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Regulating Corporate Social Responsibility reporting in the European Union – Back to the drawing board

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Abstract

This Master Thesis in Sociology of Law is a case study, which explores the corporate social responsibility reporting practices of companies located in two different Member States of the European Union. More specifically, the research reviews how the implementation of a European Union Directive is going to affect the corporate social responsibility reporting practices of these companies. Through content and thematic analyses, based on stakeholder and legitimacy theories, it is shown that when comparing the current corporate social responsibility reporting practices and the incentives for reporting to the demands of the European Union Directive, a remarkable improvement cannot be identified. The results indicate that the European Union Directive fails to provide further incentives for corporates to engage in and to further develop their corporate social responsibility reporting.

The socio-legal part of this Thesis explores how the European Union Directive on corporate social responsibility matters might not be used as effectively, as a stricter and more straightforward regulation would, when aiming to improve more sustainable and transparent business practices within the European Union. The methodological part suggests a method for identifying the setbacks of the European Union Directive in relation to corporate social responsibility reporting practices using a combination of thematic analysis and content analysis. The work retains a socio-legal focus intent on exploring the process of the stakeholder influence as well as issue of legitimacy when implementing a legislative measures into social context.

Key terms: stakeholder theory, legitimacy theory, Corporate Social Responsibility

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List of Abbreviations (in alphabetical order)

CSR	Corporate social responsibility
EU	European Union
SMEs	Small and medium sized enterprises

1 Introduction

Ever since the 1990's the European Union (EU) has been interested in expanding its areas of interest to include corporate social responsibility (CSR) issues. Numerous academic publications as well as the public discussion on how and why the corporations should practice business more ethically have made this progress visible.¹ Especially globalization has been recognized as a reason behind the increased interest in sustainable and ethical practices, as the international corporations are practicing business in areas of the world where the legislation regarding social issues is not as developed as in the EU area. More precisely, human rights concerns are becoming increasingly relevant, as there does not exist a mechanism controlling the human rights impact of local corporations dealing with global activities.²

In order to facilitate the abovementioned concerns, a number of EU area companies are now publishing annual CSR reports. CSR reports seek to provide information on the companies' social and environmental functions and performance, i.e. communicate the CSR practices to the public. CSR practices and CSR reports are considered to be interrelated concepts, whereby improvements in the CSR reporting practices are considered to possibly contribute towards more sustainable CSR practices as well.³ The public debate has further prompted some European states to implement CSR reporting regulations into national legislation.⁴

¹ See for example: D. Kinderman, 'Corporate Social Responsibility in the EU, 1993-2013: Institutional Ambiguity, Economic Crises, Business Legitimacy and Bureaucratic Politics Corporate..' *Journal Of Common Market Studies*, vol. 51, no. 4, 2013, pp. 701-720. Available from Political Science Complete, EBSCOhost (accessed 9 May 2015) and E. Bonsón and M. Bednárová, 'CSR reporting practices of Eurozone companies', *Revista De Contabilidad – Spanish Accounting Review*, doi:10.1016/j.rcsar.2014.06.002, 2014, p.1-2.and 'Reporting Corporate Responsibility', *Governance Newsletter*, Issue 210, 2011, p. 7. Business Source Complete, EBSCOhost, (accessed: 27 April 15)

² B. Ungericht and C. Hirt, 'CSR as a Political Arena: The Struggle for a European Framework', *Business & Politics*, vol. 12, no. 4, 2010, pp. 1-22.

³ D. Monciardini, 'Good Business? The struggles for regulating ESG disclosure'. *Oñati Socio-legal Series*, vol. 2, no. 3, 2012, p. 4.

⁴ *Ibid.*, p. 10.

In the context of EU, only on 13 April 2011, the European Commission recognized the demand for a community wide CSR reporting regulative coverage. The demand was recognized in a Communication entitled ‘Single Market Act – Twelve levers to boost growth and strengthen confidence – “Working together to create new growth”’.⁵ According to the Communication undertakings within different sectors would be obliged to provide information on non-financial matters in addition to the financial information they already provide. Subsequently, a regulatory course of action was initiated by the Commission’s legislative proposal adopted on 25 October 2011 entitled “A renewed EU strategy 2011-14 for Corporate Social Responsibility”.⁶

In addition to the Commission’s initiative, the European Parliament resolutions of 6 February 2013 titled “Corporate Social Responsibility: accountable, transparent and responsible business behavior and sustainable growth”⁷ and “Corporate Social Responsibility: promoting society’s interest and a route to sustainable and inclusive recovery”⁸ finally provided the European Parliament level acknowledgment of the CSR issues. The European Parliament found the importance of sustainable global economy, where the profitability can co-exist with the social justice and environmental protection agendas. Furthermore, the resolutions presented the demand for the establishment of minimum legal requirements for CSR reporting. In order to facilitate the aforementioned EU agendas the Directive 2014/95/EU of the European Parliament and of the Council

⁵ European Commission, Communication to the European Parliament, the Council, the Economic and Social Committee and the Committee of the Regions, ‘Single Market Act - Twelve levers to boost growth and strengthen confidence - "Working together to create new growth"', 13 April 2011.

⁶ European Commission, Proposal for A renewed EU strategy 2011-14 for Corporate Social Responsibility, RCOM(2011) 681 final, 25 October 2011, Brussels.

⁷ European Parliament, Resolution On Corporate Social Responsibility: Accountable, Transparent And Responsible Business Behaviour And Sustainable Growth, 6 February 2013, Strasbourg.

⁸ European Parliament, Resolution On Corporate Social Responsibility: Promoting Society’s Interests And A Route To Sustainable And Inclusive Recovery, 6 February 2013, Strasbourg.

of 22 October 2014⁹ (the CSR Directive) amended Council Directives 78/660/EEC and 83/349/EEC as regards disclosure of non-financial and diversity information by certain large companies and groups. The CSR Directive aims to establish “a certain minimum legal requirement as regards to the extent of the information that should be made available to the public and authorities by undertakings across the Union”.¹⁰

In theory, the EU’s new approach to CSR issues should lead to a harmonized system of CSR reporting practices within the EU area, so as the sustainable and economically stable future of the EU could be safeguarded. Consequently, the reporting of sustainable practices of the companies should be shaped similarly in all parts of EU rather than having differences created by social and geographical factors. It has been established in previous research that the actual demands for CSR and CSR reporting differ within the EU area and the respective EU Member States.¹¹ This indicates that the EU agenda for unification of legal requirements is already falling behind the demands expressed in the most progressive Member States in this regard.

The aim of this Thesis is to explore the different CSR reporting practices within the EU and how the companies are currently fulfilling the demands for CSR reporting in relation to the relevant EU CSR Directive to be implemented, with the further purpose of identifying the key motivators behind the CSR reporting initiatives of the companies. Furthermore, this Thesis aims to predict the possible impact the CSR Directive will have on these CSR reporting practices. This research paper is structured as follows. I begin by reviewing previous research that examined CSR reporting practices and I will introduce the purpose of this

⁹ Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Council Directives 78/660/EEC and 83/349/EEC as regards disclosure of non-financial and diversity information by certain large companies and groups, 22 October 2014.

¹⁰ Ibid. para 5.

¹¹ See for example: E. Bonsón and M. Bednárová, 2014, n. 1 above.

Thesis as well as the research question in a more detailed manner. Then I will proceed to present the theoretical framework. This is followed by a description of the methods and a presentation of the new CSR Directive amendments in greater depth. I will then proceed to present the empirical findings of the data collection. Lastly, I present an interpretation of these results and provide some conclusions and discussion on the main implications of my findings.

1.1 Previous research on CSR reporting

The number of companies publishing CSR reports in the EU area is considerably high.¹² The increased amount of CSR reporting and the public demand for increased transparency for corporations have resulted in a substantially diverse field for possible research on the topic of CSR. Consequently, the research conducted on the CSR reporting as well as on the actual CSR practices is extensive and multiple different perspectives can be found. For the purposes of this research, I tried to select the most suitable articles on CSR reporting practices, with the main objective being on articles and reports concerning the CSR reporting practices and the regulatory framework of CSR reporting in Europe.

Bebbington et al. examine the CSR reporting and company risk management through literature analysis.¹³ The research concludes that the concept of ‘reputation risk management’ could be employed to understand the CSR reporting practices of companies.¹⁴ The article successfully discusses the importance of risk management as an incentive for companies to engage in CSR reporting. The article further proposes that the purpose of CSR reporting might be to affect the

¹² According to the KPMG, 73 percent of European companies published CRS reports in a survey conducted among the 100 largest companies of 41 different countries. See: KMPG, KPMG Survey of Corporate Responsibility Reporting 2013, p. 21. Available at: <http://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/corporate-responsibility/Documents/kpmg-survey-of-corporate-responsibility-reporting-2013.pdf> (accessed 10 May 2015)

¹³ J. Bebbington et al., ‘Corporate social reporting and reputation risk management’, *Accounting, Auditing & Accountability Journal*, vol. 21 no. 3, 2008, pp. 337 – 361.

¹⁴ *Ibid.*, p. 355

perceptions of CSR practices rather than changing the actual CSR behavior.¹⁵ Pérez¹⁶ provides another article on the topic. In relation to importance of CSR reporting, the author pinpoints that without communicating the CSR developments and initiatives, the desired impact on the perceptions of the stakeholders is not achieved.¹⁷ Pérez is able to conclude with his review that CSR reporting is highly efficient for producing corporate reputation.¹⁸ With these two articles the role of CSR reporting is introduced well; the role of CSR reporting is to communicate the sustainable practices to a wider audience. This is usually done in a way, where the company pays close attention to how it is perceived in the eyes of the public. In other words, the CSR reports should be separated from the actual CSR practices of the companies by understanding the difference between these two concepts.

A number of studies have focused on examining the different policy systems used to manage and control the CSR reporting and CSR practices in different parts of the Europe. Steurer provides a relevant study by conducting an empirical study through journals and literature on new forms of governance on the variety of different CSR policies in the Europe.¹⁹ While Stuerer promotes the establishment of co-development of CSR in order to achieve a set of minimum CSR reporting standards, he emphasizes the need for a more extensive case study on the subject and calls for more research on how the public policy performs as a form of CSR promoter compared to traditional regulative measures.²⁰ Further on the same topic is offered by Steurer et al, who provide a relevant study on the differences between the economically diverse EU Member States, when they examined and compared the varied CSR policies and regulations of the different EU Member

¹⁵ Ibid., pp. 352-353.

¹⁶ A. Pérez, 'Corporate reputation and CSR reporting to stakeholders', *Corporate Communications: An International Journal*, vol. 20, no. 1, 2015, pp. 11-29.

¹⁷ Ibid., p. 16.

¹⁸ Ibid., p. 16.

¹⁹ R. Steurer, 'The Role Of Governments In Corporate Social Responsibility: Characterising Public Policies On CSR In Europe', *Policy Sciences*, vol. 43, no. 1, 2010, pp. 49-72.

²⁰ Ibid., pp. 67-68.

States.²¹ Additionally, they conclude the Western European states to be considerably more active in their CSR policies compared to Central and Eastern European Member States, which results in a ‘CSR gap’ between these states.²² I agree with the findings of these studies in relation to identifying differences in the policies within the EU area. However, I would suggest this policy-oriented approach contains a flaw in relation to actually providing a solution for establishment of a wider and harmonized system of CSR reporting practices in the Europe. The findings focus on the possibilities of the establishment of policy level solution to the problem, while not giving focus on the possibilities of using regulative measures in order to overcome the problems in a wider context.

Bonsón and Bednárová discuss the differences between the European countries and their CSR practices, the relationship between the level of disclosed CSR information in the reports, and the location of the headquarters of the company in an empirical study where content analysis was used to analyze the annual CSR reports of 306 different Eurozone companies.²³ Their findings indicate that while there is not any compulsory CSR reporting regulation in the most Eurozone countries, there can be found an increasing amount of different stakeholders who are demanding the reports. Consequently, this means that there are dependences between the headquarters’ locations and level of disclosed CSR information, while the size of the business as well as their financial performance did not seem to have any strong correlation to the CSR reporting practices.²⁴ This research done on CSR reporting practices clearly states that the companies are not able to dismiss the public demands for more extensive CSR reporting. Moreover, a more widespread research should be conducted to establish to whom the companies are responsible to in addition to shareholders. The research recognizes the differences between practicing business in different EU Member States and proposes an

²¹ R. Steurer et al., ‘Public Policies on CSR in Europe: Themes, Instruments, and Regional Differences’, *Corporate Social Responsibility And Environmental Management*, vol. 19, no. 4, 2012, pp. 106-227.

²² Ibid., p. 218.

²³ E. Bonsón and M. Bednárová, 2014, n. 1 above, pp. 1-12.

²⁴ E. Bonsón and M. Bednárová, 2014, n. 1 above, p. 10.

establishment of a framework of indicators for CSR issues.²⁵ While the aforementioned findings are of great importance when trying to understand the complexity of the different CSR demands in different parts of the EU, the research fails to provide a more comprehensive account on how these differences could be diminished with the help of regulation.

In line with the aforementioned public demands, a number of research papers mentioned the concept of non-regulative measures used to regulate CSR and CSR reporting practices.²⁶ This concept is often referred to as soft law. Soft law promotes the concept of voluntary based approach, and it has been described as "rules of conduct which, in principle, have no legally binding force but which, nevertheless, may have practical effects"²⁷ as well as "regimes that rely primarily on the participation and resources of nongovernmental actors in the construction, operation and implementation of a governance arrangement".²⁸ Hard law on the other hand, is defined as "a regime relying primarily on the authority and power of the state (...) in the construction, operation, and implementation, including enforcement, of arrangements at the international, national or subnational level".²⁹ In other words, soft law can be seen as a form of social control used as beside or as a substitute for hard law measures, such as EU regulations or national laws.

The soft law approach has been met with a number of criticisms. Criticism towards soft law, in the context of CSR, has been provided by Lynch-Wood et al.,

²⁵ E. Bonsón and M. Bednárová, 2014, n. 1 above, p. 10.

²⁶ See for example: M. Gjølberg, 'Explaining Regulatory Preferences: CSR, Soft Law, or Hard Law? Insights from a Survey of Nordic Pioneers in CSR', *Business & Politics*, vol. 13, no. 2, 2011, pp. 1-31. and B. Olsen and K. Øsørensen, 'Strengthening the Enforcement of CSR Guidelines: Finding a New Balance between Hard Law and Soft Law', *Legal Issues Of Economic Integration*, vol. 41, no. 1, 2014, pp. 9-35.

²⁷ F. Snyder, 'The Effectiveness of European Community Law: Institutions, processes, tools and techniques', *Modern Law Review*, vol. 56, 1993, p. 32.

²⁸ J. Kirton and M. Trebilock, 'Introduction: Hard Choices and Soft Law in Sustainable Global Governance' in J. Kirton and M. Trebilock, (ed.), *Hard Choices, Soft Law. Voluntary Standards in Global Trade, Environment and Social Governance*, Aldershot, Ashgate Publishing Limited, 2004, p. 9.

