

## PRESENTING A CORE-PERIPHERY MODEL OF VOLUNTARY CSR DISCLOSURE IN AUSTRALIAN ANNUAL REPORTS

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### Abstract

The relationship between perceived Corporate Social Responsibility (CSR) performance and desirable outcomes is well established in corporate governance literature. Over the past two decades in particular, there has been an increased recognition of this relationship by executive managers and a concomitant increase in the quantity and detail of CSR activities being voluntarily reported by companies has been observed. The increasing level of voluntary CSR reporting has been attributed to two main corporate strategies: to conform to social expectations and to legitimise business operations to salient stakeholder groups within the community. Whilst there has been extensive academic interest in the concept of CSR, it has focused almost exclusively on normative definitions of the concept, and/or the presentation of empirical evidence that details 'why companies report their CSR activities' and 'what CSR activities they report'. What is lacking in the literature, however, is a focus on the 'patterns of strategic CSR reporting' by companies. Based on the recognition of voluntary reporting patterns in the Australian industry, we present a core/periphery model of strategic CSR disclosure. The model allows for predicting how companies will voluntarily disclose their CSR performance given the issues, events and/or crises that affect their industry environments.

**Keywords:** Corporate Social Responsibility, Annual Report, Corporate Communication

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### Introduction

The relationship between credible CSR performance and desirable business outcomes (such as improved reputation, customer loyalty and long-term profitability) is now well established in the corporate governance literature (D'Orio & Lombardo, 2007; Robins, 2008; Stratling, 2007). Over the past two decades in particular, there has been an increased recognition of this relationship in the business community and a concomitant increase in the quantity and detail of voluntary (i.e. discretionary) CSR disclosure in corporate annual reports has been observed (Boasson, 2009; Matten & Moon 2008). The increasing level of voluntary CSR reporting in annual report documents has been attributed to two main corporate governance strategies: to conform to the expectations of the society within which the company operates and to legitimise the company's activities to its salient stakeholder groups (Kurihama, 2007; Samy, Odemilina & Bampton, 2010; Shahin & Zairi, 2007; Thomson & Jain, 2010).

Whilst there is extensive academic interest in the concept of CSR, academic research has tended towards developing normative definitions of the concept, and the presentation of empirical evidence

that addresses two specific questions relating to CSR: these being (i) why companies should disclose their CSR activities, and (ii) what CSR activities companies should disclose (Garriga & Melé, 2004; Nelling & Webb, 2009; Schwartz & Carroll, 2008; Syriopoulos, Merikas & Vandzikis, 2007). However, we still know little about how Australian organizations disclose their CSR information. Indeed, Andrew and Wickham (2010) note a lack of research into the strategic practices used by companies when disclosing CSR performance in annual report documentation. Additionally, Banerjee (2007) notes there are 'some fundamental assumptions of business in promoting CSR that require closer examination and more critique if we are to move beyond CSR as public relations management and branding'.

The lack of progress on these issues can be explained in part by difficulties researchers face in determining the factors that drive voluntary CSR disclosure. Such difficulties can be attributed to a broad discussion on the definition of CSR in the last five decades and, directly connected to this, the contingent nature of discretionary or voluntary disclosure practices (see Jones, 1980). While global disclosure standards such as the Global Reporting Initiative (see [www.globalreporting.org](http://www.globalreporting.org)) reflect

attempts to develop more precise, less subjective and well recognised disclosure concepts and standards, there is still some way to go in achieving acceptance of such standards for CSR disclosure (Clarke, 1998). As Stittle (2002: 354) notes: 'the result is that companies develop their own model of ethical reporting to portray their own interests and priorities'. As a result, it remains difficult for researchers to derive general disclosure practices across different organizations.

Research conducted by Guthrie (2007) indicates that the type of information communicated in annual reports by companies does not necessarily reflect the realities of business or of managing stakeholder relationships. Castello and Lozano (2009) suggest that CSR practices are evolving from a company-based economic-orientation towards a more inclusive socially-oriented approach that addresses social issues, social obligations, and social responsibilities; thus becoming entwined in what Wartick and Cochran (1985) describe as the 'social contract' and 'moral agency'. However, according to Castello and Lozano (2009), there is a lack of theoretical knowledge about the relationship between what and how CSR activities are being voluntarily disclosed, thus making insights into the social contract and moral agency aspects of business strategy and CSR problematic. Andrew and Wickham (2010) argue it is possible to gain an improved understanding of how companies disclose CSR, as well as insight into which CSR activities are most successful over time in addressing business risk and securing long-run economic gain, by identifying the relationships between the operating environment and disclosed CSR activities. They suggest that a study of the patterns in voluntary CSR disclosure will help academics and practitioners alike to reflect on the increasing strategic importance of effective CSR reporting practices. This paper seeks to address this gap in the research literature, and so contribute to the development of an in-depth understanding of the strategic patterns of voluntary CSR disclosure which Australian companies use to promote their CSR performance.

