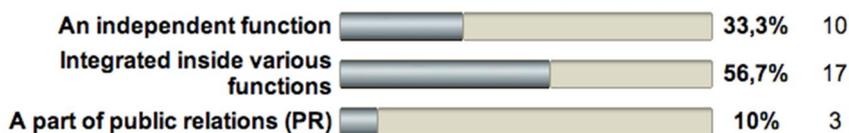
- “Target setting”

Like the theoretical framework suggests, strategic decision making is viewed as an area that has a high potential to benefit from access to CR data. Cost cutting through energy saving and efficiency enhancement proved to be popular as well, although they are a bit obvious choices, since they are the things with which most companies start their environmental CR projects. That is because they are important to both CR performance (under scrutiny inside and outside the company because of CR reporting) and financial profitability.

It is interesting that PR risk management was more popular function for using CR data than the “regular” risk management. Could it be that Frankental was right when he accused the corporations of window-dressing and CR being a mere PR tool for them? (See chapter 2.1.5) As a reminder Frankental's sixth paradox about CR was that the companies usually situate CR in the periphery of their organisational structure that is in corporate, external or community affairs (Frankental 2001). Of the 30 respondents, only 10 stated that CR was an independent function in their organisation, 17 had CR integrated inside their other functions, and 3 said that it was organised as a part of their PR function.

Table 5 CR's position in organisation structure

Is corporate responsibility (CR) in Your organization...?



Keeping in mind that the respondents were already among the industry leaders in CR issues, having 10 % of respondents admit that they consider corporate responsibility a part of public relations management, suggests that the figure among all the companies is probably significantly higher. Therefore, at least when looking at the average company in international business, it would seem that Frankental (2001) had a point in his sixth paradox.

As for the use of information systems in the process of CR reporting, CR data gathering, storing and distributing, it seems, that the systems are widely used among this sample of companies. Only 2 of the respondents' organisations did not have any information management systems in place, whereas two out of five (40%) respondents told they had more than one IMS. The systems that are specifically built to handle CR data are also used in this sample. 18 respondents (62,1%) said they had one, and used it to collect CR data for reporting; 19 used one to store the data. It seems that the process of collecting CR data for reporting purposes is still handled with a mix-and-match-

approach, that is, using different kinds of medias and tools to collect the data from where it is generated. Telephone and email were used by almost half of the group (48,3%), as were the organisation-wide databases and IMSs. For storing the CR data, only 3 respondents were still using nothing more than paper archives. 10 respondents were using only an IMS or database dedicated to CR data, while eight were using a combination of organisation-wide and CR-dedicated IMSs and databases.

Table 6 CR data gathering

How is CR data gathered in your organization? (You can choose multiple alternatives)

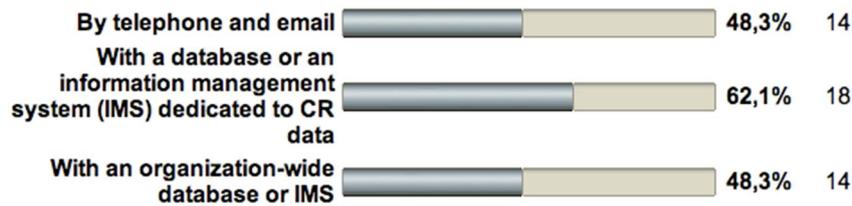
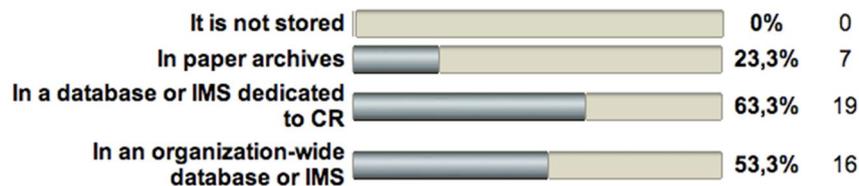


Table 7 CR data storing

How is CR data stored in your organization? (You can choose multiple alternatives)



So, for gathering and storing CR data for reporting purposes, information management systems have already prevailed among our sample of best-performers in CR reporting. 28 out of 30 respondents' organisations are using some sort of IMS for gathering their CR data in order to report it to their stakeholders, and 27 out of 30 are using them for storing that data. Over 60% of the respondents said their organisation is using an IMS or database dedicated to CR data, when questioned about the collection and storage of CR data. Again, outside this sample, the number is probably significantly smaller, but when it comes to the goal of identifying the practice of using IMSs for CR data handling and distribution, this finding is a good start.

As for the actual distribution of CR data, a fraction over a third of the respondents (11 out of 30), stated they are actively distributing CR data across their organisations with an IMS. The main implication for this thesis is that the phenomenon of distributing CR data seems to be there. However, it cannot be said to be common even among this sample, let alone among a larger proportion of the world's companies. Given that these

companies could be described as forerunners among the CR reporters, it could be argued, that this phenomenon has real potential to become more widespread, at least among the companies that take their corporate responsibility more seriously than their competition.

7.3 Practical examples of collecting, distributing and using CR data

Four Finnish experts on corporate responsibility were interviewed for the second part of the empirical research in this thesis. They were all questioned about the same themes, and after the transcription, the answers were thematised and analysed. What follows, are both a compressed representation of what they had to say on these matters, as well as an analysis of those results in the light of the theoretical framework and respective research questions.

The interviewees were first asked about their views on how the use of CR data in companies has developed. The interest towards CR issues and CR reporting was evaluated to be on the rise, not only among businesses, but also investors, investment funds, rating agencies and indexes (like the FTSE4Good, for example) were considered to have increasing interest in companies' CR performance. The increasing interest in CR issues was seen to gradually move from the large companies to SMEs as well. The former are now moving to a phase where the collecting, monitoring and reporting CR data is systematic, and seen as an obvious thing to do.

In addition to the aforementioned, a move from absolute performance figures for indicators to relative figures was mentioned. Another thing about indicators that was mentioned, was abandoning the one-size-fits-all approach, in favour of a more flexible one. This development would see companies reporting more selectively, choosing the topics that they feel are the most relevant to their industry and company. Selective reporting would mean, according to two of the experts, better quality information and CR reporting. However, this kind of reporting would apparently still require some GRI-like coordination in order to ensure comparability between reports, at least within each industry.

