

Does Being Socially Responsible Mean it is a Good Place to Work? A Study of HRM/OD Reporting on 105 Companies

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Abstract

This paper examines the sustainability reporting efforts of 105 firms drawn from the FTSE4Good index. To be included in this stock market index firms have to meet a number of criteria that reflect a broad consensus on what constitutes good corporate social responsibility practice globally. This study focuses on how socially responsible companies deal with human resource management/organizational development (HRM/OD) in relation to a number of factors. The broad research strategy was to conduct a content analysis of sustainability reporting by developing a sample of 105 firms through accessing and comparing the HRM/OD issues that these companies reported in their sustainability and annual financial reports. A further objective of this study was to investigate the *type* of HRM/OD matters the firms report on and the *extent* to which patterns and trends in reporting were discernible. It is asserted that, despite the opaqueness of sustainability reporting, a content analysis of such reports can reveal important insights into what corporate social responsibility (CSR) issues are reported, how they are reported and the important nexus between HRM/OD and CSR issues.

INTRODUCTION

The term CSR is often used interchangeably with others, including corporate responsibility, corporate citizenship and corporate governance. Although these terms are different, they point to similar trends. Throughout the industrialized world and in many developing countries there has been a sharp escalation in the social roles corporations are expected to play (Harvard University, 2006). Growing sensitivity over corporate social responsibility (CSR) status has increased corporate interest in sustainability reporting (see Adams 2002; Unnerman and Bennett 2004). Many firms (especially multinational companies) are eager to be seen to be engaging in desirable levels of disclosure by regularly reporting on environmental and social issues as they relate to the company's activities. This increased interest is the product of an assortment of pressures that have concentrated on the firm in recent years and which, collectively, have reinforced the value of being perceived as a 'good' corporate citizen. Although the meaning of corporate citizenship has been contested it is used here to describe companies taking into account the impact of their activities on their stakeholders and seeking to deal with them in ways that are open and honest (see Zadek 2003). In this paper, the sustainability reporting efforts of 100 firms drawn from the FTSE4Good index are examined in order to determine how these firms are addressing a central concern of CSR – disclosure over HRM/OD issues. The paper begins by identifying the pressures companies face to engage in sustainability reporting before outlining the research strategy and methodology. The results of the study are presented next, then the patterns and issues manifest in the data are discussed.

THE CSR MOVEMENT AND SUSTAINABILITY REPORTING

In this paper, the term CSR movement is used to describe the development of structures, institutions, mechanisms and discourse that support and diffuse CSR norms. Hanlon (2004:1) has argued that 'CSR is given a new urgency today because

the state, capital and civil society are in a process of redefining their relationship and creating a new social settlement’.

The pressures that have assisted in driving the CSR movement are both conceptual and commercial. First, there seems to be an increased willingness among many corporations to accept that they have responsibilities other than to their shareholders. Under the social institution perspective the company is considered to be a social construction – composed by and dependent upon its stakeholders. Stakeholder approaches to governance are also consistent with the ‘resource-based’ view (RBV) of the firm which provides a commercial explanation for firm interest in CSR. RBV essentially posits that competitive advantage in contemporary organizations often lies in the internal combination of unique firm resources, capabilities, competencies and tacit knowledge (Hoskinsson et al. 1999). As Jacoby (2005: 97) has explained, RBV has the effect of shifting strategic thinking away from pure market factors towards developing inimitable firm characteristics including unique human capital or a distinctive corporate culture. In Jacoby’s (2005: 98) view, ‘the resource-based approach is consistent with a stakeholder orientation’ since it requires firms to make longer term investments in employees and develop strong relationships with suppliers, customers and communities in which the firm does business.’

Combined with these conceptual pressures are a number of developments that have created commercial force with regard to the diffusion of CSR norms. These developments include the growing willingness of consumers to boycott goods that have been ‘unethically’ produced, increasing popular concern over environmental degradation and concern over the adverse consequences of globalization (Smith 2003). Perhaps more importantly though has been the rise of socially responsible investment (or ethical investment) and the more recent development of the United Nation’s Global Compact and related Global Reporting Initiative (GRI).