### **Theories of CSR disclosure**

It is well accepted that a company's long-term viability depends largely on how positively it is perceived by its key stakeholders and members of the community in which it operates (Cornelissen, 2004; Oeterli, 2008). In order to link the benefits of CSR performance to the financial bottom line, academic research has undertaken an extensive examination of the strength and causality of the relationship to determine whether 'doing good' leads to 'doing well financially' (Dentchev, 2005; Orlitzky, Schmidt & Rynes, 2003). Overall, the results of empirical studies of the direct relationship between CSR performance and profitability have been mixed, reporting positive, negative, and neutral results (McWilliams & Siegel,

2000). Other research however, suggests that the benefits of acceptable CSR performance are rather more indirect, and better conceptualised as creating a 'virtuous circle' for the company that creates positive stakeholder relationships so reducing the likelihood of difficulties when dealing with social responsibility issues (Castello & Lozano, 2009; Waddock & Graves, 1997).

According to Oeterli (2008) there are a number of reasons 'why' the matter of voluntary CSR disclosure is becoming increasingly significant in business. Social and environmental performance is high on the public agenda as a consequence of past instances of unethical corporate activity such as that which led to the global financial crisis (GFC) of 2008. These events had two major consequences for voluntary CSR reporting: First, the social expectations within the population towards ethical business behaviour changed or became more obvious. Second, the stakeholders became more demanding with respect to corporate disclosure of aspects covered by CSR. There is empirical evidence that voluntary CSR disclosure supports the legitimization of business activities. Adams and Frost (2006) highlight that CSR reporting is important for building trust and rapport with relevant stakeholders, as well as assisting in attracting and retaining the highly talented employees that are so critical to competitive advantage, innovation and sustained long term organizational performance. Moreover, there is strong evidence to suggest that voluntary CSR reporting can make a significant contribution to effective employee management, as well as impact positively on a company's image and credibility; key requirements for legitimising a business and its activities in the eyes of its stakeholders (Adams, 2008).

Research indicates that companies will respond differently to different stakeholder groups based on institutional differences such as norms, values and culture associated with different local contexts (Maignan & Ferrell, 2003; Sotorrio & Sanchez, 2008). This means companies operating in global markets are often faced with the need to manage multiple and different CSR reporting pressures at a local level of operation if legitimacy is to be achieved. Thus, legitimising a business in the eyes of stakeholders is made more problematic when companies operate in globalised markets. In this context, Sotorrio and Sanchez (2008) suggest that these local variations in CSR reporting imperatives within globalised markets, married with the need for legitimacy, explain why European rather than North American-headquartered companies have taken the lead in endorsing the United Nations Global Compact and the Global Reporting Initiative norms.

### **Legitimacy Theory**

Legitimacy Theory asserts that organizations make efforts to ensure that they are perceived as operating within the norms of their general community, or, in other words their activities are perceived by stakeholders as being legitimate (Deegan, 2006). The successful outcome of such efforts – ‘legitimacy’ – is a status rendered by society which is considered a prerequisite for business longevity (Dowling & Pfeffer, 1975; O’Donovan, 2002). Moir (2001) argues that under the terms of the ‘social contract’ between an organization and the community in which it operates, an organization will be penalised if it is not perceived by its community to be operating legitimately and in a manner consistent with the community’s norms and expectations. Thus, while meeting community expectations helps an organization enhance its longevity and profitability, failure to do so is detrimental to ongoing operations and sustained profitability. Deegan (2006) identifies three different rationales for corporate communication aimed at maintaining legitimacy: (i) the need to counter or offset negative news about the organization which may be publicly available (ii) the wish to inform stakeholders about attributes of the organisation not previously known to stakeholders, and (iii) the wish to publicise strengths and highlight positive activity to stakeholders (e.g. business awards won or ethical actions that have been implemented), often with the purpose of distracting attention from negative events and effects (e.g. pollution or workplace accidents) of its activities. A key element essential for any legitimacy-sustaining activity is an effective stakeholder management capability.

### **Stakeholder Theory**

Stakeholder Theory posits that an organisation’s management is expected to manage its activities in line with the expectations of stakeholders and to report on those activities to the stakeholders. The theory suggests that all stakeholders, no matter how significant they are to the survival of the organisation, enjoy an equal right to be provided with information about how organisational activities impact on their interests. (Deegan, 2000; Spitzack & Hansen, 2010). Stakeholder Theory posits that the accountability of organisations requires not just routine mandatory disclosure of information about economic and financial performance but also voluntary disclosure of information about their intellectual, social and environmental performance. Research suggests there is a clear set of expectations that exist in our society about sustainable business practices that are attractive to a range of stakeholders (consumers, investors, suppliers and employees, otherwise known as the ‘virtuous circle’) (Maharaj, 2007; Tipuric & Lovrinčević, 2011). Given the evidence supporting the ‘virtuous circle’ concept (e.g. Ess, 2010; Nelling

& Webb, 2009; Smith & Williams, 2011), companies arguably have a vested interest both in building and maintaining functional relationships with their key stakeholder groups, and in finding the most effective way in which to communicate information about their sustainable business practices to salient stakeholders.