²⁹ *Ibid.*, p. 9.

who analyzed the external drivers behind voluntary CSR practices by reviewing strategic management literature.³⁰ They conclude that voluntary environmental behavior is not being an effective form of pressure for many smaller companies, as the small and medium sized enterprises (SMEs) seem to follow governmental regulation to identify social demands.³¹ Furthermore, Lynch-Wood et al., point out that the policymakers are often tempted to opt for voluntary based CSR practices as they believe the external pressures persuade companies, while there has not been provided any concrete evidence on the actual benefits of external pressures being considered more effective than policies.³² While Lynch-Wood et al. are able to provide comprehensive critique towards the current system of soft law based CSR policies, the necessary implications in relation to larger companies may not be acquired, as the large companies and SMEs encounter different levels of public pressure. More precisely, a more comprehensive investigation of the soft law and hard law measures is needed in the perspective of larger companies functioning from the EU Member States.

Further on the topic of soft law is offered by Gjørberg, who analyzes the connection between CSR, soft law and hard law with an analysis on corporate attitudes based on a survey among Nordic companies, who have been actively engaging in CSR practices and CSR reporting.³³ The research concludes that the companies' attitudes show a preference for establishment of international regulation in relation to CSR.³⁴ However, providing research based on survey among high performing Nordic companies, the findings of this article cannot be applied to a wider context in the socially diverse EU. In this respect, the existing debate on soft law measures compared to hard law measures in relation to CSR

³⁰ G. Lynch-Wood et al., 'The over-reliance on self-regulation in CSR policy', *Business Ethics: A European Review*, vol. 18, no. 1, 2009, pp. 52-65. Available from Business Source Complete, EBSCOhost, (accessed 28 April 2015)

³¹ Ibid., p. 61

³² Ibid., p. 60.

³³ M. Gjørberg, 2011, n. 26 above.

³⁴ M. Gjørberg, 2011, n. 26 above, p. 23.

practices fails to provide a comprehensive EU wide perspective, as the possible impacts of an EU wide hard law measures are yet to be discovered.

In relation to hard law measures, Lambooy et al. provide an excellent insight to the EU area by examining the regulatory environment and incentives for CSR reporting.³⁵ The research sheds light to different incentives for the companies to publish CSR reports. The research concludes that there is a need for an EU wide regulatory framework of CSR reporting, in order to provide more comparable and reliable CSR reports.³⁶ This research offers an interesting starting point for examining the new EU regulation and its implications in practice. A similar regulatory approach is offered in the article by Monciardini, where the emergence of CSR disclosure regulation in the Europe is examined through literature analysis.³⁷ Monciardini concludes that by increasing transparency and disclosure with the help of 'regulatory capitalism' the sustainability concerns can be better facilitated.³⁸

Further on the issue of disclosure quality in CSR reporting and how the companies react on the imposed hard law regulation is offered by Chelli et al., who employ the method of content analysis to investigate annual reports published by companies in France.³⁹ More specifically, the analysis is concerned with the environmental information disclosure. In their research, Chelli et al. found an improvement in the quantity and quality of the CSR reports between the period of establishing the new regulatory system and the ten consecutive years.⁴⁰

³⁵ T. Lambooy et al., 'Communicating about Integrating Sustainability in Corporate Strategy: Motivations and Regulatory Environments of Integrated Reporting from a European and Dutch Perspective' in R. Tench, W. Sun and B. Jones (ed.), *Communicating Corporate Social Responsibility: Perspectives and Practice*, 2014, pp. 217-255.

³⁶ Ibid., p. 246.

³⁷ D., Monciardini, 2012, n. 3 above. pp. 17-18.

³⁸ Ibid.

³⁹ M. Chelli et al., 'France's new economic regulations: insights from institutional legitimacy theory', *Accounting Auditing & Accountability Journal*, vol. 27, no. 2, 2014, pp. 283-316.

⁴⁰ Ibid., p. 305.

As the research was situated to a time where increase in CSR practices around the entire EU area could be seen, I believe the research fail to take into account the possible increase there would have been in both quantity and quality as in the other EU states as well, even if mandatory regulation would have not been established. As the regulation was specifically applied in France, the problems with imposing the same regulatory measures to socially and economically different Member States of the EU are not analyzed.

In relation to the contents and quality of the CSR reports, Michelon et al. offer an empirical content analysis of 112 listed firms in the United Kingdom in order to critically evaluate the different CSR reporting practices.⁴¹ The extent of the analysis ranges from what and how much is disclosed, how it is disclosed to how the corporate approaches the CSR on managerial level. The writers critically conclude the evidence to be supporting the disclosure of only symbolic information rather than substantial.⁴² This article can be seen as an example on how to examine the quality of the CSR reporting. However, the research does not provide new positions to the ongoing debate on should the level of disclosure be regulated and further how the form of disclosure should be regulated.

1.2 Purpose of the Thesis and relevance for sociology of law

In accordance with the above, I argue that a comprehensive socio-legal research about the demand for CSR reporting practices and practical implications on the quality of disclosure of EU wide legislation regarding CSR reporting has not been given in the context of previous research. This has inevitably created a demand for new inquiry on the topic.

As mentioned before, the aim of the CSR Directive is to harmonize different CSR reporting practices in the varied EU Member States. The approach in this Thesis

⁴¹ G. Michelon et al., 'CSR reporting practices and the quality of disclosure: An empirical analysis', *Critical Perspectives on Accounting*, 2014, doi:10.1016/j.cpa.2014.10.003

⁴² Ibid., p. 15.

is to identify the social perspective and then see how the concrete EU legislation could be used for creating an economically and socially stable Europe. This will provide a practical insight on the actual social pressure the companies encounter and how effective the implementation of specific EU legislation in responding these social demands could be.

The impact the soft law and voluntary measures have had on the improvement of CSR reporting measures should not be underestimated. However, while the incentive of public pressure behind the soft law measures is similar in different geographical and social environments, the level and form of such public pressure and opinion varies greatly.⁴³

Furthermore, the previous research has established the tools for measuring the quality of the reports, as well as measures for examining the factors contributing to the level of interest for the companies to publish CSR reports.⁴⁴ Even the regulatory measures have been taken into account in some instances.⁴⁵ The CSR Directive is the first widespread regulatory measure with the aim of harmonizing and improving transparency of CSR reporting practices in the EU. Research on hard law measures, where the same minimum standards are set with regulatory measures for a socially and geographically diverse Member States of the EU have been provided to a certain extent in previous research.⁴⁶ Despite the existing literature, this Thesis is one of the first ones to explore the possible impacts of the CSR Directive in its final form in relation to CSR reporting practices of companies located in the EU Member States.

⁴³ E. Bonsón and M. Bednárová, 2014, n. 1 above.

⁴⁴ See for example: G. Michelon et al., 2014, n. 41 above. and A. Romolini et al., 'Scoring CSR Reporting in Listed Companies - Evidence from Italian Best Practices', *Corporate Social Responsibility & Environmental Management*, vol. 21, no. 2, 2014, pp. 65-81.

⁴⁵ See for example: I. Criado-Jimenez et al., 'Compliance with mandatory environmental reporting in financial statements: the case of Spain (2001-2003)', *Journal of Business Ethics*, vol. 79 No. 3, 2008, pp. 245-262. and M. Chelli et al., 2014, n. 39 above.

⁴⁶ T. Lambooy et al., 2014, n. 35 above, p. 246.

1.3 Project description and Research Question

The demands specified in the CSR Directive mean that in addition to annual mandatory financial information, the reports published by certain large companies should also contain non-financial information, including information relating to issues such as environment and employee matters.⁴⁷

The EU level regulation regarding CSR practices aims to create a unified and transparent CSR reporting system within the EU area. In principle, this aim seemingly offers a much-anticipated step towards making corporations more responsible of their actions. The novel aims of making concrete transparency improvements with the help of the CSR Directive should be taken with scrutiny. This research seeks to examine whether the level of the CSR regulation might be considered to be inadequate compared to the actual transparency demands the companies encounter and consequently failing to achieve any considerable transparency improvements when looking at the EU area as a whole.

This research seeks to make a contribution to the existing CSR research by analyzing contents of a number of CSR reports. The contents are subsequently compared to the demands set out in the CSR Directive. I will try to distinguish why and what kind of CSR influences can be found in the respective CSR practices of the companies functioning in different EU Member States and how the enforcement of the CSR Directive will affect these practices. This investigation is made from the company perspective.

As mentioned before, the corporations have actively and in an increasing manner been engaging in the reporting practices. Currently the CSR practices are mostly promoted in large, global companies, while SMEs are not being as prominently taking part in measures to improve of CSR. As the CSR Directive will only

⁴⁷ CSR Directive, 2014, n. 9 above, Article 19a.

impose requirements for larger corporations, the scope of this research does not include SMEs. Consequently, the quantity of reports will be left out of the scope of this research, and the main point is set on the incentives behind the publication of CSR reports. It should be emphasized that the effects on actual CSR practices are only very briefly touched upon, as the focus is set on the effects on CSR reporting practices.

More precisely, this paper aims to answer the following research question:

Why is the Directive 2014/95/EU of the European Parliament and of the Council failing to necessary bring about CSR improvements in the economically and socially diverse EU area as a whole?

To answer this question, I have chosen a case study approach. More specifically companies publishing CSR reports from two different EU Member States were chosen for empirical study, with the aim to shed light on the practices and CSR demands within different parts of the EU.

The aim of this study is both practical and theoretical. The practical perspective focuses on the actual demands the corporations encounter in relation to their CSR reporting. In regards to the theoretical perspective, I wish to explore the relevant sociological theories concerned with CSR. I will investigate how these theories can be applied within the socio-legal context of the current CSR practices of the companies as well as of the EU level regulation. Moreover, I am proposing a method for specifying underlying incentives for companies to take part in CSR reporting, which can be further used for proposing effective EU level CSR frameworks.

2 Theoretical Considerations of CSR

In this Chapter I will examine the basic concepts of CSR and the theoretical framework suitable for observing CSR issues. I will begin by investigating the basic concepts associated to CSR, then move to identifying the relevant theoretical approaches in order to successfully examine CSR reporting practices within the scope of this Thesis.

2.1 Basic concepts of CSR

In order to conduct research on CSR, the underlying meaning of CSR needs to be clarified. CSR is not a one-dimensional feature of the corporate behavior; rather it affects a number of the corporate actions. Even the term CSR has a number of different definitions, whereby different entities consider it to have different meanings. To be more precise, CSR has been evolving from voluntary practices of the companies, hence it has been described as a ‘private self-regulatory system’, since it is a code of conducts which voluntarily are adopted by a number of corporations in a number of different countries.⁴⁸ This concept has a number of implications, as it emphasizes the importance of corporations themselves as active entities that create a regulatory system, which is entirely maintained without the participation of public resources or public regulations. For the purposes of the EU, The European Commission has defined CSR as a “concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis”.⁴⁹ Further, the European Commission has proposed the following new definition of CSR as “the responsibility of enterprises for their impacts on society”.⁵⁰ This research will employ the aforementioned definitions set out by the EU.

While the concept of CSR has been defined, it should be noted that the multidimensional character of the CSR brings challenges to how it should be

⁴⁸ B. Sheehy, ‘Understanding CSR: An Empirical Study of Private Regulation’, *Monash University Law Review*, vol. 28, no. 2, 2012, p. 105.

⁴⁹ European Commission Green Paper, ‘Promoting a European framework for corporate social responsibility’. COM(2001) 366 final, 18 July, 2001, Brussels. p. 6.

⁵⁰ Ibid.

researched in order to achieve a widespread understanding of the underlying issues. When I reviewed the existing CSR literature, one connecting factor could be distinguished; despite of the differences between different countries and different companies, a prominent move towards publication of CSR reports has been established in the entire EU area. It has been recognized that the companies are in increasing manner facing outside pressure to expand their financial reporting to include reports on social and environmental issues.⁵¹ In other words, CSR reports can be seen as a form of a conversation or a dialogue between the company and the surrounding environment.

There can be identified a number of reasons for why the companies have been engaging in CSR reporting practices, even without any specific legal requirement to do so. First and foremost, by applying and reporting socially responsible corporate business practices, which go well beyond the legal expectations, the companies are able to increase their competitiveness.⁵² In other words, I would suggest that by promoting sustainable business practices, the companies might use these practices as a tool to gain more market share and increased value. A recent survey further promotes this aspect by specifying possible business benefits of CSR reporting to include *inter alia* access to new capital, increasing of employment loyalty as well as reputation among consumer, all which contribute CSR reporting to be ‘worth its costs’ in relation to financial performance.⁵³

While a number of research focuses on the different aspects of CSR, the theoretical perspective on how to explain CSR reporting practices has not been commonly agreed. In accordance with Wood, in order to achieve a thorough

⁵¹ E. Bonsón and M. Bednárová, 2014, n. 1 above p. 2.

⁵² See for example: P. Gazzola, 'Social Performance Enhances Financial Performance. Benefits From CSR', *Annals Of The University Of Oradea, Economic Science Series*, vol. 21, no. 1, 2012, p. 117.

⁵³ Ernest & Young LLP and The Boston College Center for Corporate Citizenship, ‘Value of Sustainability Reporting’, 2013, pp. 12-15. Available at: [http://www.ey.com/Publication/vwLUAssets/EY_-_Value_of_sustainability_reporting/\\$FILE/EY-Value-of-Sustainability-Reporting.pdf](http://www.ey.com/Publication/vwLUAssets/EY_-_Value_of_sustainability_reporting/$FILE/EY-Value-of-Sustainability-Reporting.pdf) (accessed 10 May 2015).

understanding of how the companies interact with the social demands set out by the society, there is a need to conduct a research on the following factors:

1. How the principles of CSR motivate the company's actions.
2. How the company acts in accordance with the socially responsive processes.
3. The possible existence and type of CSR policies the company holds to manage CSR.
4. The explicit information of the social impact of the company's CSR actions and policies.⁵⁴

Wood categorizes the abovementioned factors under three headings: the principles, the processes and the outcomes.⁵⁵ All three should be researched in conjunction to form a thorough understanding of the underlying connections between all three perspectives. This research seeks to offer this overarching perspective on the CSR reporting practices of different companies by analyzing the information provided in the CSR reports of different large companies in the EU area, more specifically in Hungary and Finland, and furthermore by conducting interviews to establish an understanding of the principles and processes behind the CSR reporting policies the companies hold.

2.2 Theoretical framework

When doing research on CSR reporting, the researcher should choose a theory, which allows the researcher to observe the complex features of CSR. Possible problematic questions might arise in the following venues: Why do the companies engage themselves in these reporting practices? What issues influence these reporting practices? What are the specific roles of the regulative and voluntary

⁵⁴ D. Wood, 'Corporate Social Performance Revisited', *Academy Of Management Review*, vol. 16, no. 4, 1991, p. 693.

⁵⁵ Ibid.

measures? In order to answer these questions it is important to distinguish the relationship the company has with the surrounding world. The socio-legal aspect of this research requires the examining of the role of the relevant legislation in this context.

While studies on corporate behavior have traditionally been focused on the shareholder theory, new and emerging perspectives have been established. Shareholder theory is focused with providing the maximum economic profit for the shareholders of the company, with social factors taken into consideration only if the company is legally obliged to do so, or the actions contribute to the maximization of shareholder value.⁵⁶ In contrast to the shareholder theory, the contemporary perspectives consider the outside influences to be significantly contributing to the actions of the companies. In relation to research on CSR, the multi-theoretical perspective has been widely promoted recently; Fernando and Lawrence offer in their study a comprehensive theoretical framework for studying CSR.⁵⁷ They integrate three most commonly used theoretical models for a wide-coverage perspective. However, in relation to this study, an integration of two of these three theoretical perspectives was chosen. A similar approach has been used in the research of the previously mentioned Bonsón and Bednárová⁵⁸ as well.