All of the experts mentioned the phenomenon of finding alternative uses for CR data. As a result of gathering, monitoring and reporting CR data becoming more mundane and automatized, there is more time to also think about other uses for that data. These alternative uses were considered to be of the nature that contributes to companies' profitability, and focusing on the indicators that have a direct link to bottom line, was mentioned as a possible future development. Many companies have invested vast amounts of capital in creating procedures and acquiring systems for collecting data for CR reporting, and that data is now being scrutinised to find out if it is possible to extract

any extra benefits out of those investments. This was seen to lead to internal development by using CR data as a management tool, and benchmarking between a company's locations or business units.

Like the survey and the hypotheses drawn from the literature review, the interviewees clearly recognised the existence of the phenomenon of companies that are using CR data for other purposes than external reporting. Another interesting issue was the mentions narrowing the approach to CR into the issues that the company has real effects and influence over, which sounds like it has been lifted straight out of the strategic CR approach described in more detail in chapter 4.1. Next we will go through their views on the benefits that could be gained with the distribution and use of CR data for those other purposes, and look at what those purposes might be, according to them.

7.3.1 The perceived benefits of distributing CR data

Regarding the possible the benefits of distributing CR data, the two themes that were most often mentioned, were cost savings, and benchmarking and best practice sharing. Cost savings were said to come from monitoring and thus being able to improve possible shortcomings in things like energy and material efficiency, waste generation & recycling, as well as health & safety records. Benchmarking units (preferably from more or less the same functions) against each others enables the management to monitor and find not only possible differences and irregularities, but also the best performing units. Their best practices could then be shared with the rest of the organisation, so that costs can be cut and the overall CR performance enhanced. One suggested operational level approach to best practice sharing is the creation of best practice check-lists that the units or functions can use to make sure they are on par with the rest of the company.

Other positive impacts of CR data distribution that were mentioned, include better preparation for risks, keeping the CR issues in focus, and enhanced business development, which will be discussed in more depth later on. The reasoning behind achieving better risk management was that the CR data would contain information about the local regulatory frameworks of a company's operations, as well as analyses of their future developments. This information would help the management to be prepared in time, when relevant changes occur. It makes it easier follow the regulations more generally too, thus avoiding getting into any legal, financial and PR trouble. The processes involved in CR reporting also prevent CR issues to be forgotten by the employees, and stress them the value that the top management puts on CR performance; both of which are key factors in getting the employees committed to their employer's CR goals.

The most important use for CR data could lie in strategic management and the decision-making connected to it. When asked about the benefits of CR data in strategic decision-making, the interviewees stressed its role as valuable information for that process. As one of them put it:

“You cannot manage something you are not aware of.”

The most often mentioned use for CR data in strategic decision-making was risk management. Besides the benefits discussed in the previous chapter, they talked about the costs that the changes in global and local regulatory frameworks might impose on different types of products and/or processes. An example given by one interviewee was the emissions-trading scheme brought to us by the Kyoto protocol, which had immense cost effects when it was imposed on certain industries. Its expansion is a highly strategic question for any industry that is under that “threat”, and requires them to monitor closely their greenhouse gas emissions and preferably come up with ways to reduce them, too.

According to one of the interviewees, analysing the (opinion) trends and other possible changes in the business environment, like the ones discussed above, gives the top management valuable information about the success and failure factors, or risks, of their product and business lines. Especially when connected with CR history data, this information could provide them with great insight into which of their business branches and product lines are worth additional investments, and which should be gotten rid of by selling them away or running them down. The idea is to be aware if some of their business areas are about to decline, and avoid making any wrong investment decisions.

Other risks that were mentioned to be easier to manage with CR data were environmental and social risks. Furthermore, in some industries, the CR performance of their suppliers is of great importance to their stakeholders. With CR data at hand, the management is better equipped to make safer decisions when choosing their suppliers, because they know what kind of problems they might have had with their previous suppliers in that region or industry. This apparently applies to mergers and acquisitions as well, since the data from previously acquired companies can help the top management to choose more wisely which companies to buy. Also, after the acquisition, the relevant managers are better prepared to the tasks of combining their operations, as with the help of CR data from previous acquisitions, they are aware of the problems they might soon face.

Some of the most strategic areas where CR data could bring benefits are the development of products, product lines and business opportunities. With the use of CR data, businesses can develop products that are better suited to the needs and demands of their customers and stakeholders. The management can evaluate the information they have gotten from discussions their stakeholders (customers/clients included), and base their decisions about future product lines and business areas on what their clients and

stakeholders really need and want from them. Just like in risk management, the effective way of doing this, would be to use their historical CR data along with their analyses of future trends and regulatory developments.

Different ways of strategizing with CR, and how the issue's overall importance varies from one industry to another as well as between companies, were also mentioned in the interviews. Getting competitive advantage from doing CR can manifest itself on many levels. Some benefits might come at the image/PR related use of CR already, but only through integrating CR into the business strategy are the companies to expect the best positive effects. Choosing on which level of business to handle CR issues, is an extremely strategic decision. The CR consultant who was interviewed, told that some forerunner companies that are really after those business benefits of CR, have already integrated these issues into their strategy development and -thinking, instead of leaving them on the public relations and image levels. These same companies are now starting to integrate financial effects of their CR into their CR performance data, and then all of that into their financial data and the processes related to its management. To provide an example of how CR issues can be an integral part of business strategy, the interviewed consultant mentioned Metso, a large Finnish industrial company, that gets one third of their turnover from providing other companies products and solutions that help clients improve their environmental performance. One would imagine that CR data, both their own and their clients', is of key importance when developing better products for that market.