### **Annual Report communication as a vehicle for CSR disclosure**

Publication of an annual report is a compulsory statutory obligation imposed by government on listed companies in Australia. Such reports are expected to provide *inter alia* an authoritative detailed statement and evaluation of a company’s financial performance in the previous year and possibly its future prospects. Whilst a company may choose to communicate its CSR through a range of channels (e.g. the company’s website, press releases, sustainability reports etc.) the annual report is accepted as an important formal vehicle for regular communication to stakeholders; moreover, because company management is able to exercise control over its contents and presentation, unlike in the case of media reporting and third party websites where control is limited, the annual report is a key public relations tool for explaining (and perhaps excusing) non-financial performance outcomes which have attracted public attention and/or criticism (Kercher, 2001).

Historically, the annual report has often been for many Australian companies the preferred and primary communication tool for voluntary CSR reporting (Carroll, 1977, 1999; Drucker, 1954). The information provided by Australian companies through CSR disclosure can be categorised in relation to a range of indicators for philanthropic, ethical, legal, social, environmental and economic activities. The Australian experience is reflected in research by Nielsen and Thomsen (2007) conducted on the CSR disclosure of six Danish companies. This research observed that the companies reported on a diverse but inconsistent and divergent range of topics, from a varying range of perspectives. However, some common themes were noted, with companies focussing more on the reporting of safety and work environment, management, sustainability, code of ethics/conduct and even CSR itself. The empirical evidence (see Garriga & Melé, 2004; Nelling & Webb, 2009; Syriopoulos, Merikas & Vandzikis, 2007) also suggests companies are reporting on employee wellbeing, local community activities, corporate governance and accountability and the measurement of CSR initiatives.

Despite a growing trend towards sustainability reports and website communication, the annual report has retained its status for voluntary CSR reporting to stakeholders generally, and perhaps most particularly to financial markets and investors who are looking for signs of responsible risk management and sustainable returns. Guthrie (2007: 51) clarifies why CSR

disclosure in annual reports has continued to be a focal point for large companies; stating:

*No longer does the public want to know about record profits, even those in their own pockets. Rather, they are interested in whether today's profits are going to be associated with tomorrow's environmental disaster or corporate meltdown.*

The importance of CSR disclosure via annual reports, from both a company's perspective and that of its shareholders and other stakeholders, has also been reflected in research. For example, in the results of a 2008 survey of the more than 370000 shareholders of a leading Australian bank (see Werkner, 2008) that indicated 83 percent of respondents found it important to know that the bank was actively involved in CSR. Such a response suggests that target audiences for annual reports continue to accept and are willing to rely on CSR information presented in an annual report format.

This acceptance is predicated in part on the statutory nature of the standards which govern the annual reporting process, and which act as an information quality control mechanism that serves to assure any general concerns about the financial reporting elements in particular. These mandatory requirements in relation to financial information enable shareholders and other stakeholders to evaluate the financial condition and future viability of the company (OECD, 2004). However, similar statutory controls have not yet been prescribed for CSR reporting. At most, CSR reporting and disclosure by listed public companies in Australia can be said to be guided only at this time by non-binding disclosure standards promulgated by organisations such as the Australian Securities Exchange (ASX) and the aforementioned Global Reporting Initiative. The consequence is that such companies have significant discretion and flexibility in regard to determining if, what, when and how CSR information is reported in their annual reports. As such, annual reports represent deliberately published, annual instruments which are under full control of the organization. Consequently, they offer (more than any other instruments) a comparative base for analyzing voluntary CSR reporting patterns. Furthermore, Andrew and Wickham (2010) note that while annual reports are used for voluntary CSR disclosure, we do not yet possess an in-depth understanding of how voluntary CSR information is disclosed in annual reports, or how CSR disclosure patterns in annual reports over time may form part of corporate business communication strategies. Andrew and Wickham (2010: 51) further note that:

*The answer to this question offers an important advancement in the CSR literature, as it will help develop a predictive framework for how*

*corporations will likely disclose their CSR performance given the issues, events and/or crises that that arise in the future.*

To that end, this paper addresses the following research questions: (i) what patterns of voluntary CSR disclosure are apparent in the annual reports of Australia's largest companies; and, (ii) to what extent are voluntary disclosure patterns shaped by internal and external events impacting on business organizations?