2.2.1 Stakeholder theory

The first theoretical perspective is the stakeholder theory. This theory focuses on the relationship between the company and its stakeholders. More specifically,

⁵⁶ Shareholder theory is focused with providing the maximum economic profit for the shareholders of the company, with social factors taken into consideration only if the company is legally obliged to do so, or the actions contribute to the maximization of shareholder value. See for example: D. Melé, 'Corporate Social Responsibility Theories' in Crane, A., A. McWilliams, D. Matten, J. Moon and D.S. Siegel (ed.), *The Oxford Handbook of Corporate Social Responsibility*, New York, Oxford University Press Inc., 2008, pp. 55-56.

⁵⁷ S. Fernando and S. Lawrence, 'A Theoretical Framework For CSR Practices: Integrating Legitimacy Theory, Stakeholder Theory And Institutional Theory'. *Journal Of Theoretical Accounting Research*, vol. 10, no. 1, 2014, pp. 149-178.

⁵⁸ E. Bonsón and M. Bednárová, 2014, n. 1 above.

stakeholder theory reflects the relationship between the company and the individuals or groups, more precisely, the entities “who benefit from or are harmed by corporate actions”.⁵⁹ In relation to previous research, stakeholder theory has been employed in a number of CSR research studies, such as in the research by Steurer.⁶⁰

Stakeholder theory can be seen as a move from the shareholder focused system towards more contemporary one. As mentioned, the ‘shareholder value oriented’ approach usually promotes the maximization of shareholder value above other aims.⁶¹ The current perspective is that in certain instances, CSR initiatives might actually contribute to the shareholder value maximization, because by taking stakeholders and their interests into account the company may achieve long-term profitability.⁶² In other words, shareholder theory is not necessarily in contrast with the sustainability and transparency aims. In this sense, these two theories compliment each other to a certain degree. However, while shareholder theory might be used to achieve betterment of the society as such, it is undeniable that the sustainable business practices and reporting are not always directly increasing the profitability of the company and increasing the wealth of the shareholders. This creates a conflicting situation when trying to develop the companies CSR strategy, thus making stakeholder theory more appropriate to balance between these two aspects.

Stakeholder theory has been evolving rapidly in the past few decades, with significant starting points in the normative stakeholder theory, based on Kantian approach.⁶³ In order to understand the stakeholder theory, it should be viewed to have two different perspectives. On one hand, it is about the accountability of the company towards all of its stakeholders, as recognized by the society, referred to

⁵⁹ D. Melé, 2008, n. 56 above, p. 62.

⁶⁰ R. Steurer, 2010, n. 19 above.

⁶¹ D, Melé, 2008, n. 56 above, pp. 56-57.

⁶² D, Melé, 2008, n. 56 above, p. 61.

⁶³ D, Melé, 2008, n. 56 above, p. 63.

as the ‘normative approach’ to accountability.⁶⁴ On the other hand, stakeholder theory can be used by the companies themselves in order to recognize stakeholders, and further to distinguish which stakeholder groups are considered the most important ones.⁶⁵ A connecting aspect with these different views to stakeholder theory is their mutual desire to increase the company communication with the respective stakeholders. This communication is encouraged even without the legal requirement to do so. The social perspective makes this theory adaptable for socio-legal approach as well, when analyzing the influence of social factors contributing to the company actions; CSR reporting is a form of communication between the company and its stakeholders.

In order to allow a more thorough understanding of the complexity of the company’s relationship with its stakeholders, it should be emphasized that the different stakeholders do not hold uniform relationships with the company. The term ‘stakeholder’ potentially includes a number of different groups or entities, whereby Mitchell et al. provide categorization, where stakeholders can be identified to possess one or more of the following attributes:

1. **Power.** The stakeholders who are participating in the company activities in order to achieve personal goals i.e. the stakeholders who have the power to influence the company.
2. **Legitimacy.** The stakeholders who are in a contractual relationship with the company or stakeholders who have other legitimate expectations for the company.

⁶⁴ R. Gray et al., ‘Some theories for social accounting?: A review essay and a tentative pedagogic categorisation of theorisations around social accounting’, in Freedman M., and B. Jaggi, (ed.), *Sustainability, Environmental Performance and Disclosures (Advances in Environmental Accounting and Management, Volume 4)* Emerald Group Publishing Limited, 2009, p. 25

⁶⁵ Ibid. p. 26.

3. **Urgency.** The stakeholders to whom the company is responsible for. This relationship requires urgent actions from the company, as the stakeholder's claims made are critical to the stakeholder.⁶⁶

The categorization of the different stakeholder groups is important, as the companies treat the varied stakeholder groups differently.⁶⁷ More precisely, the stakeholders of the company should not be viewed as a unified group of entities, as they require and receive different levels of attention and action from the side of the company.

Stakeholder theory has a number of advantages, such as taking into consideration stakeholder rights and their legitimate interests, rather than only focusing on the legal requirements in stakeholder relationships.⁶⁸ Stakeholder theory is considered to be able to acknowledge the dynamic interaction between the organization in question and the surrounding environment.⁶⁹ In other words, it allows the material addressing of CSR reporting interests of the companies. While Wood states the establishment of stakeholder theory to have been a starting point for researchers to analyze the power the public has on determining the legitimacy of corporations, it has the limitation of giving emphasis on the most valuable stakeholders to the detriment of other stakeholders.⁷⁰ In other words, the stakeholder theory can often be used as an indicator for identifying which stakeholders are most important to the company, and which they want to influence the most.⁷¹ This is also in line with the categorization provided above, whereby different stakeholder groups stimulate different CSR responses from the company in question. The company can adjust the CSR reporting to compliment the relevant stakeholder demands.

⁶⁶ R. Mitchell et al. 'Toward A Theory Of Stakeholder Identification And Saliency: Defining The Principle Of Who And What Really Counts', *Academy Of Management Review*, vol. 22, no. 4, 1997, p. 854. Available from Business Source Complete, EBSCOhost, (accessed 2 May 2015).

⁶⁷ Ibid. p. 855.

⁶⁸ D, Mele, 2008, n. 56 above, p. 66.

⁶⁹ R. Gray et al., 2009, n. 64 above, p. 25.

⁷⁰ D. Wood, 1991, n. 54 above, p. 699.

⁷¹ R. Mitchell et al., 1997, n. 66 above, p. 880.

To pinpoint the importance of stakeholder theory, Perez-Batres et al. summarized the impact of the stakeholder pressure to the substantive CSR actions of the company as follows: "... the more a firm is subject to this kind of scrutiny, the more likely it is to respond to it; and to do so substantively (after all, these third-party analysis would eventually see through a mere symbolic act)."⁷² In other words, the communication between the company and its stakeholders is proactive and goes *both ways*.

Despite the above-mentioned benefits of employing stakeholder theory to understand the dialogue the companies hold with their stakeholders, this theory will only provide information on the specific company's behavior. In other words, corporations on different fields have a variety of stakeholders, where other stakeholders are more demanding in relation to CSR reporting than others. As elaborated above, the stakeholder demands are depended on the field of the business as well as on the geographical location of the company. Consequently, a more general perspective on the EU area and all the businesses being affected by the new amendment cannot be acquired by only employing this perspective.

2.2.2 Legitimacy theory

The second theoretical perspective, legitimacy theory, has also been widely used, among others in the already mentioned works of Michelon et al.⁷³ and Chelli et al.⁷⁴

The initial works of Max Weber⁷⁵ on functionalism, as well as Talcot Parsons⁷⁶ on structural functional theory, have provided the foundational basis for the

⁷² L. Perez-Batres et al., 'Stakeholder Pressures as Determinants of CSR Strategic Choice: Why do Firms Choose Symbolic Versus Substantive Self-Regulatory Codes of Conduct?' *Journal Of Business Ethics*, vol. 110, no. 2, 2012, p. 168.

⁷³ G. Michelon et al., 2014, n. 41 above.

⁷⁴ M. Chelli et al., 2014, n. 39 above.

⁷⁵ M. Weber, *Economy and society*. Berkeley: University of California Press, 1978.

framework that addresses the normative as well as cognitive factors, which contribute to the organizational actors. One core issue with legitimacy theory is on how to define the term 'legitimacy' as multiple different definitions have been offered over the years.⁷⁷ Suchman has employed the concepts offered in the abovementioned works of Weber and Parsons and further developed them in order to provide a comprehensive definition of legitimacy as "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs and definitions".⁷⁸ An important part of this definition is the part whereby Suchman proposes legitimacy to actually be a perception or assumption, where the observers have a reaction based on his or her own subject perspective to the specific actions of the organization.⁷⁹ In other words, when analyzing whether an entity is considered legitimate or not, it is not relevant what the organization in reality does, rather it is more important how the observer *reacts* to the information it is provided with. Legitimacy or legitimate actions are formed through these perceptions. CSR reporting is a significant way to provide information to these observers.

In a way, I would maintain that the legitimacy theory can be seen to have its beginnings in the notions of social contract, and further on the presumption that organizations will comply and act in accordance with the society's expectations.

Legitimacy theory has been perceived to complement stakeholder theory by adding conflict and disagreement to the situation.⁸⁰ To be more precise, legitimacy theory has been concluded to offer a view, where organizations continually attempt to ensure they are perceived as to be legitimate in the eyes of

⁷⁶ T. Parsons, *Structure and process in modern societies*, Glencoe, IL, Free Press, 1960.

⁷⁷ For different definitions of legitimacy, see for example: M. Suchman, 'Managing Legitimacy: Strategic And Institutional Approaches', *Academy Of Management Review*, vol. 20, no. 3, 1995, p. 573.

⁷⁸ M. Suchman, 1995, n. 77 above, p. 574.

⁷⁹ M. Suchman, 1995, n. 77 above, p. 574.

⁸⁰ R. Gray et al., 2009, n. 64 above, p. 28.

the society, when they act in accordance with the set social norms.⁸¹ In the context of legislation, legitimacy could be used as tool for the companies to recognize the factors that make them legitimate. This has been argued by Chelli et al. argue in their work on as they found that “legislation provides corporate managers with a representation of relevant audience’s perceptions about social and environmental reporting, prompting them to comply with the law to ensure organizational legitimacy”.⁸² In practice, when the companies are fulfilling the standards set by regulation, they can be seen as legitimate actors of the society. In accordance with this, the company is expected to fulfill the requirements set out by CSR reporting regulations.

As Wood points out, in the global world, where companies operate in a number of different states it is hard to determine to which society’s demands the companies should be responsible for.⁸³ This is also in line with the aforementioned objectivity issue, whereby the observers define the legitimacy based on their individual standpoint. Moreover as Chelli et al point out, in situations, where the public unexpectedly begins to demand for CSR reporting on previously concealed practices, a ‘legitimacy gap’ can be established.⁸⁴ This means the regulation is not in par with the public demands and thus the actions of the companies are not considered legitimate, even when they are complying with regulatory standards.

In order to overcome the problems associated with the ‘legitimacy gap’, the company may engage itself with different legitimation strategies:

1. the company may continue to practice the existing activities, but tries to educate the stakeholders of the appropriateness of these actions
2. the company may change the initial perceptions of the stakeholders by making the activities seem legitimate

⁸¹ S. Fernando and S. Lawrence, 2014, n. 57 above, pp. 152-153.

⁸² M. Chelli et al., 2014, n. 39 above, p. 283.

⁸³ D. Wood, 1991, n. 54 above, p. 701.

⁸⁴ M. Chelli et al., 2014, n. 39 above, p. 287.

3. the company may try to direct the attention to different issues, or adjust the stakeholder expectations
4. the company may change its actions to be in conformity with the stakeholder expectations and further inform the relevant stakeholders of these changes.⁸⁵

All the above-mentioned aspects are suitable strategies for CSR reporting. In relation to increasing the quality of the disclosed information, the question between using voluntary or regulative measures to achieve this should be examined. According to Chelli et al. the rise of the public interest should, at least in theory, increase the level of CSR disclosure of the companies.⁸⁶ Even further, according to Chelli et al., in the context of providing mandatory regulation on CSR reporting, when the companies are complying with the regulation, the regulation may be viewed as a representation of the expectations of the public in general and thus meaning the companies will change their CSR reporting practices to be in compliance with the relevant regulation.⁸⁷ When regulative measures are being imposed, the companies might have different reactions; they might only unwillingly follow the demands or in contrasting reaction even surpass the set criteria.⁸⁸ Moreover, legitimacy theory promotes the on-going evaluation of the practices as well as the use of dynamic actions, as the organization might lose its legitimacy in situations, where previously acceptable and legitimate practices have not been improved, thus resulting in the company to lose its

⁸⁵ S. van der Laan, 'The Role of Theory in Explaining Motivation for Corporate Social Disclosures', *Australasian Accounting Business & Finance Journal*, vol. 3, no. 4, p. 20. See also C. Lindblom, "The implications of organizational legitimacy for corporate social performance and disclosure", Conference Proceedings, Critical Perspectives on Accounting Conference, New York, 1993 and J. Dowling and J. Pfeffer, 'Organizational legitimacy: social values and organizational behaviour', *Pacific Sociological Review*, vol. 18, no. 1, 1975, pp. 122-136.

⁸⁶ M. Chelli et al., 2014, n. 39 above, p. 286.

⁸⁷ M. Chelli et al., 2014, n. 39 above, pp. 291-293.

⁸⁸ T. Dunfee, 'Stakeholder Theory: Managing Corporate Social Responsibility in a Multiple Actor Context' in Crane, A., A. McWilliams, D. Matten, J. Moon and D.S. Siegel (ed.), *The Oxford Handbook of Corporate Social Responsibility*, New York, Oxford University Press Inc., 2008, p. 349.

legitimacy.⁸⁹ To be more precise, legitimacy theory can be seen to indicate a proactive approach of the companies to fulfill the external demands for CSR reporting, as they would otherwise face consequences, such as losing market shares or customers.

The abovementioned demands set out by the society can be viewed from the perspective of the company brand in the context of CSR reporting. As Bartlett et al. describe "(...) communication has played an instrumental role in disseminating messages about corporate responsibility practices and compliance with institutionalized and socially accepted norms, to manage legitimacy."⁹⁰ In other words, CSR reporting has been widely used by the companies to publish information on aspects they want to introduce to the public, which essentially builds their brand.⁹¹ Publishing CSR reports can be viewed as a popular strategic tool where the companies use CSR communication for claiming to be responsible in order to maintain legitimacy.⁹²

In order for the company to establish or maintain legitimacy, it essentially has to build its brand through CSR reporting; the companies try to fulfill the 'brand expectations' imposed by its stakeholders.⁹³ Companies often use CSR reporting to promote and highlight their sustainable practices to promote these aspects of their brand in order to effect the view the stakeholders have on the company to

⁸⁹ C. Deegan et al., 'An examination of the corporate social and environmental disclosures of BHP from 1983-1997: A test of legitimacy theory', *Accounting, Auditing & Accountability Journal*, vol. 15, no. 3, 2002, p. 312.

⁹⁰ J. Bartlett et al., "Organisations Behaving Badly – The Role of Communication in Understanding CSI and CSR" in R. Tench, W. Sun and B. Jones (ed.), *Corporate Social Irresponsibility: A Challenging Concept*, 4th Volume, Bingley, U.K., Emerald, 2012, p. 165.

⁹¹ J. Bebbington, 2008, n. 13 above, p. 341.

⁹² I. Øyvind et al., 'Four Aces: Bringing Communication Perspectives to Corporate Social Responsibility' in R. Tench, W. Sun and B. Jones (ed.), *Communicating Corporate Social Responsibility: Perspectives and Practice*, Bingley, U.K., Emerald, 2014, p. 26.