Looking at the above information that was gotten from the interviews, it presents some striking similarities with the theoretical framework's suggestions about the benefits of corporate responsibility in general, and the distribution and use of CR data for purposes other than external CR reporting. They both suggested cost savings through increased efficiencies in energy and materials consumptions, benchmarking and best-practice sharing were also present as the way to spread practices that have been found useful and save the rest of the organisation the work and time required by learning by trial-and-error. Perhaps most importantly, they both bring forward the idea of integrating CR (and CR strategy) into business strategy as the key to get the best business benefits from both CR and the use of CR data. In the theoretical framework this approach was called the proactive or holistic approach to CR. The companies that have successfully combined CR with their business strategy will have the added benefit of being able to use their CR data in R&D and strategy development, an idea also present in both the interviews and literature review.

7.3.2 *Working with CR data*

The three companies that the latter three interviewees worked for had all different history in collecting and using CR data. All three of them had started to report CR as a way to show the public and stakeholders that they are aware of their responsibilities and are doing something about the issue. However, one company had also a risk management agenda behind the project, but the difference could be explained by this company's very young age. Their CR projects have begun almost over a decade later than the first company in this sample, and the opinion climate and weight of these issues in board meetings have changed drastically in 10 years.

In these companies, the so-called “driving forces” behind starting to pay more attention to CR and collect CR data, varied from CR experts who went to top management and convinced them that it has business benefits, to a risk management chief who saw ignoring the issue as a major risk, via consistent CR reporting producing CR data, for which it was then tried to think of more uses. In the first case, the story goes usually more or less like this: an employee who has CR issues in his/her job description, goes to tell the management about the possibilities of using CR data, and manages to convince them that using the CR data is very much like all other efficiencies seeking exercises that they do, and thus has clear potential to influence their profitability. The risk management approach usually focuses on obeying the laws and regulations and the risks that follow from failing to do so and not being prepared for any upcoming changes in the regulatory framework(s) and their business environment(s).

The third driving force that was recognised from analysing the interviews, was one that was present in both, one of companies, and the description of a “average case” - clients by the CR consultant who was interviewed: A company has reported their CR for several years and has come to the conclusion that doing it with the help of Excel-sheets, emails and phone calls requires a lot of manual labour and time. With this insight, the management then decides to acquire an information system to make the process swifter and also more accurate, since the use of information systems can reduce the amount of errors and bad data. Some companies integrate the CR data collection right into their existing information systems (usually financial as they suit CR data well), others set up an individual system. Usually, the company discovers, before or after the system investment, that the data they are collecting might come in hand in some other uses too, instead of only external CR reporting. Also, the management might simply want to get the most out of an (often expensive) information systems investment, and therefore find as many places and functions as possible, where the produced data could be used. The result is often a more frequently run process of collecting the data, a move made possible by automating the process, and nearly always, benchmarking their functions and locations against each others, and sharing the found best practices across

the organisation to save the poorer performing locations and functions time and effort. The paradox of this development is that when the company really starts to focus on CR issues and enhancing their CR performance by monitoring it more closely, the focus does move a bit away from reporting their CR performance to stakeholders. On the other hand, perhaps they too would appreciate the better quality data they receive and the fact that the CR issues have received an increased weight among the company's priorities.

Reflecting the above to with the literature review, the most common reasons and driving forces behind these companies' decisions to start to report CR, look very similar with the ones found in the literature. Many companies begin with CR reporting because they feel the public pressure telling them to do so, and risk management approach present in one of the companies' decisions, is also very much present in the theoretical framework. The approaches to CR in general that presented in chapter 4, can be found in these descriptions of practical elements of CR data collection and use. Trying to get the most out of investments into CR data collection represents quite accurately the strategic CR approach, where a company is supposed to find the CR issues it has the most potential to both make good in the society, and get the best business benefits. According to the theories, a company that focuses on those few key CR performance indicators, and realises them with high quality standards, is far more beneficial to the society and its key stakeholders than a company that tries to engage itself into too many issues.

The practical side of CR data collection in these organisations was mostly done with an information system dedicated to collecting and consolidating CR data. Also various systems were used, that is, a lot of the data comes straight from enterprise resource planning systems (ERPs), and CR related human resources data was in some cases moved from HR's systems to the CR system manually. The CR consultant's views on these matters confirmed that these practices were common approaches. He also mentioned that their company's solutions also include a version that is meant to be integrated into a widely used financial information system, thus facilitating and easing the combined reporting of financial and CR performance. He also had an opinion, that there is a trend of companies increasingly choosing to integrate their CR data collection, monitoring and reporting into their existing financial information systems.

When it comes to the distribution of CR data, in the companies where the interviewees worked, practices were very diverse. Mostly though, the distribution of CR data happened at the middle- and top management level. Regarding "common" employees, in one end of the scale, they were given CR data only in the form of publishing the company's (external) CR report at their intranet with a few highlights brought up front. In the other end, there was a running project of setting up a dedicated site in the intranet where there would be reports consolidated from CR data, and

possibly also benchmarking reports of the functions' and units' relative CR performance would be published.

Direct distribution of CR data was usually done by first consolidating the data in the CR function, and/or in the system, and then sending it back to each function or unit. The ones in charge of CR in the functions and units varied according to the companies' respective organisational structures, from function-/division-/unit manager to dedicated EHS managers; also controllers were mentioned as users of CR data. Mostly these managers were able to see their own raw data from the system, but their consolidated, relative performance or benchmarking reports would come from the CR function. However, also a practice was used where the managers could see their relative performance straight from the system too, although it was limited to selected key performance indicators (KPIs). The CR expert of that company also thinks that the managers monitor and use their data more frequently than what is done at higher levels.

The integration of financial and CR data systems was also evident in the interviews at the distribution and monitoring level. There were mentions of plans to enter some CR KPI figures into the middle managers' performance reviews, side-by-side to the financial figures that are already there.

Like in the internet survey, the first part of this empirical research, these interviewees were also asked which functions or departments they would describe the heavy-users of their CR data. The ones that were most often mentioned were different functions or divisions. The list includes environment, health, safety and quality (EHSQ), communications/PR/investor relations, marketing, as well as mergers and acquisitions. Also location/plant managers and top management were mentioned. The CR consultant also mentioned cross-discipline, group-wide CR teams. According to him, CR (information systems) projects often involve people from different disciplines and that this, in many cases rare, interaction between them has real potential to raise the business benefits of CR data use to a whole another level.