## Method

In order to explore these research questions, this study examined the annual reports of the three largest companies by market capitalisation in the three largest Australian industries, as rated by the ASX (2010), for the years 2005/6 to 2009/10. The selection of nine companies and timeframe was considered important because it enabled a study of the voluntary CSR activities reported by nine leading Australian companies across a five-year timeframe that encompassed the period immediately before the GFC as well as its aftermath. Additionally, the study sample provided an opportunity to study how a common corporate governance crisis affected the voluntary communication of CSR activities across leading companies in the three largest industries in Australia. In total, 45 annual reports were downloaded from the corporate websites of the sample companies for analysis. Each of the 45 annual reports was subjected to a rigorous content analysis process that followed the five-stage protocol identified by Finn, White and Walton (2000), Hodson (1999) and Neumann (2003).

First, the aims and objectives of the research were identified, and first round coding rules were developed. Here, coding refers to the process for converting information into contextual values for the purposes of data management and analysis allowing theme identification (Ticehurst & Veal, 2000). The data was organised initially by the variables listed in the Global Reporting Initiative (2002), which include 'materiality', 'stakeholder inclusiveness', 'sustainability', and 'completeness'. Second, all of the voluntary CSR data in the annual reports were entered into a codified database. At regular intervals, inter-coder reliability checks were taken to ensure consistency with the coding rules. Third, the coded data were interrogated to identify themes in the voluntary reporting of CSR activities over time. The trends and emergent themes detected in the analysis formed the basis for establishing the second round of data categories. The initial coding rules were then redeveloped prior to the second round coding of the data to maintain a consistent approach between researchers, and to provide a protocol for others to follow should they wish to replicate the analysis. Fourth, the second round coding categories were

populated with data according to the new coding rules. The interpretation of the data during this part of the coding process, and verification of the conclusions, were facilitated by the use of the NVIVO software package. In the fifth and final stage of the content analysis, the results of the second round coding were refined and the research findings finalised. In order to facilitate the theory building process, memos recording the researchers' comments were maintained about the data, their categories, and the relationships between them as they emerged. Utilising the capability within the NVIVO package, memo reports were then generated, from which the trends and emergent themes were clarified. These themes form the basis of the discussion section that follows.

## Discussion

This research aims to contribute to CSR literature by examining the voluntary CSR disclosure reported annually by nine leading Australian companies. Based on a content analysis of the annual reports of the three largest companies by market capitalisation, in the three largest Australian industries for the years 2005/6 to 2009/10, the results indicate that voluntary CSR disclosure can be categorised into three distinct patterns: (i) CSR issues that are *always voluntarily reported* by the organisation; (ii) CSR issues that are *voluntarily reported sporadically* by the organisation; and (iii) CSR issues that are *never voluntarily reported* by the organisation. The findings relevant to the research questions are summarised and discussed below.

### **CSR issues that are 'always voluntarily reported'**

The analysis of the annual reports found that individual companies followed a strategy to 'always voluntarily report' specific aspects of their CSR performance across all of the sample annual reports; with the only significant variance detected pertaining to the word-count afforded them in the annual report documents. That these voluntary CSR disclosures remained consistent over the study period suggests a clear understanding at the company level of their key stakeholders' expectations in relation to their CSR performance. For example, each of the three largest banks always disclosed details on their corporate governance policies relating to 'whistle-blowing', in order to inform and presumably reassure key stakeholders that important internal governance matters (e.g. corruption detection and management of company resources) were being managed effectively. While these disclosures were identified at the individual company level after a company-specific crisis (e.g. following the foreign exchange scandal that engulfed the National Australia Bank [NAB] in

2004), an industry-wide pattern of corporate governance disclosure was also detected.

Similarly, analysis also revealed evidence to suggest how ongoing voluntary CSR disclosure resulting from externalities can become an institutionalised feature of annual report communications strategies across industries. For example, when GFC-induced workforce reductions were occurring, the focus of voluntary CSR disclosure across industries was seen to reflect the current socio-political discourse and legislative changes pertaining to the management and wellbeing of the workforce (e.g. diversity and paid maternity leave). For example, the Commonwealth Bank of Australia (CBA) frequently disclosed details on its performance in relation to its social responsibilities, paying specific attention to issues such as diversity, EEO and workplace culture. For the period 2005/6 and 2007/8 such disclosure by the company remained constant in terms of a focus on internal matters such as employee development and wellbeing, and remuneration and benefits. However, from 2008/9 onwards, its disclosure focus broadened to become more outward looking to include references to matters such as improving customer service, risk management associated with climate change, and community relationship building, while maintaining reporting on internal matters such as well as workplace and cultural diversity, flexible work arrangements, increased employee benefits and paid maternity leave, and anti-discrimination policies.