⁹³ B.L. Walter, 'Corporate Social Responsibility Communication: Towards a Phase Model of Strategic Planning' in R. Tench, W. Sun and B. Jones (ed.), *Communicating Corporate Social Responsibility: Perspectives and Practice*, Bingley, U.K., Emerald, 2014, p. 74.

separate themselves from the competitors.⁹⁴ Essentially, this does not necessarily lead to sustainable business practices; rather the companies are more willing to communicate the sustainable aspects of their business. The communication aspect is vital for the modern company, as globalization has made it even easier for consumers and other stakeholders to express concerns on company actions.⁹⁵

I will provide a practical example to clarify the complexity of maintaining legitimacy in the context of actual CSR practices and CSR reporting as follows. Tax avoidance (which should be distinguished from illegal concept of tax evasion) is usually considered to be a part of the legitimate business actions of the company.⁹⁶ Nevertheless, in reality, it has been argued that tax avoidance should be considered an institutional part of CSR practices of the companies, as it usually causes continuing harm to the public, thus making it prominently important aspect of CSR.⁹⁷ In other words, the company is fulfilling its legal requirements, even when the actions are in conflict with sustainable business practices. If the legal requirements are fulfilled, pressure in the form of other legitimate expectations could be used to motivate the company to adopt more sustainable tax practices. The reputational cost of the actions the company engages in has to be investigated. In relation to the example provided here, it has been concluded that the tax avoidance schemes bare minimal reputational costs to companies whose success is not depended on their reputation compared to more visual companies.⁹⁸ In relation to legitimacy theory, the company maintains its legitimacy, while in reality the actions are not socially responsible. In contrast to relying on voluntary measures, whereby the companies seek to be legitimate on voluntary basis, mandatory regulation could possibly provide a more coherent legitimacy expectations, whereby the lacks of soft law measures in relation to CSR could be overcome.

⁹⁴ J. Bartlett et al., 2012, n. 90 above, p. 164.

⁹⁵ J. Bartlett et al., 2012, n. 90 above, p. 167.

⁹⁶ J. Fisher, 'Fairer Shores: Tax Havens, Tax Avoidance, And Corporate Social Responsibility', *Boston University Law Review*, vol. 94, no. 1, 2014, p. 353.

⁹⁷ *Ibid.* p. 354.

⁹⁸ *Ibid.* pp. 354-355.

All in all, when discussing legitimacy theory and its relevance to the CSR reporting practices, it should be emphasized that is vital for the organization to constantly improve its practices, while communicating such changes effectively, in order to retain legitimacy. Legitimacy theory does not offer much to the perspective, on why companies choose to leave certain information undisclosed and why they over emphasize other information that is disclosed.

2.2.3 The relevance of the theories to the research

The socio-legal dimension of this research promotes the combination of the two aforementioned theories, as the research takes into account the social perspective as well as the legal perspective. More precisely, the research facilitates the combination of a voluntary based model of regulation from the social context and how it reacts with the regulation imposed. As van der Laand points out, these two theoretical perspectives offer insights to voluntary as well as solicited practices, therefore making it a suitable venue for the research in hand.⁹⁹

This research seeks to establish a coherent theoretical framework to investigate the importance of the stakeholder relationship the company holds, while further taking into account the objective legitimacy issues, whereby the lacks of stakeholder demands are taken into account in the wider context.¹⁰⁰ More precisely, stakeholder theory allows the understanding of the complex relationship between the company and the surrounding world, while legitimacy theory in a sense uncovers the more sensitive aspects of this relationship and unravels the influence outside factors might have.

More precisely, the applicability of legitimacy theory to the research in hand comes from examining the regulative influences and whether the companies consider the regulation to be in line with the public demands. An interesting

⁹⁹ S. van der Laan, 2009, n. 85 above, p. 15.

¹⁰⁰ See for example: S. van der Laan, 2009, n. 85 above, pp. 15-29.

aspect is apparent, as the public opinion in a certain Member State might consider the actions of the company legitimate, when meeting the standards of the CSR Directive, while in another Member State the public opinion demands more profound reporting measures. It has been recognized that the company may engage itself in actions that are not deemed to be legitimate by the individual and not face any consequences, as these actions might not result in public disapproval.¹⁰¹ In other words, it seems that the companies are relying on the stakeholder theory perspective, where the reactions of the stakeholder groups are taken into consideration.

In the context of this research, legitimacy theory is employed in order to predict the reactions the companies will have following the implementation of the CSR Directive. The proposed research facilitates the connections between legitimacy and public responsibility, and tries to answer the questions set out by Wood, on who defines the company's public responsibility and how do these responsibilities change.¹⁰² More specifically, legitimacy theory is employed in order to predict the reactions the companies will have following the implementation of the CSR Directive. This multitheoretical approach has previously been successfully used in other research on compulsory regulation on CSR disclosure.¹⁰³

3 Method

Having introduced the basic concepts of CSR as well as the theoretical framework in the previous Chapter, I will proceed to explain the method used for this research. I will begin by clarifying the process used for selection of empirical material, arguing that case study was a suitable approach to provide answers to the question of why the new CSR Directive is failing to necessarily bring about CSR improvements in the EU area as a whole. I will then proceed to give a more

¹⁰¹ M. Suchman, 1995, n. 77 above, p. 574.

¹⁰² D. Wood, 1991, n. 54 above, p. 702.

¹⁰³ See for example M. Chelli et al., 2014, n. 39 above, pp. 291-293.

detailed description of the empirical data collection and the method used. I will complete this Chapter by addressing concerns related to the chosen analyses methods in order to provide a comprehensive assessment of the possible shortcomings.

3.1 Selection of Empirical Material

The approach chosen to answer the research question is a qualitative case study. Case study is used to investigate “a situation or phenomena in its ‘real life’ context”, in order to understand the underlying, often complex issues being researched.¹⁰⁴ Case studies are frequently conducted to evaluate impacts of certain policies and non-regulative measures, thus as CSR has been mostly based on recommendations and shows the governmental policy of non-regulative approach, case study is a sensible approach to gain sufficient findings. A key factor in all case studies is the meticulous selection criteria for the cases to be used for the research.¹⁰⁵ This is done in order to diminish the possible limitations of using case study, such as problems with generalization and difficulties to process the data.¹⁰⁶

More specifically with the research in hand, the aim is to choose with specifically set criteria a number of corporations from two Member States of the EU to examine the level of CSR disclosure in these EU Member States respectively. In order to conduct the research, the two EU Member States needed to be chosen for the study. As the aim is to provide a comprehensive understanding of the CSR in different parts of the EU area, it was necessary to take into consideration geographical and sociological factors when choosing from which states to choose the analyzed the corporations. The Member States chosen were Finland and Hungary for the following reasons.

¹⁰⁴ H. Simons, *Case Study Research in Practice*, London, SAGE Publications, Ltd., 2009, p. 20.

¹⁰⁵ V. Keddie, ‘Case Study Method’ in Jupp, V. (ed.), *The SAGE Dictionary of Social Research Methods*, London, SAGE Publications, Ltd., 2006, pp. 21-22.

¹⁰⁶ H. Simons, 2009, above n. 104, pp. 23-24.

As a result of the Finnish industrial development and social security orientation, Finland has been considered to be one of the best performing CSR states in the EU area.¹⁰⁷ Moreover, the reasons for Finnish companies to engage in CSR reporting practices can be seen to derive from the Finnish mentality and the pressure from the consumers towards responsible practices.¹⁰⁸ Finland can also be seen as an example of the Nordic States, which all promote the unique combination of social welfare and economic competitiveness; the government contributes significantly to the economy and the countries hold the same ideological perspective to issues such as CSR.¹⁰⁹ These specific attributes of the Nordic states, where the society heavily relies on the government to make sure things are done accordingly provide an interesting field for research in the context of voluntary based CSR reporting. Furthermore, due to practical reasons of the research, as the researcher will be residing in Finland during the research period, while mastering the national language, Finland is a functional choice for the other state of the study.

For the needs of the research, a state practicing CSR oppositely and differently to Finland was needed to allow a wide perspective and make the research findings become more generalized and applicable in the EU level. A specific interest has been given to the newer Member States of the EU and hence Hungary was chosen for the needs of this study. Contrary to Finland, CSR in Hungary is a relatively new phenomenon.¹¹⁰ The consumers in Hungary have not been very active in demanding more sustainable practices from the corporations; rather the involvements have been led by the enterprises themselves. This is in line with the

¹⁰⁷ V. Panapanaan et al., 'Roadmapping Corporate Social Responsibility in Finnish Companies' *Journal Of Business Ethics*, vol. 44, no. 2/3, 2003, pp. 133-148.

¹⁰⁸ A. Kourula, 'Finland', in Visser, W. and N. Tolhurst, (ed.), *The World Guide To CSR : A Country-By-Country Analysis Of Corporate Sustainability And Responsibility*, Sheffield, Greenleaf, 2010, p. 153.

¹⁰⁹ Gjølborg, M, 2011, n. 26 above, p. 19.

¹¹⁰ United Nations Development Programme, *Baseline Study on CSR Practices in the new EU Member States and Candidate Countries*, 2007, pp. 17-18.

practices of the entire region of the new EU Member States.¹¹¹ It has been recognized in regards CRS publicity that the Hungarian press and the media view the CSR disclosures of the companies more as advertisements, while the northern and western EU Member States view the disclosures as press announcements.¹¹² In other words, the whole concept and motives of CSR are viewed differently within these two states, which when researched, could offer a multidimensional understanding of the CSR issues in the EU area as a whole.

3.2 Collection of Empirical Material

As mentioned before, CSR and sustainable business practices are more prominently relevant with large companies. Bearing this in mind, the questions of environmental variation as well as the size of the corporations need to be taken into consideration when conducting case study and data collection on CSR reporting practices. Additionally, the specification of the criteria of the chosen cases allows the leaving out of irrelevant and non-suitable cases.¹¹³

The object was to choose a variety of companies, representing different forms of the market, i.e. by choosing corporations from the bank and telecommunications sector, the retail sector, and from the natural resources sector. The selection was made from the best performing companies of both Member States. The criteria for choosing the specific companies included the following aspects:

1. They were large companies, based on their sales revenue.
2. They offered a provision of online CSR reports in English.
3. They represented different sectors of the market.

¹¹¹ Ibid., p. 9.

¹¹² T. Metaxas and M. Tsavdaridou, 'Corporate Social Responsibility in Europe: Denmark, Hungary and Greece' *Journal of Contemporary European Studies*, vol. 18, no. 1, 2010 p. 38.

¹¹³ K. Eisenhardt, 'Building Theories From Case Study Research', in Huberman, A., and M. Miles, (ed.), *The Qualitative Researcher's Companion*, Thousand Oaks, CA, SAGE Publications, 2002, p. 12.

The number of companies to be examined was carefully considered. In relation to the CSR report content analysis 4 corporations from each of the states were chosen. For collecting information on corporate perspective on CSR reporting 7 corporate respondents were chosen for the interview part.

3.3 Method description

The method for facilitating this research has two dimensions. The first one includes the analyzing of the contents of various CSR reports published by large companies in Hungary and Finland. The contents are analyzed in relation to the requirements set out by the CSR Directive.

All the analyzed CSR reports were published online on the respective corporations home pages. Usually the report could be find specifically under the sustainability subpage of each company, while in some instances it was not as easily accessible. The newest report from each company was used, thus there can be found some variety to which year each analyzed report is representing. The CSR reporting data was collected between March – April 2015. A more detailed description is provided in the Chapter concerning the empirical findings of the level of CSR disclosure.

To gain an insight to the corporate reporting practices and their CSR motives, as well as thoughts on the EU level regulation on CSR, semi-structured interviews were acquired from corporate respondents. Semi-structured interviews are a way of collecting empirical data, where the interviewer asks the respondents predetermined open-ended questions.¹¹⁴ There are a number of benefits with semi-structured interviews, among others the high response rate.¹¹⁵ Furthermore, it

¹¹⁴ L. Ayres, 'Semi-Structured Interview', in Given, L. (ed.), *The SAGE Encyclopedia of Qualitative Research Methods*, Thousand Oaks, CA., SAGE E Publications, Inc., 2008, p. 811.

¹¹⁵ M. Leonard, 'Interviews' in RL Miller, & JD Brewer (ed.), *The A-Z of Social Research*, London, SAGE Publications, Ltd., 2003, p. 168.

allows more interaction between the interviewer and the respondent, as the respondent is able to have an active and constitutive role; the interviewer is able to acquire an in-depth understanding of the respondent's motives, perceptions and objects.¹¹⁶ Semi-structured interviews have been previously used as an effective way of acquiring an insight to corporate CSR practices in addition to data collection in the form of reports.¹¹⁷ In relation to the setbacks of using semi-structured interviews, the possible problems of getting an access to interviews needed to be taken into consideration as well as the amount of interviews to be conducted to allow a wide application of the gathered data.

Due the limited timeframe combined with the time-consuming coding of the data, the number of interviews was limited to 7. A similar research approach was employed in the research by Anyan¹¹⁸, who due the time and practical constraints, provided 6 interviews in regards to data collection. With this research, the aims was to maintain a widespread coverage by choosing interviewees from different parts of the market sector, to better facilitate the different outcomes based on the different social environments of the respondents. The corporations chosen for the CSR report study part of the research were preferred when contacting participants for the semi-structured interview part, although as a secondary measure representatives from other corporations from the respective states were contacted. Prior to the interviews, the CSR reports of each company were reviewed in order to acquire basic background information of the CSR practices of the companies.

The companies were contacted through email and/or phone calls with an invitation to participate in the study. In the situation, where no replies were acquired, a follow up request was made after around 2 weeks. The companies had

¹¹⁶ J. Mason, 'Semistructured Interview', In Lewis-Beck M.S., A. Bryman and T.F. Liao (ed.), *The SAGE Encyclopedia of Social Science Research Methods*, Thousand Oaks, CA., Sage Publications, 2004, p. 1020.

¹¹⁷ See for example: Sheehy, 2012, n. 48 above, pp. 103-127.

¹¹⁸ F. Anyan, 'The Influence of Power Shifts in Data Collection and Analysis Stages: A Focus on Qualitative Research Interview' *Qualitative Report*, vol. 18, no. 18, 2013, pp. 1-9.

either a person responsible for providing sustainability information or an entire department, which handles issues connected to sustainability. When the information on CSR manager or CSR department was provided, the specific personnel were contacted directly. In other cases the requests for interviews were sent to general contact information provided in the web pages of the companies'. Despite the initial preference for interviewing companies that represent different sectors of the market in each of the countries, the practical restraints, which were caused by the lack of replies from certain companies, meant that two companies from Hungary representing the same sector were chosen for the interview.

The interviewees held positions in strategically important sustainability positions in each company and thus were able to offer an insight to the actual CSR practices. Many of the participants were senior-level employees, including directors, managers and senior advisors. In other words, the interviewees held the expertise and conceptual understanding of the sustainability matters, hence offering a fruitful ground for interviews relating to the subject matter.

Around half of the interviews were conducted in person, while others with the help of communication devices such as Skype and phone. Each interview took around 30 – 60 minutes to complete and was usually followed by an off-the-record discussion of sustainability matters and the research on hand. Interviews were conducted between the time period of March 2015 to early May 2015, which in many instances occurred to the time, when the sustainability personnel had just completed and published the newest reports for the fiscal year 2014. Furthermore, it should be noted that two of the respondents provided the replies in written form, as they did not have time to participate in the actual interview. The findings of these two respondent's replies were nevertheless taken into consideration during the empirical part, while they were not given as strong weight as the actual interview data.