Socially Responsible Investment represents a significant commercial pressure for companies to commit to CSR norms and engage in sustainability reporting and dialogue. To be identified as an investment target by SRI funds managers, companies must be considered to have a desirable CSR status. This is practically determined through a combination of corporate disclosure and funds managers’ assessment of a corporation’s CSR status. From humble beginnings, SRI has enjoyed tremendous growth in developed countries. For instance, in the United States in 2001, \$US 2.332 trillion was invested in socially responsible share funds and trusts or 13 per cent of all US funds, up from \$US1.185 trillion in 1997 (Schueth 2003). Similarly, in the United Kingdom, the value of funds in socially responsible investments rose by 327 per cent between 1994 and 1998 and is now worth some \$US326.6 billion. This is likely to grow further with changes to the UK’s pension fund regulations which require all pension funds to declare the extent to which SRI principles influence their investment strategy (see Sparkes 2002: 389) In Australia, the Australian Securities Investment Commission [ASIC] (2002: 10) suggests that \$AUD13.9 billion was invested in SRI type investments - up 32 per cent on the previous year.

Complementing the growth of SRI has been the development of the Global Compact (GC – ten principles of Corporate Citizenship launched in 1999 by Secretary General Kofi Annan) and the associated Global Reporting Initiative. Charged with helping to ‘civilise’ globalization through responsible corporate citizenship, the Global Compact

as both a normative doctrine and forum for social actors has done much to propagate the importance of corporate citizenship and encourage global firms to issue sustainability reports through the related Global Reporting Initiative (GRI). The GRI provides a framework for social, ethical and environmental reporting consistent with the Global Compact principles (see Willis 2003). The GC and the GRI might be expected to encourage considerable focus on labour and employment issues since four of the ten Global Compact Principles are International Labour Organisation (ILO) labour standards (UN 2003).

Commitment to the global compact is necessary for companies to be listed on the FTSE4Good index – a UK index of socially responsible companies. Being listed on the FTSE4Good index or similar indexes allows companies to portray themselves as appropriate SRI targets and maintain a reputation for being responsible corporate citizens. The emerging nexus between capital markets and the goals of the global compact is further illustrated by the United Nations's Global Compact proposal to develop global principles for responsible investment. In June, 2005, representatives of over twenty large pension funds and institutional investors with over \$US 2 Trillion under management met with senior officials of the Global Compact office to further this proposal (GC 6/07/2005).

Along with these commercial pressures is a growing body of research that points to the positive effects experienced by firms who commit to high levels of corporate citizenship. Turban and Greening (1996) for instance, discovered that a firm's corporate social performance is related positively to its reputation and to its attractiveness as an employer. Furthermore, in a recent meta-analysis of 52 studies of the relationship between corporate social performance and corporate financial performance, Orlitzky et al. (2003), conclude that there is a more positive association than previous research has suggested, indicating that corporate social responsibility does indeed reap financial rewards.

The growing tendency of firms to engage in regular sustainability reporting can, therefore, be seen as one important consequence of the CSR movement. An emerging consensus that firms have responsibilities other than to their shareholders, together with commercial pressures, has encouraged firms to increase levels of disclosure over their activities. A recent KPMG (2005) survey noted that 52 per cent of the top 250 companies on the Global Fortune 500 companies now issue environmental, social or sustainability reports up from 35 per cent in 1999.

Previous research, mainly in the field of ethical or social accounting, has tended to focus on the reporting and verification mechanisms associated with stakeholder reporting (Dando and Swift 2003; Gray 2001; Willis 2003), the problem of identifying stakeholders (Vos, 2003) and the implicit issues in corporate-stakeholder dialogue (Unnerman and Bennett 2004). Nitkin and Brooks (1998) also examined the motivations for sustainability reporting and the frequency of reporting in 174 of Canada's largest 1500 organisations. Although much of this analysis has been valuable it has not looked in any detail at what the authors describe in this paper as HRM/OD reporting. That is, corporate reporting over employment, labour and human resource matters that are typically located within the firm but may also consist of issues within its supply chain. These issues are central to CSR but also tend to be more sensitive than environmental or community issues. For example, the KPMG

2005 survey of sustainability reporting indicated that environmental issues were more regularly reported than social issues (broadly defined to include labour and community concerns) and that the reporting of social issues tended to be more superficial (KPMG 2005: 5).

These findings correspond with research conducted by ISIS Asset Management Plc (a leading European funds manager) on eleven MNC technology companies. ISIS reviewed these company's sustainability reports and interviewed senior executives and discovered that the management of labour issues (particularly in the supply chains of MNCs) lagged the management of environmental issues and yet issues such as low wages, excessive overtime and occupational health and safety concerns (arising from materials toxicity) posed significant reputational risks to the MNCs studied (ISIS 2004).