This pattern of CSR disclosure relating to social responsibilities was also identified in the annual reports for this period for companies in the mining industry. For example, Rio Tinto Ltd ('Rio Tinto') and Newcrest Mining Ltd ('Newcrest') reported 'economic contributions', 'in-kind sponsorship' and 'donations' to communities located within close proximity to their mining operations. These voluntary CSR disclosures included coverage of the deployment of HIV medication and dialysis infrastructure to remote indigenous communities located in South Africa (Rio Tinto) and Western Australia (Newcrest). Disclosure of this type represents the use of CSR initiatives for risk management purposes in regard to reputation and legitimacy management matters; management activity that is vital for mining companies to maintain their operating licences in remote, resource rich, and cultural heritage regions.

While these broader patterns of voluntary CSR disclosure were identifiable across industries, it was also clear that companies reported on a range of issues specifically relevant to their own business operation and the industry in which they operated. For example it was not surprising, given the importance of 'environmental health and safety' matters in the mining industry, to see all three mining companies voluntarily disclose information on such matters frequently over the entire period of study. With regard to 'health and safety management', Rio Tinto and

Newcrest always is closed information beyond that required by Australian legislation. In the case of Rio Tinto (which reported increased injury and fatality figures in 2007/8 and 2008/9) the level of training and development disclosure rose over the same period. Generally, this reporting focus on health and safety matters can be seen as a direct response to the need to allay investor concerns regarding legal compliance and avoidance of possible litigation for unsafe work practices, as well as create a reputation for CSR performance and consequently acquire an advantage in the highly competitive skilled labour market. Similarly, consistent CSR disclosure was also detected with regard to environmental matters such as climate change and energy efficiency, for which the greatest overall disclosure levels occurred in 2007/8 and 2008/9. Again Rio Tinto, for example, always reported detail on energy efficiency projects in these years, coinciding with increased societal concern over climate change and political discourse over projected carbon emissions trading legislation.

### **CSR issues that are voluntarily reported sporadically**

Clearly, if a company is to allay stakeholder concerns and demonstrate responsive governance as circumstances alter, so must the reporting response. The presence of infrequent voluntary disclosures on a broad range of CSR issues within annual reports across the study period is suggestive of such a reactive approach to emergent issues, changes in specific attitudes of a key sub-set of stakeholders, and/or changes in business environments and societal expectations. For example, in 2007/8 Westpac Banking Corporation ('Westpac') disclosed its role as a signatory to a set of principles for responsible investing developed by the United Nations, thereby signalling its response to key stakeholder concerns regarding responsible and sustainable investment policies, which had become prominent as a consequence of the GFC. Indeed, for the two reporting periods 2007/8 to 2008/9 NSB, Westpac and the CBA increased the reporting of specific sustainable investment practices covering matters such as compliance to a code of banking practice, revision of corporate principles, and proactive management of risk adjusted returns. Such disclosure while different in detail nevertheless provides evidence of isomorphic industry behaviour aimed at ongoing legitimisation of their business models.

Each of the banks sampled voluntarily disclosed their whistle-blowing and 'Code of Conduct' policies as a direct response to the NAB foreign trading scandal of 2004, thereby demonstrating a pattern of similar industry-level CSR disclosure over the period under study. Yet while the NAB 'foreign trading fiasco' forced all of the banks to make some type of reactive statement to shareholders as a risk management strategy immediately following the

event, only Westpac and CBA continued to disclose their ethical behaviour policies consistently across the study period. The NAB ceased such disclosures on ethical behaviour in 2006/7 but continued code of conduct disclosures across the period, despite the considerable negative impacts on their reputation immediately after the foreign trading debacle. Further investigation detected that the NAB continued to disclose 'Code of Conduct' and 'whistle-blowing' issues by way of a 'copy and pasting' their voluntary disclosures year-on-year – confirming the continued relevance of these CSR issues to their risk, reputation and business operations. Additionally, the CBA omitted all code of conduct disclosure across the period under study, focusing more on disclosing their ethical behaviour.

Similarly, in 2005/6 all three mining companies began voluntarily disclosing details on equal employment opportunities for minority groups particularly for indigenous people and woman in the workforce. It appears that this trend coincides with a period categorised by generally high resource demand, increased output and strong levels of employment, thus adding pressure on the selection and retention of employees in a highly competitive global talent pool. This emergent CSR issue is disclosed by BHP Billiton and Rio Tinto over the period under study indicating its possible increased importance to management and their shareholders, and strengthening claims as an 'employer of choice'. Furthermore, the ability to secure natural resources to help meet current high demand for metals and minerals is dependent on strong cooperative relationships with traditional indigenous landowners. One way to develop and maintain this relationship is to train, develop and employ members of indigenous communities in a reciprocal arrangement of employment, training and resource acquisition. Evidence suggests therefore, the continued cycle of growth during this period that seems to have fostered the emergence and disclosure of equal opportunity for minority groups since 2005/6.