7.3.3 Managing CR information systems projects

The CR experts were asked about the ups and downs of the way their CR data management was set up, and whether they would do something differently, if given the chance to start over. As a result of thematisation, some commonalities were found. Training and educating the staff about using the CR system and about CR in general, was regarded of key importance. This was the case especially when starting to collect CR data from scratch, or launching the new information system for collection. More automation was also sought after, especially in the processes of feeding the CR system data that was generated by/in another system. HR as a function was mentioned twice as

an example of this, since HR have collected information relevant to them with their own systems for a long time, but now some of that information would be needed in CR reporting as well. Moving the data from one system to another was described as being more time-consuming than the interviewees would prefer.

The other two themes that came up, were data quality and verification, and the CR system's poor tools for distributing and communicating information. Verification and quality control of the collected CR data was evaluated to take too much time in the CR function. If the verification could be transferred to the plant/unit-level, the staff at CR could dedicate more of their time to the tasks that actually help the company's business: analysing and consolidating the data, and benchmarking the plants and divisions against each others. If the data received from the units could be trusted more often, the units would also benefit as they would receive better information on how to enhance their CR performance.

Also the fact that CR systems were mostly built for automated collection of data received some attention. The system in question was seen as a good tool for collecting data, but when it came to communicating that data, or information based on it, back to units/functions or top management, it did not serve that purpose well. As an example, there had been a situation, where local managers had to ask CR function, which suppliers were the largest in their geographical area, even though the data that was used to form that information originated from their own units. The local managers simply could not access that information through a system that was built for collecting data to be consolidated by the CR function.

In the end, the interviewees were asked if they had any advice for an imaginary colleague that has been given the job of setting up the collection and use of CR data in his/her own organisation and would come to them asking for tips. The theme that was most often mentioned was identification of the relevance of different CR issues to a company. Deciding the relevance of issues to a company has far fetching consequences, as the data collection process and system configurations will be based on those decisions, and if there is no collected data on some issue, it cannot be monitored, let alone managed or used for business benefits. One interviewee stressed that all the functions in an organisation should be consulted before setting up the systems, because they often have contradicting goals and hopes on how the project will benefit them. Talking with them will provide additional points of view on the question of choosing the key issues to monitor. Choosing the issues and indicators wisely was regarded to be of great importance. Management should evaluate which issues are relevant for their industry and their company, as the best business benefits that CR and CR data use come from those issues. In the textile industry the significance of child labour issues is on a totally another level than it is in the energy industry, which in turn has to worry about the costs of emissions trading scheme whereas for the textile industry it is not a priority

CR issue. Those key issues are the important, value-adding factors in the CR field, said one interviewee.

“They should be measured, systematically, and with their help, [the management] should be able to steer and manage [their] business.”

Interestingly, the relevance of issues was mentioned to be the one rare thing of great importance that varies according to industries, implying that there might not be too much other differences between them overall.

Another thing that was suggested as the issues to keep an eye on was following the developments in international regulative frameworks. Reporting those trends and changes to units and divisions will keep them aware and prepared for changing their practices should the situation require them to do so. As was mentioned, these things are not so much issues that have any value-adding potential, but are risks that simply need to be monitored, as failing to do so can have devastating effects on a company's business.

There were also advices of keeping the indicator count relatively low, so that the CR function has the time to do the things that bring those business, i.e. benchmarking, consolidated reports, check-lists and concrete suggestions for performance improvements. The CR function should stress the units/plants/locations, that with the check-lists and other suggestions, they can effectively free-ride over the learning phase, because some other unit/plant has already done that work for them. That, and “making the local EHSQ-manager shine”, are the key things to get the support for CR data collection and use from the operational level of an organisation.

Having the top (and middle!) management behind them when one starts to set up practices like these was also regarded to be of great significance. Telling people that they have to start yet another reporting practice might cause some resistance, if they feel they have enough extra chores as it. Hearing about the issue from their own supervisor instead of someone from CR was suggested to help to actually get the message through, even if some substance might be lost in the process, compared to an expert explaining the matter. Still, top and middle management were considered to be needed in stressing the importance of getting the data and ensuring it is correct. Another way of getting the message through, that was suggested, was having the top (or middle) management explain how exactly the data would be used, why it is important, and how it can benefit the business. Comparing CR data collection to financial data collection and stressing their equal importance could also be of use, as it stresses the staff the “automatic” nature and necessity of collecting CR data. The staff should also be engaged into the project right from the start, as it will have positive effects on their motivation to fill in the data, it was thought.

The issue of choosing the right type of information system and configuring it in the right way was brought forward as well. The organisation should be first mapped in

terms of existing data collection and information systems, and the possibilities to use the existing systems for CR data as well. All new, dedicated, individual systems are to be avoided, because it was considered a lot harder for people to accept an addition to an old, existing reporting system than an all new, yet another system that they have to learn to use. An integrated solution was also preferred because it was considered to keep the issues in sight, making it harder for the staff to forget both the issues and their reporting obligations. However, the type of the company has a lot to do with choosing between a stand-alone and integrated solution.

Last but not least, the CR consultant was of the opinion, that this kind of a project is a learning process in many ways. Often the first cycle of data collection, analysis and use, does not bring that much results to work with, but the consecutive rounds will be more productive. By then the management will know the CR performance levels they started with and the direction they are heading. They will also have developed more understanding of the underlying reasons for the performance figures, and will know that with applying the best-practices they can get real benefits for their business.

Unlike the other interviewees, the CR consultant was also asked about typical pitfalls of managing an information systems project such as the ones described here. Things that came up in his response were inadequate or badly distributed resourcing, lack of commitment from the management, too ambitious deadlines, and providing too little training and education for the staff. About that last one, he said that companies sometimes reserve too little time and effort for training and communicating to staff, or give instructions that are too general. In order to benefit their business properly, the companies should also train their staff properly and thus give them the tools for exploiting the CR information in their line of work.