The semi-structured interviews were constructed with the following questions:

1. What are the reasons for your organization to publish CSR reports? What, if any, could be considered as the most important reason or reasons?
2. How does your organization decide what to include in the reports?
3. Does your organization follow CSR reporting practices of its competitors or other organizations? If yes, how do you perceive the mostly voluntary based model of CSR reporting to work:
 - a. In the field of the organization's business in Hungary/Finland and generally in the EU area?
 - b. In other organizations in Hungary/Finland and generally in the EU area?
4. Does your organization consider there has been established a demand for legal regulation regarding the CSR reporting in the EU, and why?

The questions were formulated in order to establish an understanding on the incentives behind CSR reporting, to acquire an insight on the decision-making process for disclosure on the information given in the CSR reports, to see the level of awareness the companies hold in relation to the CSR reporting of other companies and their view on voluntary based practices, and finally what is the company view towards the demand for EU level regulation. These questions are in line with the theoretical framework provided. Stakeholder theory is facilitated with the investigation of the possible existing stakeholder demands and further by identifying the specific stakeholder groups and their impact on the CSR practices of the companies. The legitimacy theory is taken into account by identifying the specific legitimate expectations the companies are facing and by evaluating the possible impact of the CSR Directive in practice.

3.4 The CSR Directive as a ‘benchmark’

The amended EU Directive was used as a ‘benchmark’ in order to establish a comparable CSR reporting scheme in relation to corresponding CSR reports; the analysis and the data collection is aligned with the information provided in the CSR Directive. Instead of measuring the quantity of the disclosure, the aim with the analysis is to establish whether the requirements of the CSR Directive are presented in the CSR reports.

For the purposes of this research, qualitative content analysis was chosen as the most effective method to investigate whether the companies have disclosed the mandatory information required by the CSR Directive. By using qualitative content analysis, I was able to assess the information provided in the reports. This technique has been widely used in the context of determining the quality of CSR reporting.¹¹⁹

Moreover, content analysis was suitable solution for the following reasons. During the research phase, I encountered a setback I had not taken into consideration when planning my research; the CSR Directive offers such a wide and vague criteria, it was hard to determine whether the companies were fulfilling the set criteria or not. How to determine whether the report actually describes the policies and outcomes as expressed in the requirements? In order to overcome this problem I had to establish a liberal view towards identifying the relevant categories and whether the information provided fulfilled the requirements. More specifically qualitative content analysis was employed, as it offers an insight with describing ‘meaning in context’¹²⁰. I analyzed the information provided by reading through the CSR reports and connecting the meaning of the CSR

¹¹⁹ See for example M. Chelli et al., 2014, n. 39 above, pp. 298-299, and T. Vuontisjärvi, 'Corporate Social Reporting in the European Context and Human Resource Disclosures: An Analysis of Finnish Companies', *Journal Of Business Ethics*, vol. 69, no. 4, 2006, pp. 331-354.

¹²⁰ M., Schreier, ‘Qualitative content analysis’, in Flick, U. (ed.), *The SAGE handbook of qualitative data analysis*, London, SAGE Publications Ltd., 2014, p. 174.

Directive to the contents of the report. For example, the CSR Directive states there should be a description of the undertakings business model. The CSR reports usually did not have a specific section titled ‘business model’, rather I had to review the contents of the reports thoroughly to identify the description of the business model from the reports.

Previous researchers have resorted to using quantitative measures in order to overcome the problem of identifying the quality of the disclosure.¹²¹ I considered this to be unnecessary for the purposes of this research mostly because the previous research has focused on comparing whether the quality of disclosure had *changed* after the implementation of disclosure legislation. This research is more focused on whether the information provided *fulfills* the criteria, not whether the quality of said disclosure has improved. In fact, this would be more relevant in the context of future research, when comparing the impacts and changes of reporting disclosure in retrospective.

To be more precise, alternative to evaluating the extensiveness and quality as such of the CSR reports, the measurement is made in line with the CSR Directive; whether certain aspects, themes or indicators are included in the report or not. Whether the information provided is considered as a good quality disclosure is left out of the scope of this research, as the CSR Directive does not offer any benchmark in relation to the quality of the disclosure reported.

3.5 General Considerations on Analysis

3.5.1 Generalizing the results - Questions of Validity and Reliability

While some academics question the use of concepts of validity and reliability in the context of qualitative research,¹²² according to Kirk and Miller, these concepts

¹²¹ M. Chelli et al., 2014, n. 39 above, pp. 298-299.

¹²² Especially the concept of reliability is taken critically in the context of qualitative inquiry, as it is considered impossible for a researcher to accurately replicate another researcher’s work. See for example: Schwandt T.A. (ed.), *The SAGE Dictionary of*

are considered to be equally applicable to qualitative research as they are in quantitative in order to make the research objective.¹²³ In accordance with this, I will discuss these concerns from the context of objectivity as well as generalizability.

Validity is concerned with the aim to accurately refer and represent the reality in the research outcomes.¹²⁴ In other words, the research should be generalizable to other contexts and actually represent the phenomena under research. In qualitative social research it is crucially important to describe what is done in order for the researcher to make validity checks on the research.¹²⁵ One important aspect in constructing validity is the connection between the theoretical part, the phenomena under inquiry and the method used.¹²⁶ This research seeks to connect the relevant parts comprehensively in order to provide valid results.

Moreover, in order to minimize the possible threats to validity, a number of different measures were taken when conducting this research. Procedures towards increasing validity are made in order to:

1. Reduce the probability of making critical mistakes in the research
2. Strengthen the transparency of the entire research.¹²⁷

Qualitative Inquiry, 3rd edn., Thousand Oaks, CA., SAGE Publications, Inc., 2007, pp. 263-264.

¹²³ J. Kirk and M.L. Miller, *Reliability And Validity In Qualitative Research*, Newbury Park, CA., SAGE Publications, Inc., 1986, p. 19.

¹²⁴ J. Gallestey, 'Validity', in Boslaugh, S and L. McNutt (ed.), *Encyclopedia of Epidemiology*. Thousand Oaks, CA, SAGE Publications, Inc., 2008, p. 1071.

¹²⁵ J. Kirk and L.M Miller, 1986, n. 123 above, p. 20.

¹²⁶ C. Hart, *Doing Your Masters Dissertation: Realizing Your Potential As a Social Scientist*. London; Thousand Oaks, Calif., SAGE, 2005, pp. 335-338.

¹²⁷ G. Guest, K.M. MacQueen, and E.E. Namey, *Applied Thematic Analysis*, Thousand Oaks, CA., SAGE Publications, Inc., 2012, p. 85.

The process of increasing validity already begins in the research design phase. The second phase concerns the actual data collection. This should be conducted with an adjusted structure, which best promotes the goals and structures of the study.¹²⁸ Especially in the context of interviews, validity of the research need to be taken into consideration, not because of the lacks of qualitative methods, but to promote the power use of such methods when picturing questions of complexity and the social reality.¹²⁹ In order to assess these concerns, I planned a structured approach to the data collection. In relation to the CSR reports, I created a functional table to collect the findings in a clear and comprehensive form. I established a clear structure for the questions in order to acquire consistent responses.

Moreover, the process of providing validity was consistent throughout the research period, as Kvale takes a view to the validity of qualitative research, where validity provides ‘craftsmanship,’ which is concerned with the continuing questioning and checking of the findings.¹³⁰

Reliability is concerned with recreating the findings of a research under the same or similar conditions.¹³¹ As mentioned above, the questions related to reliability have not traditionally been considered as important in qualitative research, as they have been considered in quantitative research. This is due the nature of qualitative research, which does not aim to replication.¹³² As the research in hand is concerned with comparing and collecting perceptions between a number of different groups, reliability concerns come in the context of structure. In other words, by establishing a structured process, with structured questions, the research

¹²⁸ Ibid. p. 85.

¹²⁹ S. Kvale, ‘The Social Construction of Validity’, in *The Qualitative Inquiry Reader*, N.K. Denzin, & Y.S. Lincoln (eds), Thousand Oaks, CA., SAGE Publications, Inc., 2002, p. 313.

¹³⁰ Ibid. p. 309.

¹³¹ C. Hart, 2005, n. 126 above, p. 348.

¹³² G. Guest, 2012, n. 127 above, p. 84 and p. 88.

process becomes more reliable.¹³³ This research aims to provide implications on a wider EU aspect, rather than only of the situations in Finland and Hungary. When doing this, it is important to balance structure with flexibility to prevent the research becoming shallow.¹³⁴

This research was constructed by providing a theoretical framework, which is suitable for making inquiry to CSR reporting practices. The empirical data used for this research consists of information on the actual CSR reporting practices, while leaving questions over the quantity and quality of CSR reports unexamined. The method was further carefully considered to compliment the theoretical aspects and the phenomena under inquiry. In accordance with this, I argue this research to be objectively constructed in order to provide reliable and most importantly generalizable research conclusions.

3.5.1.1 Issues with content analysis

The prominent idea of content analysis is to categorize text or words. Each of these categories are considered to hold related meanings, if created consistently.¹³⁵ Furthermore, it is important to choose a content analysis strategy, whereby the information gathered will be consisted of relevant information, while not leaving anything out.¹³⁶

In order to gather all the relevant information from the CSR reports, the CSR Directive was used to help with categorization. As the CSR Directive holds four main categories of mandatory CSR, as well as sub-categories, the relevant content was analyzed in a respective manner to provide coherent analysis. This is in line with the need to establish a coding frame, which should consist of minimum of

¹³³ G. Guest, 2012, n. 127 above, p. 84

¹³⁴ G. Guest, 2012, n. 127 above, p. 88.

¹³⁵ R. Weber (ed.), *Basic Content Analysis*, 2nd edn., Thousand Oaks, CA., SAGE Publications, Inc., 1990, p. 12.

¹³⁶ *Ibid.* p. 41.

one main category and two subcategories.¹³⁷ The main categories are used as general parts, under which more specific information is acquired from. In order to protect reliability, two rounds of coding were implemented, as supported by relevant literature.¹³⁸ In accordance with these considerations, I argue this research to have taken into consideration the possible difficulties associated with the use of content analysis.

3.5.1.2 Issues with thematic analysis

Guest et al. provide the following description for thematic analyses: "Thematic analyses move beyond counting explicit words or phrases and focus on identifying and describing both implicit and explicit ideas within the data, that is, themes. Codes are then typically developed to represent the identified themes and applied or linked to raw data as summary markers for later analysis."¹³⁹ As Guest et al. provide, a vital part of the applied thematic analysis is the development of the codebook. Codebook development refers to the process, by which the observed meaning of the text is systematically divided into different categories, types as well as relationships of meaning.¹⁴⁰ The codebook development is an ongoing process, where new information allows the gaining of new perspectives. In previous research, the following information, for what should be included in a code definition, has been considered necessary:

1. Code label: A brief 4-12 characters long descriptive mnemonic, which the coder can use for differentiating between the codes.
2. Short definition: A brief, descriptive 20-80 characters long descriptive phrase, which expresses the theme the code represents.
3. Full definition: A brief 2-10 sentences long descriptive paragraph, which pin points the key features of the theme the code represents. The paragraph should contain theoretical, conceptual or cultural dimensions related to the code.

¹³⁷ M. Schreier, 2014, n. 120 above, p. 174.

¹³⁸ Ibid. p. 178.

¹³⁹ G. Guest, 2012, n. 127 above, p. 10.

¹⁴⁰ G. Guest, 2012, n. 127 above, p. 52.

4. When to use: Description of the textual cues and context that pinpoint the thematic meaning as well as encourage the coder to use the code to connect text with that meaning.

5. When not to use: Description of the textual cues and context that pinpoint the thematic meaning associated with other codes which could be used in same context.¹⁴¹

In relation to this research, I have carefully transcribed all the interview recordings and further created a codebook in accordance with the above instructions. In order to acquire a thorough understanding of the interview data, the transcriptions were read several times. The most important part of the data was the identification of certain patterns. The patterns were identified from the transcripts formed from the interviews. An example of a transcript of an interview is offered in Appendix III. With the aforementioned prerequisites I argue that the thematic analysis has been done with the utmost diligence.

3.5.2 Ethical Considerations

In every research involving human subjects, an array of ethical codes needs to be taken into consideration. It is vital to consider things such as invasion of privacy, breaches of confidentiality as well as anonymity. In order to comply with the strict ethical guidelines, all respondents were given two consent forms, where the other one included information on the research project and the rights of the respondents during the interviews. The written consent form assumes that the interviewee has understood the meaning of the research as well as their role in the research.¹⁴² All the respondents' participation was voluntary and at any time during the interview they were given the chance to decline from answering or to end the interview. The respondents were given a second consent form, which was

¹⁴¹ G. Guest, 2012, n. 127 above, p. 53.

¹⁴² C. Warren, 'Qualitative Interviewing', in Gubrium, J.F. and J.A. Holstein (ed.), *Handbook of Interview Research*, Thousand Oaks, CA: SAGE Publications, 2001, pp. 88-89.

signed after the actual interview, whereby the respondents were given the opportunity to make their final decision on whether they want to remain anonymous. Two different consent forms were used in order to deal with confidentiality issues that arise during the interview, as has been requested by some researchers.¹⁴³ This way, the respondents were given the possibility to address any questions related to the use of sensitive information. The second form is concerned with the information given during the interview, and thus giving the respondents greater control over their interview data.

Throughout the research process I have taken into consideration the Lund University guidelines for assessment of ethical issues.¹⁴⁴ I argue my work to be constructed and conducted in a manner, which recognized and respects the ethical issues involved.

4 Observations

This Chapter will present the findings of the empirical data collection in relation to the current CSR reporting practices of the chosen companies. I will begin by introducing the content and the scope of the CSR Directive. Then I will proceed to present the level of CSR reporting of the chosen companies in relation to the CSR Directive. The second part of this Chapter will focus on the company perspective, whereby the findings of the semi-structured interviews are presented. The findings are categorized into different themes, in order to provide a comprehensive account on the actual practices.

4.1 The current CSR reporting practices

4.1.1 The content and the scope of the CSR Directive

¹⁴³ K. Kaiser, 'Protecting confidentiality', in Gubrium, JF., J.A. Holstein, A.B. Marvasti, and K.D. McKinney (ed.), *The SAGE handbook of interview research: The complexity of the craft*, 2nd edn., Thousand Oaks, CA., SAGE Publications, Inc., 2012, p. 461.

¹⁴⁴ Lund University. Ethical issues at Lund University, notes for guidance, 22 April 2005.

In order to observe the contents of the CSR reports, an inquiry of the amendments of the CSR Directive need to be provided.

The EU CSR policy can be categorized to be two-dimensional. First dimension covers the economical interests and competitiveness of the individual companies and the EU as a whole. Second dimensions is concerned with the sustainable and social aspect of such economical interests.¹⁴⁵ In other words, economical growth should not be achieved with the cost of sustainable and social aims.