Furthermore, results show a trend or pattern of *ad hoc* disclosure consistent with the emergence of environmental factors that are particularly relevant to the mining sector due to its considerable impact on the environment and the proposition of both climate change and emissions trading legislation. Greenhouse gases, emissions, climate change and energy efficiency disclosures are disclosed on a sporadic, reactive basis over the period under study as these issues became increasingly relevant to large mining companies due to increased media attention, public awareness and societal expectations. BHP Billiton and Rio Tinto both disclosed considerable details on the development of climate change and emissions trading public policy from 2006/7 onwards as a direct reputational risk mitigation strategy particularly as debate increased on possible emissions trading legislation. However, Newcrest displays a voluntary

CSR disclosure strategy that is more consistently linked to internal events such as pollution and environmental incidents as a result of their business activities. As such, their voluntary CSR disclosure is more sporadic in nature than their counterparts as it covers operational process and policy development to mitigate the harmful effects of their business on the environment and local communities.

The voluntary disclosure of energy efficiency policies and activities increased in 2006/7, as mining companies reacted to increased public awareness and increased energy costs. Rio Tinto in particular disclosed considerable detail on new energy efficient mining practices that increase significantly between 2006/7 and 2008/9. Improved access to new technology and the resultant lower costs of rolling out new energy efficient systems seems to play a part in the disclosure increases, with Rio Tinto providing details on hydrogen, solar and hydro power systems within its disclosure. Voluntary disclosure on CSR issues such as 'emissions reductions and energy efficiency' and 'water usage targets' became more prevalent by all sampled mining companies over the period under study. This increase in voluntary CSR disclosure appeared to be in response to the federal government's proposed Emissions Trading Scheme in 2007, scientific climate change reports, the Greenhouse Global Challenge, the increase in fuel prices and the impact of drought on the national economy. Furthermore, the increasing level of positively-framed CSR disclosure by miners (particularly in the area of environmental performance and reduction targets) indicates the effectiveness of public pressure for companies to address pollution and land degradation issues (and the success of 'Greenwashing'). In Rio Tinto's case, while energy reduction targets in 2005/6 were set using a benchmark based on 2003 output, the following years performance results were measured on a 2007 benchmark. *Ad hoc* CSR disclosure is further evidenced by Rio Tinto in 2008/9 specifically increasing its risk management activities and integrity training as a direct response to the detainment of its employees in China, based on bribery and corruption changes in 2008/9. In this instance, the CSR issue word count rose from 24 sentences in 2007/8 to 37 sentences in 2008/9. Additional *ad hoc* (and largely reactive) CSR disclosures were present sporadically throughout the period under study, and based on issues such as 'safety performance,' 'indigenous land rights', 'contributions to community infrastructure', and 'subsidised rice for the poor'.

To provide an objective, factual basis for the identification of voluntary CSR topics that are disclosed sporadically, the criteria are described below:

- Voluntary CSR disclosure is based on emergent themes that impact on the company inconsistently over time;

- Voluntary CSR disclosure may be by way of a 'copy and paste' strategy from year to year, before being omitted from the annual reports altogether, or;
- Voluntary CSR disclosure may not appear at all until a specific event occurs (i.e. pollution from harmful spill, or fatalities in the workplace), and may continue to be disclosed as a relevant issue or disappear from the annual report.
- voluntary CSR disclosure is characterised by change of policy or process to resolve the issue at hand;
- Voluntary CSR disclosure is a direct response to a change in public opinion, public policy or proposed legislation, thus an issue becomes important to stakeholders.
- Voluntary CSR disclosure is a direct response to another company's activity (i.e. pollution from harmful spill, or fatalities in the workplace), and may continue to be disclosed as a relevant issue or later be omitted from the annual report.
- Voluntary CSR disclosure is characterised by succinct detail of company policy or operational change, such as 'board reviewed and updated code of conduct'.
- Voluntary CSR disclosure is a direct response to a global issue such as the GFC. May continue to be disclosed as a relevant issue or be omitted from the annual report. Is characterised by a short overview of the activity such as, 'reduced workforce by 16,000'.

Due to the limitations of a five-year longitudinal analysis, however, this research cannot determine whether or not the voluntary disclosure of these CSR topics continues on a sporadic basis beyond this period under study, or whether it becomes institutionalised as a constant CSR disclosure topic.

### **CSR issues that are never reported**

Consistent with the findings of Nielson and Thomsen (2007) and Mirfazli (2008), this research found that companies do not disclose information regarding all possible CSR issues identified in the literature. The results of this quasi-longitudinal study indicate a range of CSR topics that are 'never' voluntarily disclosed by the sample companies in their annual reports over the study period. Results indicate varying degrees of non-disclosure over the period under study between the industries; the mining sector generally providing a broader CSR disclosure policy than did the finance sector, for example. The banking sector omitted a number of CSR topics, with the CBA omitting any details of Code of Conduct and Recycling issues, which it deemed likely to be of little consequence to its salient shareholders during the period under study. Likewise Westpac also did not disclose any details on Recycling, again with a similar justification that such disclosure is largely irrelevant

to salient shareholder groups, particularly when considering the nature of their operations when compared to the mining sector. Meanwhile, the NAB omitted the greatest number of CSR topics overall.