This paper contributes to the CSR and HRD/OD literature, by investigating the extent to which large firms report on these matters. According to Porras and Silvers (1991) OD is triggered by an organisation's desire to fit into future desirable environmental niches – in this case being or becoming more socially responsible. OD, in turn, is said to result in the creation of new modes of functioning and impacts on substantial segments of the organization. Hence, a further objective of this study was to investigate the *type* of HRD/OD matters firms report on and the *extent* to which patterns and trends in reporting are discernible. The research strategy and methodology designed to address these objectives are outlined in the following section.

RESEARCH STRATEGY AND METHODOLOGY

The broad research strategy was to conduct a content analysis of sustainability reporting by firms drawn from the FTSE4Good index. This was achieved by developing a sample of 105 firms then accessing and comparing the HRM/OD issues that these companies reported in their sustainability and annual financial reports.

In practical terms, the research required identification and examination of annual and sustainability reports on these company's websites¹. Predominantly, this was a relatively straightforward task on most occasions although the language used to describe these sustainability reports often differed quite markedly. Single annual reports (not identified as stakeholder or sustainability reports) were also examined, as they sometimes contain statements of how the company is addressing its social responsibilities and also often contain statements regarding the firm's HRM/OD matters.

Once the reports were identified, an excel spreadsheet was constructed in order to record the HRM/OD issues that were reported by each firm in their report. The spreadsheet allowed for straightforward comparison and identification of patterns and trends. The results of this analysis are reported in the following section.

At this point it is important to note that possibly the most significant limitation to this methodology is that it is self (that is firm) reported data. Hence, without company level surveys or case studies it is impossible to confirm that what is reported is entirely

accurate – a problem often encountered by the end-users of sustainability reports. Moreover, relying only on what is reported in corporate annual reports may give rise to a bias that does not capture all the CSR activities of the firm. For instance, a firm may have active workforce diversity policies that for various reasons go unreported in the sustainability reports. Despite these limitations, investigating what is reported, patterns of disclosure and which companies engage in HRM/OD reporting and the quality of reporting can assist in deepening understanding of the rising phenomenon of sustainability reporting.

RESULTS

Perhaps unsurprisingly, 45 of the companies identified their country of origin as the USA underscoring the dominance of US companies in this sector. The next most common country of origin was the UK with 12 companies. The remaining companies were listed in single figures as indicated in table 1 by descending numerical order.

Table 1: The Country of Incorporation for the 105 Firms in the FTSE4Good Index

Country of Incorporation	Number (n=105)
USA	45
UK	12
Japan	9
France	8
Netherlands	6
Italy	6
Germany	5
Switzerland	4
Australia	3
Spain	3
Sweden	1
Belgium	1
Finland	1
Canada	1

Next a quantitative summary of HRM issues reported in the FTSE4 Good Index sample of 105 firms corporate sustainability reports is outlined in table 2. As indicated in this table twenty six of the companies reviewed indicated in their reports that they had established mechanisms for employee’s to exercise voice – especially with respect to ethical matters. Codes of conduct were referred to in 21 cases indicating a strong emphasis on ensuring ethical conduct within companies in this sector.

**Table 2: Quantitative Summary of HRM Issues Reported in the FTSE4 Good Index
Sample of 105 Firms Corporate Sustainability Reports**

Search Query - HRM Matters Reported	Quantitative Summary (listed in descending order of frequency)
Employee Remuneration and Conditions mentioned?	42
Employee Share Ownership Plans?	38
Diversity Commitment?	41
Safety Commitment?	29
Employee Voice Mechanisms?	26
Number of Women in Senior Management Positions indicated?	43
Downsizing?	10
Supply Chain Monitoring for Social, Ethical and Environmental issues?	13
Trade Union Recognition?	16
Commitment to ILO/Global Compact or other Human Rights initiatives?	11
Collective Bargaining?	16
No of Minorities in management positions indicated?	29
Industrial Disputes Mentioned?	
Executive Remuneration mentioned?	16
Reported Safety Statistics?	18
Outplacement services offered?	15
Dismissals?	1
Work-Life Balance?	33
Employee Volunteering?	Charitable contributions: 21 Volunteering: 27 Community involvement support/ programs: 27

Forty two firms reported that they offered competitive or ‘above market’ salaries though few described actual salary levels. Additionally, a number of companies detailed the substantial non-wage benefits they provide such as health insurance, subsidised education plans and retirement savings schemes. Thirty eight of the companies also indicated that they had established employee share ownership plans, though in some cases, reports specified that these were restricted to senior management. In terms of executive remuneration, only 16 companies reported the amount their executives were paid or the mechanism through which they were paid.