Another thing that came up was that these kinds of information systems projects often include working with people from the client organisation who have very little experience of project management as such, let alone IS projects. This, of course, requires extra care when running a project. The suggested solution is, that issues are simplified as much as possible, and the project is started from the smaller, simple parts, that are easier to complete with success. The following, more challenging parts can be built, then, on that success and the confidence it has brought to the inexperienced team members.

Regarding the commitment from top management, and to some extent communications issues, an example of a commendable approach was given. In one of their foreign client organisations they had arranged a kick-off event, where the CEO had given a short speech which, more or less, stated that they are starting this project now, it will include these and these things, and it is started because the management believes it is beneficial to their business, the end. Like the consultant said about the room the CEO's speech left for arguments,

“there just weren't any further discussions of why-do-we-have-to-do-this... And, everybody just got on with it.”

Analysing the above real-world experiences with our sub-questions three and four in mind, it would seem that using an information system for facilitating data collection and management is a wise thing to do. It leaves the CR experts with more time in their hands for analytical work that can bring real business benefits. Verification issues are problematic with or without a system, but the latest systems apparently have some types of controlling functions that eliminate a part of the problem. Another issues mentioned by the interviewees as something to keep an eye on, were identifying the relevant CR issues and building their respective indicators, looking out for trends and changes in regulatory frameworks, keeping the indicators' numbers in sufficiently low, getting the management's support, and choosing the right type and configuration of an information system to use. Furthermore, the process is cyclical, and requires some work before the best results can be expected to surface.

For communicating the results of their analyses, they seem to prefer other channels, since the systems are primarily tools for data collection and management. Another type of system could still prove handy in communicating the information back to units. In short, the use of information systems has potential to facilitate distributing and exploiting CR data, but it requires some tweaking of the existing systems, or creation of new ones. Also, the practical problems related to data collection and management systems projects, are something to be aware of when setting up a system and/or processes for distributing the CR information.

7.4 Using knowledge management to facilitate exploiting CR data

Knowledge management as a theory has some assumptions and suggestions that are very appealing and seem to be fitting rather well to the situation where the company engaging into strategic or proactive CR would find itself, i.e. wanting to take advantage of their CR data and information. Early in chapter 5.1, a few definitions of knowledge management were presented. Two out of all three of them, mentioned *leveraging* the knowledge that resides in the company, i.e. using it for business purposes. Other functions that knowledge management would have were listed as follows: discovering/acquiring/identifying knowledge, organising/managing/storing it, developing it and transferring/sharing/communicating it. All this would be done in order to help the company compete. A nice summary was found in Turban et al. (2008):

“An important objective of KM efforts is to enable individuals to learn from other individuals, as well as to allow the various organisational units to learn from another.” (Turban et al. 2008, 398)

So, as an answer to sub-question four, it does look like knowledge management methods and systems would be the right kind of tools to use when looking ways to spread, and to get benefits out CR data.

Of most importance to a company pursuing a strategic or proactive CR strategy, are those knowledge management theories and practices that deal with making knowledge available and easier to find. That is to say, making the explicit (codified) CR data available across the organisation and organising it in a way that the people who might need that information know exactly where to find it, or are provided efficient search tools. This is, to a degree, in contradiction with earlier findings saying companies pursuing the differentiation strategy (a company engaging in strategic or proactive CR could in most cases be regarded to use CR to differentiate from its rivals) find personalisation KM strategy more useful. However, in this case, the KM theory is brought out of its normal habitat, and applied it into a smaller field of strategic and proactive CR. CR data and information tends to be explicit, and therefore the more useful strategy for spreading that into the departments is the codification strategy.

As stated in chapter 4.2, the assumption that serves as the foundation of this theory development, is that the members of the organisation will embrace the new information, and successfully mix it with their existing implicit knowledge, they are effectively creating new knowledge that in turn has far more potential for improving the company's CR performance than the old knowledge would have ever had. The initial knowledge the employees have, especially the implicit part of it, is connected to their professions and functions in the company's value chain. Inside the organisation, they are the experts at what they do. Like suggested in chapter 4.2, if the company wants to drive the CR point of view through the operations, these are the best people to tell what can be done, and which are the best ways to implement CR issues into those processes and practices. Only the thing is, they rarely know anything about CR issues. The other option would be trying to get the people in charge of CR strategy, to ponder the ways for implementation, but they are missing the implicit knowledge of all the specific, functions, processes and practices. Teaching them all that implicit knowledge would probably take years and cost the equivalent of a small African country's annual budget. Hence, educating the holders of that implicit knowledge about CR issues, and providing them with access to the company's CR information is likely to be the cheaper and easier alternative. Assuming they assimilate that information, combine it with, and into their existing stock of knowledge, the result would be new knowledge about how to combine 1) doing their job well and 2) taking CR issues into account while doing it. In other words: knowledge of how to do the right things right.

As a resource that new knowledge is very valuable, rare and inimitable. If the company also manages to organise itself accordingly (see previous chapter) and thus reap the potential benefits, those resources should prove to provide the company further

sustainable (here, long-term) competitive advantage (SCA) in relation to its rivals. In chapter 4.1, we concluded that integrating CR into business strategy (proactive approach to CR) would bring the company *sustainable* SCA, SSCA. Enhancing the integration with the use of KM methods and systems, would, at the very least, be beneficial, but could even be argued to be the prerequisite for an effective integration.

In practice, the company with a strategic or proactive approach to CR would need a way to bring the employees along with their implicit knowledge, and CR data together. In KM, these issues are familiar. Transferring knowledge is one of the basic questions in managing knowledge in an organisation, and solving it usually involves the use of information technology. That plus KM, equals KM systems. KM systems, in the words of Alavi and Leidner (2001),

“may not appear radically different from other forms of information systems, but will be geared toward enabling users to assign meaning to information and to capture some of their knowledge in information and/or data.” (Alavi – Leidner 2001, 109)

The systems best suited for spreading CR data would probably include a database, where the raw data would be organised and stored. The actual sharing could be done through a number of channels. Some examples are the use of intranet, connecting the database to an existing information system (IS) like enterprise resource planning system, or a financial IS.