The scope of the CSR Directive covers “large undertakings which are public-interest entities exceeding on their balance sheet dates the criterion of the average number of 500 employees during the financial year”.¹⁴⁶

To define what ‘public interest entities’ are, the Directive refers to previous EU legislation. Earlier, ‘public interest entities’ have been defined by the EU as entities, which are either both governed by the law of a Member State and listed on a regulated market, or credit institutions in the EU (irrespective of whether listed or not), or insurance undertakings in the EU (irrespective of whether listed or not), or entities which are designated by the Member State as public-interest entities, for instance undertakings that are of significant public relevance because of the nature of their business, their size or number of employees.¹⁴⁷ In accordance with the provided definition, the scope of the CSR Directive has been estimated to include approximately 6 000 organizations in the EU area.¹⁴⁸

The CSR Directive specifies the following demands in its Article 19a for the report to include information “to the extent necessary for an understanding of the undertaking’s development, performance, position and impact of its activity” in

¹⁴⁵ European Commission, 2011, n. 5 above, p. 3.

¹⁴⁶ CSR Directive, 2014 n. 9 above, Article 19a(1).

¹⁴⁷ CSR Directive, 2014 n. 9 above, Article 2(1).

¹⁴⁸ European Commission webpage, Non-Financial Reporting, available at: http://ec.europa.eu/finance/accounting/non-financial_reporting/index_en.htm (accessed 12 May 2015)

the areas of environmental, social and employee matters, respect for human rights, and anti-corruption and bribery matters.¹⁴⁹

More specifically, the CSR report should include the following information

1. a brief description of the business model of the company
2. a description of the policies pursued in relation to the areas of environmental, social and employee matters, respect for human rights, and anti-corruption and bribery matters.
3. the outcome of those policies as well as description of the principal risks related to those matters linked to the company operations.¹⁵⁰

The CSR Directive further provides that in situation, where the company does not pursue policies in relation to the abovementioned categories, they should provide “a clear and reasoned explanation” for not doing so.¹⁵¹ While there have not been offered any additional instructions on how the reporting should be done to be in compliance with the set requirements, the Commission has agreed on preparing a non-binding guideline, providing information on key performance indicators and other disclosure information by 6 December 2016.¹⁵²

While the amendments contain more information and requirements, especially in relation to group undertakings and their respective reporting requirements, as well as detailed information to be disclosed regarding diversity, the scope of this research is limited to the Article 19a. The scope was limited as Article 19a was considered as the most relevant part for examining the possible impacts in relation to CSR reporting.

¹⁴⁹ CSR Directive, 2014, n. 9 above, Article 19a(1).

¹⁵⁰ CSR Directive, 2014, n. 9 above, Article 19a.

¹⁵¹ CSR Directive, 2014, n. 9 above, Article 19a(2).

¹⁵² CSR Directive, 2014, n. 9 above, Article 2.

4.1.2 Level of CSR reporting compared to the EU demands

Firstly, I analyzed the extent to which the companies report on CSR indicators according to the requirements set out by the CSR Directive. Secondly, I try to find the relevance of the CSR Directive in relation its possibilities to increase the quality of the contents of the published reports.

The information gathered on the actual CSR reports was retrieved entirely from publications of the companies on their webpages. Some of the companies published integrated report, where sustainable information was provided as part of the financial information report. Some companies published a separate sustainability report, as an individual part of their reporting scheme. Some companies had even created entire Internet based subpages for sustainability. The information gathered concerned the in most cases the fiscal year 2013, as the reports for the fiscal year 2014 were not available in all instances at the time of the empirical research. As the CSR reporting practices have been developing rapidly within the past years, it was deemed appropriate to use the newest CSR report available from each company to allow a comparable perspective on situation in the companies within the same time sphere.

The results display the CSR reporting situation of the companies, compared to the demands set out in the CSR Directive. A summary of the observations of the individual companies CSR reports is provided below (see Appendix I for a more detailed information on the contents and the companies).

The results of the data collection indicate a high level of compliance with the CSR Directive of undertakings that are already publishing the CSR reports in both countries. As mentioned before, the demands were easily fulfilled, as the requirements set are considerably vague. Generally it seemed that environmental impacts and social and employee matters were given the priority. Issues such as human rights and anti-bribery and corruption were left out in some of the reports.

I would suggest this can be seen as indicator of lack of business activities in this regard, i.e. lack of company action in areas which would potentially be harmful to human rights (for example having business operations in developing countries) rather than an intentional desire to leave the information out of the scope of the CSR reports. Nevertheless, in the future, to be in compliance with the CSR Directive, these companies must provide more detailed information on why these have not been included.

Generally, the reports seemed to take the most relevant issues in relation to the specific field of business into consideration quite thoroughly. Consequently, the contents of the reports are largely mandated by the relevant field of business, as it does not make sense for example for a company focused on offering advisory services from their permanent location in the EU to report on their use of forced labor, as this concern is not relevant. I would argue that it is not necessary for all the companies to publish information on all the aspects of the CSR Directive, as they are given the opportunity to provide an explanation for why they choose not to report even after the implementation of the CSR Directive.

The most difficult part of the data collection was the risk assessment. This aspect was often hard to be determined, as the reports mostly informed on the actual 'reality' of the company actions, whereby risk assessment was often done in conjunction with explaining the policies, rather than by explicitly stating there are 'risks'. Despite this, in relation to most key actions of the companies, risk assessment was thoroughly provided.

In order for the CSR Directive to provide any increase in the quality of the disclosure, the demands of the CSR Directive should be specified. Currently, the requirements of the Directive are not on par with the actual demands for CSR, consequently creating a 'legitimacy gap', as provided in the context of legitimacy

theory.¹⁵³ A more thorough analysis of these findings will be provided in the Chapter titled ‘Final Analysis’. Furthermore, it should be specified that the quality of disclosure should be investigated with comparative research after the implementation of the CSR Directive to see the possible effects the CSR will have on CSR reporting practices.

4.2 The company perspective to CSR

Firstly, the interview data was used to establish a thematic table, by which certain themes could be identified in relation to CSR reporting motivators. Secondly, I tried to establish a general view on the attitudes of the companies towards the new CSR Directive, and whether they deem it necessary or providing any actual betterment to the current situation. Differences between the responses of Hungarian and Finnish companies are identified in relevant parts. More detailed information on the participants by sector and title are provided in Appendix II.

4.2.1 Incentives behind CSR reporting

The respondents indicated a large number of motivators behind publishing CSR reports. These are grouped in the following categories with their key words:

Stakeholder interests

Stakeholders were considered as one of the most important reason for the companies to publish reports. The companies wanted to increase or maintain their stakeholder dialogue by providing data on their actions to different stakeholder groups.

While some of the companies had experienced actual pressure to publish CSR reports, the demand was mostly imposed towards the actual practices, rather than on reporting these practices. In addition, it was pointed out that the stakeholder

¹⁵³ M. Chelli et al., 2014, n. 39 above, p. 287.

group, which is mostly concerned with the actual reports, is the external stakeholder group of sustainability professionals of different fields and researchers. The social demands for the companies to give more information of their actions was considered important. This covered both local and global perspectives. Some of the companies emphasized, that the stakeholders are pleased to see the reports, but actual pressure to publish them is not prominent at the moment.

An emphasis was further give to the stakeholder group of the shareholders and owners, as they were considered to be the ones having the most power to have an impact on the CSR practices, rather than the external stakeholders. It should be pointed out, that all the interviewed companies published CSR reports and it was pointed out, that it is only speculation whether they would not or would face any pressure if they had not started publishing reports by now. The findings compliment the existing standpoint, where the stakeholder dialogue has prominently been established to impact CSR reporting.¹⁵⁴

Transparency

Transparency issue was considered to be as equally popular reason to publish CSR reports as the stakeholder interest. Companies working on different fields seem to consider it important to be transparent in their actions. The companies wish to publish information on fields of business where they perform well and where they need to improve. The companies considered it important to promote good corporate governance through transparency. The companies wanted to be viewed rather as ‘leaders’ in the field of CSR than being on the worst performing section. It was considered as a vital part of sustainable business practices.

The companies considered their role as ‘good corporate citizen’, whereby the companies are considering their own ethical guidelines and how they want to

¹⁵⁴ C. Searcy and R. Buslovich, 'Corporate Perspectives on the Development and Use of Sustainability Reports', *Journal Of Business Ethics*, vol. 121, no. 2, 2014, p. 167.

practice business, which kind of entities they want to be in the surrounding society. This was even prominent with companies practicing business outside Europe, in developing countries, and in cases where the operations contained potentially dangerous raw materials. In these cases the CSR questions are viewed differently as the companies hold an important role in promoting social aims in states where the regulation of social issues is undeveloped. In line with this, the global perspective was considered to increase the CSR concern of the companies, thus creating more pressure to publish the reports. The concept of a ‘good corporate citizen’ and how the companies have been covering the governmental lacks in some social areas has been widely established in previous research as well.¹⁵⁵ The companies wanted to give answers to questions that might be of relevance later on, thus predicting what to include in the report, before the demand for such data is established.

Better practices

Some of the companies also mentioned that the gathering of the data for the CSR reports was considered to have an impact of the development of effective operation, as the corporations would increase their own understanding of the different functions.

4.2.2 Determining what to include in the CSR reports

The respondents mentioned a number of different methods, which contributed to the decision-making process. These responses may be grouped into three broader categories:

The Global Reporting Initiative (GRI)

¹⁵⁵ See for example: D. Matten and A. Crane, ‘Corporate Citizenship: Toward An Extended Theoretical Conceptualization’, *Academy Of Management Review*, vol. 30, no. 1, 2005, pp. 166-179.

All the interviewed companies said they are publishing CSR reports in accordance with the GRI. According to the information, the relevant indicators to be used are chosen in accordance with the GRI.¹⁵⁶

Stakeholder dialogue

All the companies said they have a dialogue with the stakeholders regarding what the stakeholder groups consider important to be included in the CSR report. In most cases this means a survey conducted among the stakeholder groups. They form a so-called ‘materiality matrix’, which covers the material sides they want to include in their report. It was further point out, that if in some instances the stakeholders are demanding more information on some aspects of the business operations of the company, the companies aim to answer these demands promptly. However, the aim seems to be to overcome the stakeholder expectations even before the demands are set out. This seems to be in accordance with the legitimacy theory, whereby the companies are constantly evaluating and evolving their actions, to prevent situations where the company might lose its legitimacy due to the rapidly changed legitimacy expectations.¹⁵⁷

The global perspective was emphasized with this concept, as the location of the business operations, such as having operations in developing countries, was considered to hold an importance on the materiality side of the reports. Even further, the specific field of business holds significance in this respect.

Corporate internal dialogue

The board members of the companies, managers as well as different departments take part in the forming of the CSR reporting strategy, principles and framework.

¹⁵⁶ GRI provides the following definition for its activities: “The Global Reporting Initiative (GRI) is a leading organization in the sustainability field. GRI promotes the use of sustainability reporting as a way for organizations to become more sustainable and contribute to sustainable development.” Available at: <https://www.globalreporting.org/Information/about-gri/Pages/default.aspx> (accessed 10 May 2015)

¹⁵⁷ C. Deegan et al., 2002, n. 89 above, p. 312.

The companies have a responsible CR team, which prepares the work in accordance with these company wide discussions.

4.2.3 The impact of other companies' CSR reporting practices

Top performers

While the companies considered the local reporting environment to be mostly unbeneficial to follow, all the companies paid attention to companies they considered to be 'top performers' in some aspects of CSR reporting. These companies and their respective CSR reports were used as a 'benchmark' and were taken into consideration when adjusting what to include in the respective reports.

Global perspective

The EU or local level performers were not considered as important as the global level performers, such as Australian or US companies. Especially in relation to Hungarian companies, the lack of proper local CSR reporting practices, the only option is to gather information on global areas.

Other sectors

All of the companies seemed to be interested in CSR reports published in other sectors. Some of the companies were more interested with their competitors CSR reports, while some of the companies used these only to get some information on certain details, rather than on creating CSR strategies as such. Generally other companies were used to form good ways to represent the data in the respective CSR reports.

Own performance

Some of the companies emphasized that the perspective is and it should be on making their own CSR reporting practices better, rather than to follow the already existing systems and 'copy' them.

4.2.4 Necessity of an EU wide regulation / voluntary based model

This question proved to be the most controversial, as the respondents held varied views. Generally it seems that the Hungarian companies did not trust the voluntary based model to be working as effectively as the Finnish companies.

Voluntary

Unsurprisingly, voluntary based practice was considered as the most important incentive for increasing CSR reporting practices. The pressure from stakeholders, both internal and external, was considered to have an impact far beyond the compulsory measures would have. For actually increasing better CSR practices rather than increasing CSR reporting, it was considered important that the motivation to publish report comes from the company itself.

Even further, it was largely questioned, whether the mandatory CSR reporting would result in more reliable CSR reporting and whether it would to increase the quality of CSR in practice. This is a relevant concern and it should be taken seriously. The companies emphasized that the actual practices should be emphasized, rather than just increasing the number of reports. Some of the companies also pointed out that the group of people who actually read the CSR reports is quite limited. Usually this group consists of researchers and other companies, rather than the public in general. Some respondents emphasized that the report is not even intended for the average consumer to read.

Overregulation / Flexibility

The companies seemed to be concerned with the overregulation aspect of CSR practices. The regulation of CSR practices was feared to be too burdensome and complicated for the companies. As the field is formed on voluntary practices, the legal regulation is feared to be unadoptable on this field and too ‘forced’.

While all the companies showed a positive approach to creating a minimum standards/framework for CSR reporting, the emphasis should be on flexible system. A too strict system was considered inefficient and unappealing. These concerns seem to be in accordance with the expressed industry opposition towards the introductory of mandatory CSR reporting on the EU level, which further resulted in the scope being limited to only large companies.¹⁵⁸

Framework

The legal regulation gives the framework and minimum standards, which the companies that already perform are fulfilling. The companies seemed to be satisfied with the idea of creating a minimum framework standard. The framework would mostly be beneficial in the areas where the reporting is not as common. Some companies had opposing view to this perspective, whereby representatives of the business areas, which held a number of CSR concerns, considered the current system being sufficiently efficient without a framework.

Questions such as financial crisis and need for transparency were emphasized with this context. All the companies concluded that they consider the CSR reporting practices to be important, the view on whether to make it mandatory was mostly depended on whether the companies were from Hungary or Finland. The Finnish companies seemed to be more confident with the voluntary based approach than the Hungarian ones.

5 The final analysis

¹⁵⁸ K. Bizzarri, 'Refusing to be Accountable – Business hollows out new EU Corporate Social Responsibility Rules', Corporate Europe Observatory, April 2013, pp. 5-6. Available at: http://corporateeurope.org/sites/default/files/publications/refusing_to_be_accountable.pdf (accessed 10 May 2015)

In presenting a comprehensive account of the CSR reporting practices of companies functioning in the EU area this Thesis has addressed the research question presented in the first Chapter of this Thesis, on why is the CSR Directive failing to necessary bring about CSR improvements in the economically and socially diverse EU area as a whole? As mentioned before, the CSR and CSR reporting are two different concepts. However, due their interrelated connection, studies on CSR reporting offer insights to CSR practices as well.