None of the companies sampled, reported any industrial strikes or conflict. Indeed, only 4 companies mentioned that there had been no stoppages due to industrial action. In contrast to the sensitive issues of litigation and industrial action, 29 reported on their commitment to safety and 18 reported on safety statistics.

Ten firms reported downsizing events in their reports. Unilever (50,000) Sony (10,000+) and 3M had downsized the most, although one company Docomo had outsourced thousands of jobs. Most companies also reported that they had provided termination advice and outplacement benefits were reported by 15 firms.

Some of the most commonly reported issues in sustainability reports were those concerned with work/life balance and workforce diversity. In terms of work/life balance, 33 firms discussed their commitment to ensuring balanced working lives for their employees and detailed the flexible working arrangements and well-being plans available to their staff.

Workforce diversity was one of the most commonly reported issues, with 41 of the companies reporting a commitment to workforce diversity with reports typically detailing the elements of workforce diversity programs. Forty three companies indicated the number or proportion of senior management positions held by women and twenty nine companies reported on the percentage of senior management positions held by minorities. However, one of the listed firms, Coca Cola had to put in place a task force to oversee the complete reform of its HR systems following one of the biggest discrimination cases in history. As one journalist put it: “Coca-Cola’s human resources staff was so busy with layoffs and restructuring this year that the company didn’t meet its diversity goals (John, 2000).

It was evident from the reports, that a number of the sample companies were also concerned about human resource management risks in their supply chains. Thirteen companies indicated that they closely monitored suppliers and required commitment to quality and social/human rights standards that include labour issues.

With regard to links between OD and CSR, 27 companies reported that they were involved in employee volunteering programs and 27 were involved in community support programs. Twenty one firms also reported that they made charitable contributions.

With regard to training, 52 firms reported that some kind of training was offered as illustrated in table three. Where specific training was concerned management and/or leadership training topped the list, followed by diversity and safety training. Given the importance of the latter two it has to be assumed that in many cases firms had just not reported on these areas even though they were being offered. Where general training was concerned (and this was mentioned in 36 cases) distance/computer training was the most frequently mentioned and education/institution opportunities. This training was presumably either generic or on-the-job.

Table 3: Type of training reported on by number of sample firms

Type of Training Offered	Number of Firms
Management/Leadership training	18
Diversity training	12
Safety training	10
Cultural training	6
General education/training programs	
General training	36
Distance/computer based training	21
Education Institution Opportunities	20
Career advancement/enhancement/planning/development	8
Health awareness training i.e. gives up smoking, fitness training, and stress mint.	5
Ergonomic training – posture etc	5
Advanced/technical training	4
Internship program mentioned	3

The Best of the Best?

When considering the companies included in this sample it was decided to analyse the ‘best of the best’ in terms of HRM/OD reporting. This was done by studying the awards that had been presented by external bodies with regard to the ‘top six’ of the sample firms and what these awards consisted of. Cisco systems was the most awarded company of the sample group. In terms of OD Cisco offers: Career transition services (including access to physical and/or virtual career centre, seminars, career coaching, CV development and so on). Cisco has been awarded Hewitt Best Employer in Asia: Australia, Hong Kong, Singapore; 100 Best Employers UK; one of Fortune 100’s Best Companies to Work For and the Working Mothers Best Companies Award

The other five ‘best of the best’ are also listed in table 4 alongside the awards they received. The majority of awards were based on employee nomination and, in the case of the Fortune 100 Best Companies to Work For, evaluators involved in the selection of companies for the list must sign non-disclosure agreements and are screened for potential conflicts-of-interest before participating in the evaluation process.

Table 4: Awards & Independent Reports on the ‘Best of the Best’ from Sample Group

Company and Independent Academic Reports	Awards Made
Cisco (97779 hits) Job satisfaction – 5 Employee satisfaction – 1 Scandals – Two Lawsuits – Three Downsizing – Five	Hewitt Best Employers in Asia: Australia, Hong Kong, Singapore; 100 Best Employers UK; Fortune 100 Best Companies to Work For: Working Mothers Best Companies Award
Johnson and Johnson (566103 hits) Job satisfaction – 2 Employee satisfaction – 1 HR Disputes – 1 Lawsuits – Five Downsizing – Two	Corporate Caring Award
Medtronic (27064 hits) Job satisfaction – 2 Employee satisfaction – 1 HR Disputes – 1 IR Disputes – 1 Scandals – None Lawsuits – 1 Downsizing – 1	One of Fortune 100’s best place to work in North America
Qualcomm (18015 hits) Lawsuits – Three Downsizing – 2	One of Fortune 100’s best place to work in North America Industry Week's "100 Best Managed Companies."
MBNA (16938 hits) Job satisfaction – 1 Lawsuits – 2	Working Mother magazine has named MBNA one of the 100 best companies for working mothers for the last 12 years and a top 10 company for three of those years; MBNA Europe and MBNA Ireland have also been named as best places to work.
Diago (13819 hits) Lawsuits – 1	<u>Australia Top 18 in Best Employers in Australia</u>