Like the definition for knowledge management, definitions for data and information were also discussed in chapter 5.1. Clearly, spreading out raw CR data is hardly going to help any other departments in the company to make their contributions to the task of transforming the company into a responsible one. Like it was found in chapter 7.3, the data must first be edited and summarised into information, before it can be considered useful.

However, while the target audience of a CR report might be considered to wide basic knowledge (shared knowledge space in KM terms) of CR issues, relevant terms and so on, the staff found in those other departments of a company probably will not have that knowledge. Without that shared knowledge space, making the information available for them is not likely to produce any benefits, as they will probably not understand it at all, reject it as being too specific, or even misunderstand it. This problem can be dealt with in at least two ways: either the company educates its staff on the CR issues accordingly and effectively builds that shared knowledge space, or the data/information is made easy enough for anyone to understand. The latter approach can backfire though, as the process of summarising data/information is always bound to lose at least some aspects of the original version. Too much of summarising means a lot of the original information, possibly some of it useful, is lost before it reaches its audience.

Other factors that might hinder communicating the CR information to the staff include using the wrong type of channels of communication and failures in the receiving end. IT based solutions are useful, but not almighty. Some of the CR issues the staff would have to know about before being able to fully utilise CR information, might prove too hard to comprehend if communicated only through articles in the company intranet or printed staff “magazines”. They might require a more hands on -approach with someone with CR knowledge doubling as a teacher, and giving the audience a chance to ask questions about the parts they felt were challenging. Furthermore, there should be someone named as a contact person the staff can contact later on, if they are developing their ideas and come up with questions that need more detailed knowledge about the respective CR issues.

Failures in the receiving end are another challenge when transferring knowledge. The receivers might not see the added value of CR information and refuse to even acquire, let alone use it. This is a common problem that is actually associated with the whole idea of CR. The usual solution suggested by literature, is to get the top management involved in promoting CR and to stress the benefits the use of CR information would bring the company. As we all know, words often have more power when coming from someone higher up the hierarchy. Another issue in the receiving end is the challenges experienced in searching, finding and acquiring the CR information. If the employees find it too hard or time-consuming to find and use CR information, they might soon choose not to even try. Therefore, it is very important to try and make the systems as intuitive to use as is possible, as well as it is to invest in the educational side. Making it clear that the effective use of CR information will be good for the company, people and the planet, instead of the company alone, and making CR information as easy as possible to search, acquire and use, will significantly increase the chances of it actually being used. In the end, though, even the most sophisticated KM methods and systems will fail, if the employees simply do not possess the capabilities needed to search for information, assimilate it, synthesise it with their existing knowledge, and/or use that new knowledge.

One more concern for those who wish to get benefits out of their CR data: Assuming everything goes as planned, the employees now have assimilated CR information, mixed it with their implicit knowledge of whatever it is that they do at work, and created new knowledge-related resources that are likely to produce the company SSCA. All this valuable, rare, and inimitable knowledge now resides inside the brains of those employees, which presents an immense risk for the company. Should they change jobs, or something should happen to them, the company would face significant reductions in its valuable resources, on which (at least some of) its competitive abilities are based on.

One way of fighting this risk is to make the knowledge management processes work in two directions; meaning that the employees to share their new implicit knowledge, it

is made explicit by codifying/documenting it, stored into the database, and then shared across the organisation all over again. Problems can arise in getting the staff to share their knowledge. As we now know, knowledge is a valuable resource, often referred to as power, too. People tend to use it as an empowering asset by holding back their knowledge instead of happily sharing it with their co-workers. This is known to happen with not only individuals, but between different organisational units as well. KM literature presents a solution in the form of different policies that are designed to create, promote and nurture traditions of sharing knowledge with co-workers and other units within the organisation. These policies include, for example, rewarding entire teams instead of individuals. It creates incentives for the individuals to share knowledge with each others to create synergies and boost the unit's performance, as it is the aggregate knowledge of the unit or team that counts, not what the certain individual knows.

The approach of creating knowledge flows that flow to both directions, is taken from the core of KM theories, and many KM systems are built to enable this right from the start. Assuming all of the above theorising holds, this latest addition to this theory development will not only solve the problem of the so-called *brain-drain*, but also could end up building a vicious circle. Only this time, the circle would be positive. Feeding the synthesised, new knowledge back into the knowledge repositories, databases, makes it available for assimilation and re-development by other members across the organisation. Effectively, there would be CR information flowing out of the repositories and coming back as new knowledge about using CR information in making the company's processes and practices more responsible and sustainable. Making this happen on a regular basis, would result in a “positive” vicious circle that creates the company more and more knowledge resources, which, in turn, create the company SSCA. This development was also recognised by the interviewed CR consultant, who said that the best benefits begin to manifest themselves only after the second or third “round”.

Let us take an example of how this could work in practice: The proactive company chooses to engage into wide discussions with its primary stakeholders. It sends its representatives to the discussions, but first makes sure they are equipped with all the relevant information of the company's CR strategy (integrated deep into the business strategy, of course), their past CR performance as well as projections of future performance, and all the other CR information (or raw data, if required) they could ever need. With all this knowledge and information, the representatives are probably having a significantly easier task to discuss even of issues with deep disagreements between the company and its stakeholders. Furthermore, in the discussions, the company's representatives would hopefully be getting feedback from stakeholders that they can add to, and combine with, the knowledge they already possess, as well as document it and add to the CR information, thus making it available to others members of the

organisation as well. The representatives (and the rest of the organisation) would then have a further enhanced view of the situation in the stakeholder discussions, and attitudes and views held by the stakeholders and the company. This extra knowledge makes it easier for the representatives to seek that common ground with the stakeholders, and with the other members of the organisation now aware of the stakeholders' concerns, they might be able to come up with solutions to address them more effectively; through product/service innovations, or enhanced processes and/or business practices. All of this would most likely result in a better relationship with the surrounding society, especially with stakeholders.