Should there be created a harmonized system of CSR reporting, a suggested first move would be to fulfill the aims of the EU for creating a socially and economically striving EU area by making CSR reporting mandatory. By making it mandatory for companies to publish CSR reports, the public could make the companies more accountable of their actions and consequently increase the sustainable business practices. Unfortunately, the situation is not this straightforwardly solved; the enforcement of a EU wide CSR regulation includes number of implications that need to be taken into consideration. To make sense of the complex issues, I have conducted the research and successfully established an understanding of the principles, processes and the outcomes of the CSR reporting practices of the chosen companies, as provided in the previously recommended approach by Wood to examine CSR issues.¹⁵⁹

The findings of my research implicate that currently large companies both in Hungary and in Finland seem to offer comprehensive CSR reports when comparing to the minimum level of disclosure required in the CSR Directive. I acknowledge that the evaluation of whether the companies are now fulfilling the criteria should be taken with scrutiny, as the final requirements and guidelines of the CSR Directive have not yet been offered. Nevertheless, when taking into consideration the current CSR reporting practices, information on the four categories that are expressly stated in the CSR Directive have generally been disclosed in the CSR reports of the companies. The fact that the companies have

¹⁵⁹ D. Wood, 1991, n. 54 above, p. 693.

been engaging in CSR reporting to this extent, without an explicit mandatory requirement to do so, seems to indicate the companies desire to be legitimate in their actions and to further respond to the stakeholder demands. However, the companies are aware that with voluntary based system they can continue to evolve the CSR reporting measures to accommodate their respective brands and individual aims.

From the sociological perspective of law, and the context of stakeholder and legitimacy theories, the empirical results retrieved from the interview data also indicate that the impact of the social environment as well as the demands set out by the surrounding society seem to affect the CSR reporting environment greatly. Moreover, the company respondents elaborated in depth about their current CSR reporting practices, which were mainly motivated by the dialogue the company has with its stakeholder's and the surrounding society. The communicative aspect of the CSR reporting was discussed thoroughly in the interviews; companies want to tell to the public about their sustainability regimes. In accordance with this, I would maintain that companies seem to develop their CSR reporting in conjunction with the communication and brand building benefits. This 'marketing' aspect is essentially in contrast to the transparency and sustainability objectives, as the companies are eager to highlight the areas where they are performing well, while some aspects might not be communicated to the public as effectively.

The findings from the actual CSR reports and from the interviews indicate the relevance of the use of stakeholder theory in explaining the CSR reporting practices; the companies have prominently been taking the stakeholder interests into account the when drafting and publishing CSR reports. As mentioned previously, Melé has recognized this to be one characteristic of stakeholder theory.¹⁶⁰ In context with the interviewed companies, the legal regulation has not so far played any significant role as a motivator to publish the reports, as all the

¹⁶⁰ D. Melé, 2008, n. 56 above, p. 66.

companies have been publishing the CSR reports on voluntary basis in order to comply with the legitimate expectations. This seems to promote the use of legitimacy theory, with the theoretical perspective being on the company desire to comply with the legitimate expectations. More precisely with the context of legitimacy theory, the results indicate that the companies have been evaluating their CSR reporting practices and provided dynamic actions so as to retain their legitimacy, precisely as Deegan et al. have elaborated.¹⁶¹ The practical implication is that the companies do not want to be the ‘worst performing’ in the CSR reporting sector, which further is motivating the voluntary based practices.

A problem that should be addressed is the lacks of stakeholder interest in some aspects of companies’ business actions. While the companies aim to develop their CSR practices based on stakeholder engagement, the reporting will continue to be evolving to accommodate the needs of the most important stakeholders. This concern has been expressed in previous research in relation to stakeholder theory.¹⁶² More precisely, if the CSR reporting practices will continue to be based on voluntary stakeholder oriented measures, the evolution of the practices will not be consistent. By providing regulative measures, in order for the companies to be legitimate, they would need to fulfill the legal requirements, despite the lack of vocal stakeholder demands. This suggestion has been previously addressed, in the context of legitimacy theory, where it was stated that by imposing mandatory regulation on CSR practices, the mandatory regulation could be seen as an indicator of the legitimate expectations of the surrounding society.¹⁶³ In this respect, the EU level regulation on CSR reporting could be seen as a mandatory way to increase transparency of the company actions in all aspects of its business.

The empirical findings further propose the benefits of using regulative measures from the standpoint of legitimacy theory. The results indicate that all the

¹⁶¹ C. Deegan et al., 2002, n. 89 above, p. 312.

¹⁶² D. Wood, 1991, n. 54 above, p. 699.

¹⁶³ M. Chelli et al., 2014, n. 39 above, pp. 291-293.

companies were carefully taking the new CSR Directive amendments into consideration and investigating whether their respective CSR reports were in compliance with the set criteria. It should be noted that in relation to using hard law measures, the lack of any penalties did not seem to have any effect on the company desire for compliance. This seems to indicate the same findings as previous research, as the companies' attitude towards the CSR Directive show that the incentive for developing the CSR reporting does not derive from imposing penalties by the government, but rather it shows the companies' willingness to communicate with their stakeholders and to further answer their demands.¹⁶⁴ In other words, the companies are eager to reply to any CSR demands, notwithstanding if this communication is expressed in the form of hard law measures or stakeholder pressure.

Furthermore, the empirical findings indicate that some of the companies are aware of the lacks of the voluntary based system. More precisely, some of the respondents presented their concern that there can still be found large undertakings that have not been engaging in CSR reporting. The respondents elaborated the lack of stakeholder pressure as one of the possible reasons for not publishing the reports. The respondents considered things such as the geographical location of the business actions as well as the field of business as possible explanations for the varied level of stakeholder demands. As mentioned in the context of stakeholder theory, companies are often doing business in the different parts of the world, where it is hard for the companies to recognize to whom they should be responsible for in relation to CSR demands.¹⁶⁵ As the voluntary based approach to CSR is to a high degree dependent on the stakeholder dialogue and pressures, I believe the EU level regulation could be used as a tool to answer this failure of the voluntary based approach by forcing 'the last of the Mohicans' to publish reports. However, the mandatory/voluntary debate is a two-edged sword; the companies might loose interest in sustainability matters after

¹⁶⁴ M. Chelli et al., 2014, n. 39 above, p. 295.

¹⁶⁵ D. Wood, 1991, n. 54 above, p. 701.

they become mandatory for everyone to publish thus making it harder to stand out as the 'good guy'.

In the previous paragraph I proposed that regulative measures are superior to voluntary measures in relation to CSR, when seeking to provide a comprehensive account on the CSR practices of the companies. One should not make such conclusions without further considerations. It is true, in relation to the companies that are failing to disclose CSR reporting, the regulatory measures might provide a solution to the failures of the voluntary based system. This has been offered as an explanation in previous research as well.¹⁶⁶

Despite the initial differences between Finland and Hungary, the findings seem to implicate a consensus against overregulation in relation to regulating CSR in the EU. As mentioned before, the respondents still expressed some concerns on the problems with the companies, who are not publishing CSR reports should be engaged to publish the reports by legislative measures. Similarly to research findings of Chelli et al., while the general perception towards changing the CSR agenda from soft-law based approach to regulated one, the corporate representatives did admit that, at least to some extent, the new CSR Directive is actually reflecting the CSR concerns in the EU area, and might in some instances provide a much needed tool for making companies more accountable.¹⁶⁷

As one of the main developments following the implementation of the CSR Directive will likely be the shift in the way the companies in the EU area will disclose information on CSR issues towards a more unified form. This uniform form reflects the aims of the requirements of the CSR Directive. However, it has been recognized that the information disclosed in the CSR reports should be credible and truthfully expressing the actual CSR performance of the company to

¹⁶⁶ B. O'Dwyer et al., 'Perceptions on the emergence and future development of corporate social disclosure in Ireland: Engaging the voices of non-governmental organisations', *Accounting, Auditing & Accountability Journal*, vol. 18, no. 1, 2005, p. 34.

¹⁶⁷ M. Chelli et al., 2014, n. 39 above, p. 295.

be able to have any useful purpose.¹⁶⁸ I would argue that the CSR Directive in its current form does not provide any practical tools for facilitating this aspect, as the companies are left with discretion on what information on the four categories to disclose and how to disclose it, even if outside auditing is required. Similarly to the research of Chelli et al. on vague France legislation on environmental reporting,¹⁶⁹ I would propose there can be found a number of limitations to the application of the CSR Directive; due to its lack of explicit requirements, it is difficult for the companies as well as governmental officials to determine whether the undertakings are in compliance with the CSR Directive when publishing CSR reports. As was discussed in the context of legitimacy theory, for making regulative measures more effective than voluntary measures the regulation should be used to provide more consistent legitimacy expectations, such as with the previously discussed tax avoidance schemes.¹⁷⁰

More prominently, the most fundamental issue is whether the CSR reporting requirements will have an effect on the CSR practices of the companies. In its current form, the CSR Directive only offers general, minimum guidelines for CSR reporting, consequently failing to increase the quality of the CSR reporting of the companies that are already publishing CSR reports. Even further, as one of the respondents expressed, it is one thing to disclose information and another thing to have sustainable practices in reality. This is apparent in the context of brand building and communicative use of CSR reports as well. I argue that this concern has not been reflected with the context of the CSR Directive thoroughly enough. All things considered, the most vital objective of the CSR Directive is to increase *sustainable business practices* of the EU area companies by creating a more transparent reporting system. How the new CSR reporting in fact will increase the sustainable business practices of these companies should be taken with scrutiny. More precisely, there have been presented concerns within the context of previous

¹⁶⁸ B. O'Dwyer et al., 2005, n. 166 above, p. 23.

¹⁶⁹ M. Chelli et al., 2014, n. 39 above, p. 305.

¹⁷⁰ J. Fisher, 2014, n. 96 above, p. 354-355.

research that the companies use CSR reporting only to increase the positive perceptions of the business actions, and the development of CSR reporting practices has traditionally been relying on this one-sided perspective.¹⁷¹

Moreover, even while the main objective of my research has not been to take into account the actual quality of disclosure, I believe this aspect should be communicated more thoroughly to understand the wider concepts and the underlying issues of CSR reporting. While the CSR Directive attempts to improve the current state of CSR reporting in the EU area, it fails to provide any comprehensive improvements in the existing reporting practices. It has been claimed that the contents of the CSR Directive were weakened due the industry pressure, so that it in its current form does not offer any significance contributions to the CSR reporting.¹⁷² I would argue that because the EU has been reluctant to include more strict requirements in the CSR Directive, it is failing to bring as much improvement to the CSR reporting practices of the EU area companies as it was originally intended to.

I maintain that currently the scope of the CSR Directive allowing the companies, that are exempt from the scope of the directive due the size of the business, to supply to large companies. Consequently, the larger companies are in some instances unable (or unwilling) to address CSR concerns at the supplier level. This concern has been expressed by Bizzarri as well.¹⁷³ The debate between CSR reporting and CSR in practice becomes relevant in this aspect as well.

The vague demands set out in the CSR Directive will mean the implementation on the Member State level is depended on the Member States; I would argue that this would increase the gap of CSR reporting practices between the Member States rather than diminishing it. The current situation indicates that even when the

¹⁷¹ G. Michelon et al., 2014, n. 41 above, p. 2.

¹⁷² K. Bizzarri, 2013, n. 158 above, p. 2.

¹⁷³ K. Bizzarri, 2013, n. 158 above, p. 8.

companies are in compliance with the CSR Directive, the companies are not necessarily considered to be legitimate nor answering their stakeholder demands, as the stakeholder demands and legitimate expectations of the CSR are more varied and more specific than the CSR Directive requirements. This will likely result in a ‘legitimacy gap’.¹⁷⁴

When providing the guidelines for the actual implementation of the CSR Directive, I hope this concern will be better facilitated. One possible approach could be resorting to GRI based approach or a framework. It has been recognized in previous research that the use of the GRI reporting initiative have been proven to offer small but significant results of making the CSR reporting to include performance related disclosure, which is one of the EU recommended guidelines.¹⁷⁵ All the interviewed companies as well as the companies used for the CSR report investigation part used a GRI based system. I would argue that the GRI based system seems to be providing a good framework for the companies to engage in CSR. While the EU has provided GRI as one of the possible examples for companies to use in order to fulfill the CSR Directive requirements, the use of GRI (or any other reporting framework) remains completely voluntary.

The findings above have broad implications for the future development and implementation of the CSR Directive. I argue that there has been established a demand for EU level hard law measures to CSR reporting in order to increase the sustainable business practices in the entire EU area. However, I maintain that the CSR Directive, in its current form, fails to bring about any significant improvements on the actual CSR reporting practices and consequently to CSR practices. To overcome the possible setbacks of the current CSR Directive, the aforementioned concerns should be thoroughly addressed by creating a more comprehensive, strict and detailed CSR reporting requirements in the EU level. I argue that the strict requirements would not be overly burdening for the

¹⁷⁴ M. Chelli et al., 2014, n. 39 above, p. 287.

¹⁷⁵ G. Michelon et al., 2014, n. 41 above, p. 16.

companies, if the regulation would be precise, understandable and implemented within a considerably moderate timespan. The implementation could be arranged to be gradual, with certain new aspects required each fiscal year. The findings of Lambooye et al. support this conclusion, as they consider it to be vital to establish an EU wide legal regulation, that would either be binding in all the Member States in the exactly same and specific manner or be heavily relied on the existing voluntary reporting systems, such as the GRI.¹⁷⁶

6 Final remarks

With this research I suggested a method for examining CSR reporting practices and incentives. First, by employing content analysis, I examined the current CSR reporting environment of companies located in Hungary and Finland and whether their respective CSR reports are in compliance with the requirements of the CSR Directive. I identified the underlying incentives for the companies to publish CSR reports and how the upcoming CSR Directive will affect this situation from a thematic analysis approach based on semi-structured interviews. I recognize that the formula for identifying and recognizing corporate CSR reporting practices seems overly simplistic at this point, and that the results can only identify the current situation, where the actual enforcement and implementation of the CSR Directive has not yet been offered.

More specifically, this paper addresses the gap in the CSR literature, whereby the new CSR Directive have not been yet analyzed from the standpoint of evaluating the actual impacts the regulation will have on the existing CSR reporting practices of large companies in the EU. Moreover, this paper is a sustained attempt to bring light to the relevant concerns regarding the future development of the CSR reporting practices. Given the narrow scope of the research, whereby only limited amount of corporate representatives were interviewed and CSR reports were investigated, the future research should concentrate on broadening out these

¹⁷⁶ T. Lambooy et al., 2014,n. 35 above, p. 242.

findings and engaging in a follow-up of the progress of the CSR Directive implementation. More research on how the companies' develop their CSR reporting practices, as well as how the EU agenda towards CSR is evolving in the future is demanded. The upcoming research should also take into account the effects on the actual CSR practices of the companies examined in conjunction with the CSR reporting practices, to make sense of the wider implications of the CSR Directive.

APPENDIX I

Table 1 (of 4)

MOL Group, CSR Report 2013, available at:
<http://annualreport2013.mol.hu/en/> (accessed 10 May 2015)

Szerencsejáték Zrt CSR Report 2013, available at:
http://www.szerencsejatek.hu/download/013/433/Business_and_Corporate_Responsibility_Report_2013.pdf (accessed 10 May 2015)

Hungary	MOL Group	Szerencsejáték Zrt.
Description of the business model	MOL Group is a leading integrated Central and East European oil and gas corporation.	Szerencsejáték Zrt. is the national lottery company of Hungary, with an exclusive right to organize prize draw games and totalizator betting. It also possesses a licence to organize bookmaker's bets in Hungary.
1. Environmental	Sections titled 'Climate change' and 'Environment' describe the policies and outcomes and the risks.	Section titled 'Our Environmental Responsibility' describes the policies, outcomes and the risks.
2. Social and employee matters	Section titled 'Health and Safety', 'Communities' and 'Human Capital' describe the policies, outcomes and the risks.	Sections titled 'Responsible employment' as well as 'Our social commitment' describe the policies, outcomes and the risks.
3. Respect for human rights	Section titled 'Economic Sustainability' describes the policies, outcomes and the risks. Further reference is made to the Group Code of Ethics.	While the human rights issues were not specifically mentioned, reference to Code of Ethics was made.
4. Anti-corruption and bribery matters	Section titled 'Economic Sustainability' describes the policies, outcomes and the risks.	These concerns were not addressed in the CSR report.