### **Presence of a 'Core' of voluntary CSR disclosure**

The identification of consistent disclosure techniques to specific CSR issues raises some important implications for CSR theory. The content analysis of annual reports undertaken in this study indicates the presence of language similarities and consistent use of phrases across the entire period under study. For instance, when analysing the CBA's annual reports, Societal CSR issues contained the consistent use of terms such as 'honesty', 'integrity' and 'professional standards of ethical behaviour', across the period under study. Likewise words used by companies in their disclosure of recurrent CSR issues are often replicated from year to year, as they are apparently intended for the same audiences and to address the same issues. These 'core' CSR disclosures can be explained in part by Stakeholder Theory, in that they reflect what the company believes are the issues of greatest importance to their *salient* stakeholder groups across time. In terms of Legitimacy Theory, the 'core' CSR disclosures, and more importantly, the language used to communicate them, provides an insight into the manner in which the company conceptualises their responsibilities as a member of a given industry group. For example, health and safety issues are consistently disclosed across the period under study by mining companies. Finance companies display their own consistent language of whistleblower disclosure however these are more contextually dense and lengthy as the example below demonstrates:

*The Group has a Whistleblower Protection Program established for the confidential reporting of issues of unacceptable or undesirable conduct. The system enables disclosures to be made to a protected disclosure officer by the Group's employees, or, where applicable, if the matter is highly sensitive and the employee believes it more appropriate, direct to the Audit Committee.*

### **Conceptualisation of a 'Periphery' of voluntary CSR disclosure**

The sporadic nature of some of the company's voluntary disclosures suggests that their response to certain CSR issues occurs only when they have some specific short-term relevance; once the relevance has

dissipated so too does the disclosure. These disclosures are apparently based on an issue or event that has taken place which may be perceived to be a risk to the company, thus designed to alleviate the concerns of stakeholders. These 'periphery' CSR disclosures can also be explained in part by Stakeholder Theory, in that they reflect what the company believes are the issues of current importance to their *salient* stakeholder groups as they occur. The examples of mining companies suddenly increasing the content and context of their Environmental disclosures from 2006/7 onwards and the banking sector's focus on Ethical Behaviour and Code of Conduct provides two examples where such responses are directly attributable to changing societal expectations that emerged post GFC and proposed the Emissions Trading legislation. This type of disclosure is emergent, topical, reactive, and may be described as a form of fad management. Interestingly, the effects of the GFC (and the related voluntary CSR disclosures associated with it) have only emerged in the annual reports for the past two years, and at present can only be viewed as 'peripheral' according to the definition set forth in this paper. It is expected that the effects of the GFC will endure past 2009/10, which poses a situation whereby a 'peripheral CSR issue' may indeed become a 'core CSR issue' over the medium to long term.