The benefits of CR data and information for strategic decision-making were discussed in the previous chapter already. What KM has to offer here, are the increased ease in finding, identifying and getting all the relevant information needed for the decision-making process, and the new information provided by the employees already using the CR information. The first benefit is the direct result from implementing the KM systems into the company's portfolio of information systems. With the help of the KM system, that has stored and organised the CR information for the top management, they are able to find and access the information they should need, at any point in time, rapidly and easily. The second benefit results, when the KM practices are applied in a two-way manner. As already described, the employees would be encouraged to feed their new, synthesised knowledge back into the system, to be shared organisation-wide. With this information at their disposal, the top management can identify any innovations with high business-potential and adjust the strategy/-ies (both business and CR, or the integrated strategy) accordingly. Furthermore, they will be able to see if some departments or teams are lagging behind in using or even accessing the CR information, and vice-versa, they can find out the top-performers, reward them, and use their best practices to educate others.

8 CONCLUSIONS

The results of the empirical research confirm most of the assumptions made on the basis of the theoretical framework, and provide additional information regarding the practices of CR data management and CR information systems projects. The research question of this thesis was: do companies that report their CR, also use their CR data in other functions besides CR reporting, and just how they are doing that. In order to be able to answer to this question, the following sub-questions were presented: 1) Do companies that report their corporate responsibility, use CR data in their other functions? 2) For what purposes do they use that data? 3) How are they distributing and using that data? 4) Could knowledge management principles and the use of information systems enhance the process of distributing and exploiting CR data?

Using CR data for other purposes than just CR reporting does happen, but it takes mostly place in companies that could be described as forerunners in handling CR issues. Reporting CR performance to stakeholders is a usual starting point in the process of beginning to use CR data for alternative purposes. This is because the companies need to set up processes and systems to get the CR data they need for reporting. Automating these processes is beneficial in many larger companies, since they drastically reduce the CR function's workload, and enables them to focus on issues of higher importance. When an information systems investment is made, management often start thinking if the investment is used to its full potential. The systems are usually able to produce larger quantities of data, and more often, than what is needed for CR reporting purposes only. If the data could be of use in some other processes along the company's value chain, the investment could pay itself back more quickly along with other, even better business benefits.

CR data and information is most often used for cost cutting by benchmarking and best-practice sharing, but also practices of scanning for risks (and business opportunities) were mentioned. However, the more a company is able to integrate their approach to CR into their business strategy, the more strategic CR information becomes. Collecting the data has been largely automated in forerunner companies, but distributing the consolidated, analysed CR information back to the organisation is in many cases still done by using more traditional medias instead of using the same systems that the data was collected with. Collecting the data was mostly done with a purpose-built CR information system. The reasons for using an IS, lie in the time and effort savings that automating these processes enable. Often the investment made into an IS to help CR reporting, has the collateral effect of better quality data and more frequent data collection. That, together with the desire to make the most out of an investment, might persuade the top management to try and see if the produced data could have any other uses. The distribution methods, on the other hand, varied

according to target audience as well as according to the way the processes around CR data were set up. While some companies provided their plant/unit/division/EHSQ -managers only benchmarking reports, others had set up their CR information system in such a way that location/unit/division/EHSQ -managers had access to not only their own raw data, but also their relative performance in some KPIs. When regarding the whole organisation as a target audience, one company was in the process of distributing consolidated CR performance data, and possibly benchmarking reports as well, into their intranet for everyone to access. Others were satisfied with making their external CR reporting available to employees.

As noted in chapter 4.2, there is an extensive gap for further research in building the theoretical foundations for CR data and information use, and the role of knowledge management theories as a part of those foundations. This thesis has attempted to explore some barely charted terrain, and the researcher has been forced to build his theoretical framework by using more general theories than perhaps in some other focus of research. The research process and author's motivations are therefore described as accurately as possible in order to give readers enough information to be able to thoroughly evaluate the reliability of these results. However, one limitation must be stated out loud here; even if the phenomenon under study here could be argued to be applicable to all types of companies, the use of information systems to assist in collecting, managing and distributing CR data is very unlikely to manifest itself in SMEs. This is because SMEs often have rather limited resources compared to large (multinational) companies, and probably would not even produce enough CR data to justify the purchase of a dedicated information system for handling that data. Furthermore, the leaner organisational structure makes it easier to distribute and communicate CR data and information. This link to the world of multinational enterprises is the very thing that makes this study a thesis in international business. The issues that are being studied in this thesis are most likely to touch larger MNEs, although managers in SMEs could find some useful insights as well.

As for the managerial contribution of this thesis, for a larger company that has chosen the strategic CR approach, using an information system to facilitate their CR reporting would seem to have substantial benefits. They come in the forms of saved time and effort in the CR function, better recognition of cost savings opportunities because CR is able to do more work with the data they get, and better quality data through the controlling functions built into today's systems. Starting an information systems project requires thorough planning and examining the company's existing systems and reporting processes in order to spot any possibilities of using them for CR data management as well. If there are no such possibilities, the company must define whether they need a stand-alone system or an integrated solution, which seems to be the

one to favour when possible, since educating the staff on how to use a new system always takes time, effort and money.

The company also needs to define the CR issues that are relevant to its industry and the individual company itself. They are the issues that the company has biggest effects on, and capabilities and power to actually make a difference. In those issues lies the biggest potential to extract the business benefits once the performance data can be analysed and suggestions for improvements can be made. Furthermore, the number of performance indicators should be kept relatively low, in order to make the processes of data collection and analysis easier, and because it enables the company to focus more resources on the issues it has most potential for benefiting its own business as well as the society.

When planning the project, it needs to be remembered that without adequate resources, especially in training and educating the staff, the system investment might not carry all the expected business benefits. On the contrary: should that happen, the company risks the system and the related processes not to reach their full potential because the staff might not hold the knowledge that is needed to use the system and exploit the CR information in their work.

Once the project has been started, it needs to be carefully communicated to employees. A good approach would seem to be one that makes it clear why the top management believes doing these things is worthwhile, and leaves no room unfounded for change resistance. Getting the top management's commitment and support is of key importance in getting the message through, and in some cases the middle management can be useful in communicating the issues to their respective subordinates. CR experts might have the substance knowledge, but they will always be in danger of being regarded as "outsiders", and therefore losing some of the details or nuances is far less harmful than not getting any of their message through to staff.