Table 2 (of 4):

Vodafone Hungary, CSR Report 2013-2014, available at:
http://www.vodafone.hu/docs/VODAFONE_CSRjelentes_vegleges_ENG.pdf
 (accessed 10 May 2015)

PwC Hungary, CSR Report 2013-2014, available at:
<http://www.pwc.com/hu/hu/csr/assets/fenntarthatosagi-jelentes-en-2014.pdf>
 (accessed 10 May 2015)

Hungary	Vodafone Hungary	PwC Hungary
Description of the business model	Vodafone Hungary has been offering mobile communications services to consumers, small offices, medium and large businesses in Hungary since 1999.	PwC Hungary is part of world's largest network of consulting companies and one of Hungary's largest business consultancy organizations.
1. Environmental	Section titled 'Our Environmental Impact' describes the policies, outcomes and the risks. Further reference is made in the section titled 'Our responsibility towards our customers' and its sub-section titled 'Environmental impact of products and services'.	Section titled 'Environmental stewardship' describes the policies, outcomes and the risks. Furthermore, the Code of Conducts is referred to for more information.
2. Social and employee matters	Sections titled 'Our social impact' describes the policies, outcomes and the risks. Further reference to workers rights as well as social impacts is made in section titled 'Our stakeholders'. Furthermore, the report refers to the Code of Conducts, which all suppliers must be in compliance with.	Section titled 'People - Diversity and inclusion' describes the policies, outcomes and the risks. Further reference is made to the PwC International's ethical standards and the PwC's code of conduct under the section 'Quality and risk management'.
3. Respect for human rights	Sections titled 'Our stakeholders' and 'Responsibility towards our stakeholders' describe the policies, outcomes and the risks. Furthermore, further reference to human rights is made in section titled 'Our stakeholders'.	The report does not take human rights issues into consideration. However, the report refers to PwC Code of Conducts and the Hungarian law. Furthermore, it is stated that due to nature of the business it is not relevant to report on forced labor.
4. Anti-corruption and bribery matters	Section titled 'Ethical and legal compliance' describes the policies, outcomes and risks.	The risk of corruption is examined in relation to part of quality and risk management procedures. Furthermore, the report describes policies and outcomes in connection with professional employee trainings on anti-corruption.

Table 3 (of 4):

Kesko Group, CSR Report 2013, available at:
<http://corporateresponsibility2013.kesko.fi/> (accessed 10 May 2015)

Neste Oil Oyj, CSR Report 2013, available at:
<http://www.nesteoil.com/binary.asp?GUID=4F78A3D2-49B2-415B-8F1B-B4BAB4C80C1D> (accessed 10 May 2015)

Finland	Kesko Oyj	Neste Oil Oyj
Description of the business model	Kesko is a listed trading sector company, which operations include food, home and speciality goods, building and home improvement, cards and machinery trade.	Neste Oil is a refining and marketing company, with a production focus on premium-quality, lower-emission traffic fuels, with operations in 15 countries.
1. Environmental	Sections titled 'Mitigation of climate change' and 'Environmental systems at Keskos' describe the policies, outcomes and the risks.	Multiple sections such as ones titled 'Climate', 'Material Efficiency', Energy Efficiency', and 'Environmental Impact' describe the policies and the outcomes of such policies. Risks are taken into consideration under title 'Risks relating to Nestle Oil's business'.
2. Social and employee matters	Section titled 'Working Community' describe the policies, outcomes and the risks.	Sections titled 'Society', 'Equality and diversity', and 'Wellbeing at work' describe the policies and the outcomes. Risks are taken into consideration under title 'Risk relating to Nestle Oil's business'.
3. Respect for human rights	Section titled 'Responsible operator' as well as 'Responsible purchasing and sales' describe the policies, outcomes and the risks.	Section titled 'Human Rights' describes the policies, outcomes and the risks.
4. Anti-corruption and bribery matters	Section titled 'Responsible purchasing and sales' describes the policies, policy outcomes and the risks.	Section titled 'Raw material suppliers' mentions corruption, but the policies, policy outcomes and the risks in this relation are taken into consideration in separate publication 'Neste Oil Code of Conduct'.

Table 4 (of 4):

TeliaSonera, CSR Report 2014, available at:

http://www.teliasonera.com/Documents/Reports/2014/annual%20report/TeliaSonera_Annual%20and%20Sustainability%20Report_2014_eng.pdf (accessed 10 May 2015)

OP-Pohjola Group, CSR Report 2013, online report available at:

<http://www.op-pohjola-annualreport.fi/OP-Pohjola2013/en> (accessed 10 May 2015)

Finland	TeliaSonera	OP Pohjola-Group
Description of the business model	TeliaSonera provides mobile and fixed line services including TV in the Nordic and the Baltic countries. In Eurasia and Spain TeliaSonera offers mobile services.	OP-Pohjola Group is Finland's largest financial services group. The Group has three business segments: banking, non-life insurance, and wealth management.
1. Environmental	Section titled 'Environmental responsibility' describes the policies, outcomes and the risks.	Section titled 'Environmental Responsibility' describes the policies, outcomes and risks.
2. Social and employee matters	Sections titled 'Occupational health and safety' and 'Sustainability in the supply chain' describe the policies, outcomes and the risks. Furthermore, some reference to workers is made in the section 'Freedom of expression'.	Section titled 'Social Responsibility' with the subsection titled 'Employment' describe the policies, outcomes and the risks.
3. Respect for human rights	Sections titled 'Freedom of expression', 'Our commitments' and 'Customer Privacy' describe the policies, outcomes and the risks. The report also refers to mandatory web-based training for employers on the Code of Ethics and Conducts, which covers topics such as discrimination, human rights, privacy and anti-corruption.	Section titled 'Social Responsibility' with the subsection titled 'Employment' describe the policies, outcomes and the risks in relation to non-discrimination, supplier human rights assessment and human rights grievance mechanisms.
4. Anti-corruption and bribery matters	Section titled 'Anti-corruption' describes the policies, outcomes and the risks.	Section titled 'Social Responsibility' with the subsection titled 'Society' describe the policies, outcomes and the risks.

APPENDIX II

HUNGARY

Company name	Respondent's name and position
Magyar Telekom	Dr. Levente Horváth, Sustainability expert
PwC Hungary	Katalin Simon, PR & CR Manager
Szerencsejáték Zrt	Judit Szvák, CSR Manager
Vodafone Hungary	Emese Zolnai, Corporate Responsibility Expert

FINLAND

Company name	Respondent's name and position
Kesko Oyj	Marjut Lovio, Responsibility Manager
Neste Oil Oyj	Simo Honkanen, SVP Sustainability and Public Affairs
Neste Oil Oyj	Pekka Tuovinen, Director Sustainability and Public Affairs
TeliaSonera Finland Oyj	Eija Pitkänen, Head of Corporate Responsibility

APPENDIX III

An example of transcript:

Company name changed to X and some details modified in order to protect the respondent's anonymity.

Interviewer: I

Respondent: R

(Discussion begins by checking whether the recorder is working.)

I: ... I will start with the questions then. Could you name the reasons why your company is publishing the sustainability reports?

R: Ummm... Pfff, there are many many reasons but mmm the first one is that I believe in transparency. And not just me but everyone in X as well. So I think the transparent operation and reporting about the aaaa the impact what we have locally and globally I think it's very crucial and important. And - mmm - each year when we collect the data we are able to identify new topics, new areas where we can or have to develop besides transparency. I think just just for our reason and for the better operation, effective operation I think it's also essential to collect data and and publish it. And the third reason is mmm stakeholder engagement and communication, PR reasons. Mmm, we use it usually we, mmm so we publish it on our website and everyone all of our stakeholders can have a a view and have a look at it and mmm and researchers like yourself can also contact us. So it's a stakeholder engagement based on the stakeholder dialogue and communication reasons.

I: Okay. Is there ... you already named a couple of reasons ... is there one that is the most important or are the reasons all equal?

R: Umm... I would say equal reasons. Because they come from one each other, let's say it like that. So umm we collect data and we can publish it and this is the basis of the stakeholder dialogue, so I think it's equal.

I: Okay. Mm, so how does your organization decide what to include in the reports? You named that you collect data, is that the way, or...?

R: Mhm, we collect data to forward it to X, so we have several data we collect it not only but the form of the data but how we collect it. Because of the X and mm we have a detailed, more detailed reporting and collecting system for according to GRI, and we use it only for local reporting reasons. Mmmmm, and what was your question, sorry?

I: Yes, it was basically what things you take into consideration when you're drafting the report, like what things to include there and so on?

R: Yea yea, we use GRI reporting standards. So mmm, it's in it. So we use the G3 and now we are switching to G4 as the generations move. The G4 one is new centered, uumm, of the GRI reporting initiative, so umm, the materiality examination will take place just in let's say two months. And usually we of course we have to negotiate with the stakeholders, the most important one is the or are the the mmm head of level, so directors and CEO and the managers. And of course we will talk to customers, consumer customers and corporate big huge company owners or CEO's of other companies. And and we will select several external stakeholders meaning like authorities or university teachers who are leading in CR.

I: Mmhmm, okay.

R: But basically the GRI says what to report about and we select from the telecom sector there are several mmm indicators we use mmm, HR data, energy data, waste, tax all the, well of course there are the economical, the ecological and the social pillars of CSR and we select several indicators from those areas. How many volunteer hours we spend, or we gave to NGO partners. I am sure you are familiar with these. There are many, I think 68 indicators or so, so a lot. But now in G4, hopefully haha, the report will be shorter and more massive so umm more so the materiality will help us to identify the most important, I don't know, five six topics we have to report on. So I think the report will be a bit shorter.

I: Okay, umm. Do you follow the reports of other companies, maybe your competitors or other business'?

R: Yes, usually we have a benchmark; we work with KPMG and give us a benchmark. We are the third operator in our nation so we have a look at the other reports as well. And usually we also consider another competitor but outside of our country. And huge telecom operators, we usually have a look at them.

I: Okay, so is it so, that you look business' outside of your country, you mentioned the one company, is it the EU area, or more...?

R: The EU, yes.

I: Do you follow the reporting practices of a lot of companies in the EU area, or do you focus on the neighboring countries, or?

R: Usually the focus is only on the domestic ones, so when we see for example that someone reports on on on, I don't know, a different kind of energy data, then I talk to the guys who are responsible for these data. And umm, I negotiate with them, whether we can report the same data, or whether we should at least report umm, not at least but, should we report these kind of data, is it important for us,

would it prove anything, umm, would this help us to consider umm a better image of X, or not. Do we have this data, or not. Or if we have them, should we report it or not to the external stakeholders. Mmmm, but for, so usually we mmm look at the other ones in the EU region, mainly because of the communication reasons. So, the design, what kind of channels they communicate these kind of reports, which kind of reports, umm, whether it is only digitally available or do they print it, do they use only links or info graphics, so it's more because of the communication reasons. So whether we can learn any kind of communication practices, best practices from them, or not.

I: Uhmm, do you follow only organizations acting on your field or other fields of business as well, companies that are perhaps in some other areas of business and publish these reports. Do you follow them, or only the telecommunications companies?

R: Ummm, only on our field. But, for reasons, for example, I attended a workshop, a webinar, it was a webinar, and it, the man who was explaining the G4, he put or he talked about BAT's reports, because of the telecommunications point of view it's a unique one, I had a look at them and I forwarded to KPMG, to my head of, my manager. So I mainly, for communications reasons, we have a look at other sectors as well.

I: Okay, how would you describe or how do you perceive, as the reporting practices are now mostly based on voluntary practices, so companies are not forced to report, they are doing it for themselves. How would you see this system working?

R: Umm, haha. Well, umm, there will be a must let's say to report it. I think the better ones who are really CSR, let's say in an advantage, they want to be the leaders in this area. It is no question, there is no question in yes we have to do it. Mainly for the reasons of transparency and and and to be better than last year for

effectiveness. So we, let's say it's a must and it is working very well. And umm, no question I would say, no one will question me for example for that should we do it or not. Everyone knows it, yes, it's a good tool for several reasons. And the ones who are, at least here, the number of companies who are reporting, who use either GRI, mainly GRI, the number of companies it's growing. So they will join more and more companies. Umm, I think the GRI is good for standardization, so no one, you know we can not compare an apple with a pear. We cannot compare X or to another company on the field, but the benchmarking is working and really really good. And uuhm, for next year it's a must, if you work with 250 or 500, maybe you can correct me, the authority will say. I think after 250 employees you need to have a CR reports or at least you have to report your ecological and social impact. So I think it is, yes, it can be voluntary, but now I see that it will be a must.

I: You are talking from the domestic perspective now, or the EU level?

R: The EU level.

I: Is there any differences between your operation country as a one country or the EU area generally. Or are they almost the same when it comes to sustainability?

R: Yes, I think it is the same, or usually we have stricter regulations than in the EU.

I: Yea, okay. Umm, does your company consider there is a demand for the EU wide legal regulation? As the new directive is going to be enforced by 2017 in all EU countries, so would you say there really is a need for unified regulation?

R: Umm, I think it will have. This is my guess. So I, there are many many big companies who do not report, or they just use the global report, and for example there is a someone, a company who has a, I don't know, a German umm

headquarter, and they just point that oh yes, it is available in German. And then, okay, yeah but we live here so, I don't speak German for example, I don't really care what your company does globally in the EU, I really am interested in what your company does locally. So there should be a domestic uumm report. Yeah, it's a huge amount of work. And maybe it can be a burden, on several people, I don't claim it, it is true. But but, but I think it is essential to see and to report the transparent, transparently about labor conditions, health and safety, so there are very many basic things that have to be involved in this reporting. Because, for example here umm the government is working on mmm working conditions, labor conditions, so we have to prove somehow that, you know and there is the umm, how do they say, the gray or the black... work market.

I: Yes.

R: You know, when you are paid but no one can see it in your bank account.

I: Yes, I know what you mean.

R: So, I don't know, but you understand it. So umm, if the whole economy and not just the company ones, let's say the the private system, but the government system should report as well, mm, on their data, or about their data. So I think it will have, but it is not enough. The government should have, should report, the government should be more and more transparent than now. Because it is just the private sector, so, let's say half of the solution.

I: Yes. So the directive, that is going to be enforced, it is going to set the minimum standards. Do you feel, is it enough, when there is the minimum standards, or should the standards be set higher? The standards are quite general; the companies need to include the basic information, but the directive is not really specific to what degree they should report. It just states these are the things that should be included. Do you think these standards should be more precise?

R: Umm, I think it is better (to have minimum). Starting from a, let's say very flexible reporting and I think in practice will, the EU will see, whether it is enough or not. But I think, when you are too strict and you tell this and this and this data, well pffff, I think it's more, it's better to start with a flexible reporting requirement. I think the EU will say, I don't know, in 2-3 years whether it is working or not. Umm, I think the the companies would say that, oh my gosh , they say I have to report, let's say 68 indicators, or 70 or 50 or whatever, and then they don't have the opportunity to choose. Let's say it like that. So I think it is better to have a flexible one.

I: Yes. This one was actually my last question. So thank you, I will now set the recorder off.

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