### **Conceptualisation of CSR issues that are 'Never' reported voluntarily**

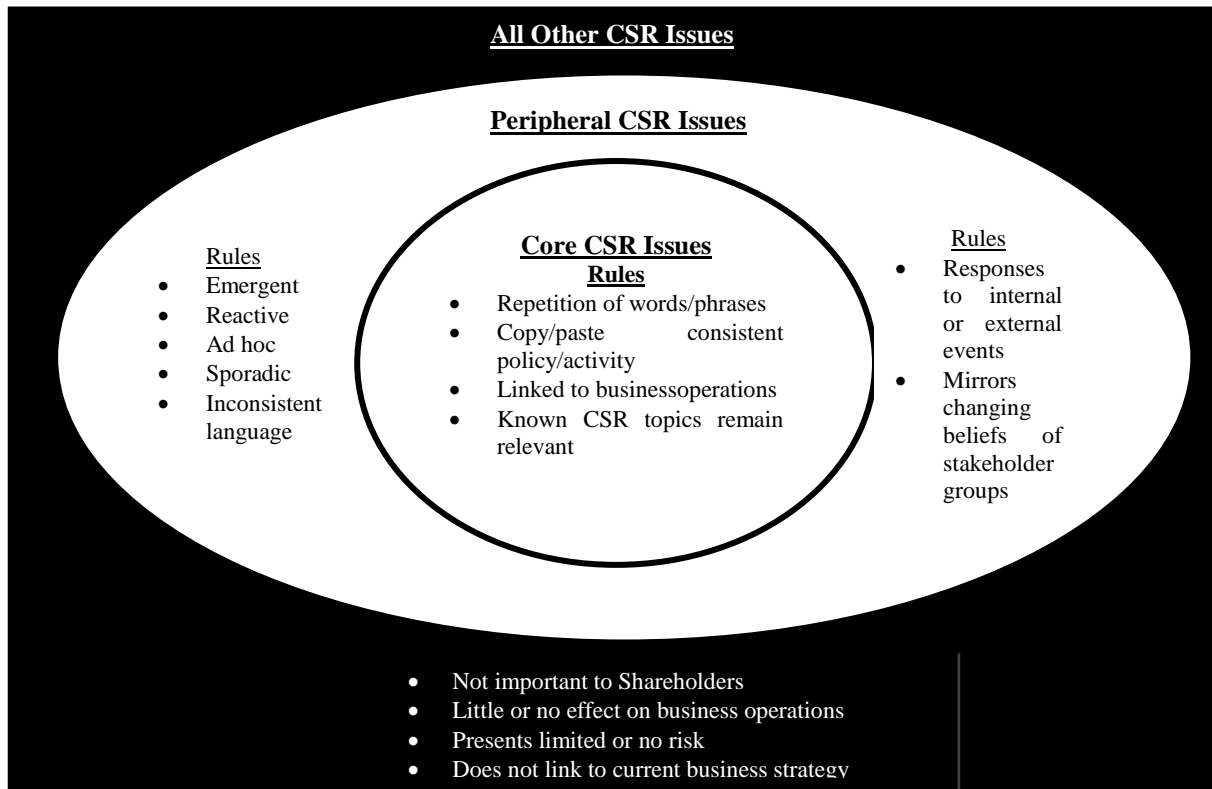
Results suggest that a number of CSR issues were never disclosed by some companies across the entire study period. Those voluntary CSR topics that were never disclosed were obviously not considered important or relevant by the company (and by extension their salient stakeholder groups). However, this also poses a question regarding the ongoing importance of such CSR issues in the medium to long term. An ethical issue or event may not be perceived by certain companies as qualifying as a CSR issue that they to need deal with. Furthermore, there is the distinct possibility that companies may be 'out of touch' with stakeholders or the expectations of society. Such miscalculations may have serious consequences for the company in terms of their bottom-line and reputational performance.

### **Presenting a Core/Periphery Model of voluntary CSR disclosure**

Based on the evidence emanating from this research, this paper presents the following "Core/Periphery Model" of voluntary CSR disclosure in annual reports



Figure 1. A Core/Periphery Model of Voluntary CSR Disclosure in Annual Reports



## Conclusion

The results of the content analysis suggested that the sample of Australian companies voluntarily disclosed those CSR activities that were directly related to protecting or enhancing their reputation amongst salient stakeholder groups and as a secondary focus, mirror the expectations of the society they operate in, thus providing a 'licence to operate'. It also found that the voluntary CSR disclosure over time conformed to a 'Core/Periphery' model that could be useful in predicting how companies will voluntarily disclose their CSR performance given the issues, events and/or crises that affect their industry environments. Results further indicate the presence of a 'Path Dependency' (cf. David, 1985) of CSR disclosure that is relevant to Core CSR topics over a given period of time. That is, the company becomes reliant upon such a disclosure strategy due to the continued success in appeasing shareholders or addressing potential negative impact to business operations or reputation. As such this voluntary CSR disclosure strategy is repeated verbatim thus forming a consistent Core of CSR disclosure linked to business operations and strategy. There are, however some specific limiting factors within this research based on the limited period under study investigated, the number of sample companies included and the limited geographic location of the sample companies. Based on these factors, the following recommendations are provided for future research to solidify the tenets of the Core/Periphery model introduced here.

Firstly, research should explore the rigour of the Core/Periphery model concept using a larger sample of companies and expanding the capture of data over a longer period of time. Whilst there appears to be strong evidence of a 'core' and 'periphery' in how companies voluntarily report their CSR information, the rules associated with how 'core' and 'peripheral' CSR issues are dealt with over a longer time frame requires attention to confirm how companies disclose CSR both post and prior to the significant external shocks that were present during the period of this study. In addition, there is an opportunity for researchers to explore whether companies listed on other international stock exchanges conform to the same system of voluntary CSR disclosure, and the extent to which being listed on multiple exchanges impacts the questions addressed here. Secondly, there is an opportunity to correlate corporate crises with the framing of voluntarily disclosed CSR information over the period to gauge the effect of these crises as time progresses to further legitimise the research finding presented here. Evidence is provided as to how peripheral CSR disclosures may also later form a path dependency for the company, or in fact cease to be a factor for consideration by management and thus be omitted from future CSR disclosure strategies. This research provides a predictive model that will serve to improve our understanding of the role voluntary CSR disclosure in the annual report has as a corporate governance mechanism over a given period of time.

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