How to use the data then? There are several ways that have been found to benefit business. Analysing the data by benchmarking the organisation's units or plants against each others has the potential to reveal both practices that are worth sharing in some places, and poor performance and/or room for improvement in others. Sharing those best practices saves the other units/plants the time and effort that the best performer has spent into learning by trial-and-error, and provides an inexpensive way to boost CR performance across the organisation, and often save money in the process. The CR data, especially historical data, can also be used in conjunction with analyses of trends and changes in regulatory frameworks that are relevant to the company's business. Together, they provide the top management knowledge that can help them to make better decisions about which business areas to focus on and which ones to run down or sell. This information is also valuable in terms of risk management and should be

communicated back to units/plants in order for the local management to be better prepared for any effects on their operations.

In these issues, the key difference between companies with the strategic approach to CR and the proactive approach is in the purposes they use their CR data for. Companies with a proactive approach to CR can certainly do all of the above, but their biggest potential for business benefits are in using the data and information as a tool for both R&D and strategic decision making. Since good handling of CR issues are a central part of their value offering, keeping an eye on their CR information will help them develop better products and services for their customers. Furthermore, having their CR strategy integrated into business strategy, means that CR information is just as important as financial information when it comes to those important strategic decisions. For these companies, it would be recommendable to try to integrate their financial and CR data collecting systems and processes, and attach to their CR performance indicators their respective financial effects.

Bringing all of this together, it would seem that using CR data and information is worthwhile, but the processes have so far been built only around collecting the data. With a little help from a new point of view provided by knowledge management, and tweaking the existing information systems and processes involved in CR data management, companies could reap extensive business benefits that could prove to bring truly *sustainable* sustainable competitive advantages. Getting ahead of the competition with any type of competitive advantage is valuable, staying ahead because the advantages are sustainable is even more so. In other words: staying ahead while, and because of doing the right things right; combining efficiency and ethics into effectiveness. That is something every moral manager should appreciate.

9 SUMMARY

Corporate responsibility has its roots in social and stakeholder theories. It has been around for decades, and during that time, the importance of the issue itself and the relative emphasis given to its different parts have changed constantly. However, only recently has the practice of paying attention to CR issues, and reporting the company's performance in doing that, began receiving the full support of large multinational businesses. In fact, that support is now in the process of expanding its territories to cover SMEs as well.

In the academic community, there have been suggestions of CR's business benefits that would best manifest themselves through bringing CR strategy closer to business strategy. Other researchers had expressed their interest on the issue of using CR data to assist management's decision-making. From these building blocks an assumption was made, that CR data might be of use in the process of bringing together, or even integrating CR and business strategies. Therefore, the researcher decided to find out whether companies were using CR data for alternative purposes or not, and if so, for which purposes and in which ways were they doing that. Moreover, researcher discovered that the principles of knowledge management might be applicable to CR information and knowledge as well, and sought to find out if this would be the case.

The finding out –parts were done by conducting a web-based survey, interviews and looking at CR data management through the “lens” of knowledge management theories. The survey had 30 respondents from all over the world; all of them rated as best performers in their dealings with corporate responsibility issues. The results revealed, that the phenomenon of using CR data to other purposes than only CR reporting does exist. The alternative uses that were identified by the respondents, included strategic decision making, public relations (PR) risk management, “regular” risk management, efficiency enhancements and energy savings.

The other part of empirical research included four expert interviews. From these interviews, the favourite alternative uses for CR data were benchmarking units against each others and best-practice sharing. They were seen to have great potential in enhancing efficiency of a company's processes. The collection and distribution seems to be best done with the help of an information system, as it saves time and effort of the people in charge of CR issues, and releases them to work with more productive issues like data analysis, benchmarking and scanning the business environment for CR related threats and opportunities. However, this is not to imply that acquiring an information system is a walk in the park; the essentials for any manager to remember when running an information systems project were presented in chapter seven.

Knowledge management principles were discovered to hold real potential for further facilitating companies to exploit their CR data. Knowledge management theories and

principles focus on leveraging the knowledge that resides inside a company's employees. Regarding CR data, KM principles provide a framework with which not only to organise best-practice sharing more efficiently, but also to create a positive vicious circle creating more and more knowledge on how to integrate CR issues into day-to-day business.

All in all, the way to get the most out of CR data is to seek deeper integration between business and CR strategies. The closer CR issues are to a company's core strategy, the more strategic importance CR data has. If a company's value offering has responsibility as an integral building block, CR data provides yet another useful source of additional information to use when developing new products, services or concepts.

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Annex 1

Questionnaire

The survey's questions, with their respective choices for answers:

- **Is corporate responsibility (CR) in Your organisation...?** (an independent function/integrated inside various functions/a part of public relations (PR))?
- **Is there an information management system (IMS) in place in Your organisation?** (Yes/No/We have more than one information management systems)
- **How is CR data gathered in Your organisation? You can choose multiple alternatives.** (By telephone and email/With a database or an IMS dedicated to CR data/With an organisation-wide database or IMS)
- **How is CR data stored in Your organisation? You can choose multiple alternatives.** (It is not stored/In paper archives/In a database or IMS dedicated to CR data/In an organisation-wide database or IMS)
- **Is Your organisation's CR data used for any other purposes besides Your CR reporting or projects?** (Yes/No)
- **For which purposes is Your organisation's CR data being used? You can choose multiple alternatives.** (Strategic decision making/Risk management/PR risk management/Efficiency enhancement/Energy saving/Identifying other cost-cutting possibilities/Other, what?)
- **How is CR data treated in Your organisation? How much importance is it considered to have compared to other types of data?** (More importance/Just as much importance/Less importance)
- **Is CR data actively distributed across Your organisation with an information management system (IMS)?** (Yes/No)
- **Has Your organisation been promoting, does it have a running project, or intentions to promote the use of CR data throughout the organisation?** (We already promote the use of CR data throughout the organisation/We have a running project for increasing its use/We are planning or are going to promote its use/We are not planning to promote its use)
- **Which functions or departments would You describe as the "heavy-users" of CR data in Your organisation?** (Open question, no alternatives given)