When a further search was undertaken to determine what reports/research was available on these six companies incorporating independent data it was discovered that much of the available information concerned the industry in general. An ‘academic super search’ was undertaken on the company in general, followed by searches with regard to: job satisfaction, employee satisfaction, scandals, lawsuits and downsizing issues. The number of ‘hits’ achieved followed by academic articles on the factors identified are listed in table 4. Where the topic does not appear it means there was no report on this issue for that company. Apart from the quantitative summary of independent research reports there is no further space to explore those issues further in this paper.

CONCLUDING COMMENTS

Sustainability reports provide a window on firms, permitting outsiders to peer beyond financial data to examine how management is addressing its environmental and social responsibilities. Unfortunately, this window is often opaque due to management's desire to place itself in the best light, and because of the lack of consistency of approach and level of detail in reporting. Furthermore, the challenges of establishing accurate and independent verification mechanisms increase the probability that reports are a mere 'green-wash' of reality. Even amongst the sample presented in this paper of presumably 'superior' corporate citizens, issues of opaqueness were evident. Although there were one or two exceptions, this does indicate perhaps a lack of any genuine management commitment to CSR and/or inconsistent reporting approaches. One example of this opaqueness was evident in the reporting of safety issues. Many firms in this sample seemed eager to report on the corporation's commitment to safety but were less forthcoming on reporting actual safety data. Unfortunately, a common theme in many sustainability reports was the preparedness of corporations to report on the existence of programs, policies and initiatives but, equally, provide little data on actual progress towards set objectives or targets. This lack of transparency points to the importance and value of mechanisms to independently verify claims made in sustainability reports - an exercise that will be conducted by the authors in the near future.

Sustainability reporting and codes of practice generally, also raise the critical question of whether this essentially voluntary and private form of regulation is supplanting public, state enforced regulation. While at face value, management may be attracted to this form of self-regulation rather than state regulation, in reality, this trade-off isn't available to them. In most cases, codes of practice and reporting mechanisms impose standards that go beyond local regulations. In this respect they supplement rather than supplant local laws and standards. Codes of practice and reporting systems also have some inherent advantages over local regulation such as specificity (they can impose standards on specific companies or sectors); speed (they can be deployed more quickly than state regulation); and 'superiority' – in the sense that they typically provide measures of ongoing performance against established standards. Whereas public law provides statutory minima, codes and reporting systems encourage continual improvement beyond the minima.

Nonetheless, investigating what is reported, how it is reported and who does the reporting often reveals important insights into the relative importance of issues as well as the influence of country-of-origin effects and other explanatory variables. In this study of 105 companies listed on the FTSE4Good Index we discovered that workforce diversity, remuneration and conditions, safety, along with reporting on the number of minorities in management positions tend to be priority issues, while collective bargaining and trade union recognition and dismissals are issues that are rarely reported. This probably reflects the predominance of US companies in the sample and the diffusion of sophisticated HRM/OD strategies and practices as well as the history of non-union workplaces across the sector.

Finally, our study has also confirmed the earlier KPMG (2005) finding that sustainability reports were more likely to report on environmental rather than

HRM/OD issues. Again, we suspect that this is due to the perceived sensitivities of disclosing details of internal HRM matters. However, it was surprising that so few only around half of the 105 sampled firms reported on training and, of those only ten included safety training in their reporting.

These results leave a number of unanswered questions - the most important being how information presented in sustainability reports is used by key stakeholders. It is unclear as to what extent the problem of opaqueness is overcome by independent verification mechanisms or direct dialogue with reporting companies. An additional and equally important question is whether the reports actually do enhance corporate reputation, even if they contain negative information. With increasing numbers of corporations publishing sustainability reports, the authors argue that developing an improved understanding of how sustainability reports are used and the impact they have on corporate reputation and stakeholder relationships is critical to their future utility. If, as Porras and Silvers (1991) argue OD is triggered by an organisation's desire to fit into future desirable environmental niches, it would be expected that linking OD with CSR would feature more frequently in future sustainability reports.

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ⁱ It is possible that a small number of companies produce sustainability reports but do not make these available on their websites.