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**An Exploratory Investigation Into The Corporate
Social Disclosure Of Selected New Zealand
Companies**

J.A. Hall

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**AN EXPLORATORY INVESTIGATION INTO THE
CORPORATE SOCIAL DISCLOSURE OF SELECTED
NEW ZEALAND COMPANIES**

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ABSTRACT

Corporate social disclosure, that is, the communication of an organisation's social and environmental impact through the annual report or similar medium, is an increasingly important issue, and arguably has benefits for companies and society. This study investigates the corporate social disclosures of five companies over a five-year period, with the aim of investigating trends in corporate social disclosure in large New Zealand companies who operate in industries receiving public attention for their social and environmental impact. Corporate social disclosure was measured through number of sentences disclosed, and classified into theme (environment, energy, product, community, employee health and safety, employee other and general) and evidence (monetary quantitative, non-monetary quantitative and declarative).

This study found no clear trend of increasing levels of corporate social disclosure; instead there was an increase in 1997 and a decrease in 1998. Legitimacy theory, political economy theory and economic conditions represented possible explanations for this trend, demonstrating the difficulty in using a single perspective to explain corporate social disclosure. Corporate social disclosure did not significantly increase from 1996 to 2000, and disclosure was primarily 'quantitative' and 'employee other', leading this research to posit that New Zealand companies are not responding to the increased worldwide importance of corporate social disclosure.

In summary, this study provides valuable empirical evidence of corporate social disclosure in New Zealand, and also provides an example of the complexity of corporate social disclosure practice, and the difficulty in applying a single theoretical perspective to explain corporate social disclosure.

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1. INTRODUCTION

This research is an empirical investigation into changes in the level and type of corporate social disclosure in the annual reports of five large, high profile industry, New Zealand companies. The companies were chosen from the largest 26 New Zealand companies, and were chosen from industries identified by previous research as industries which receive significant public attention because of their social and environmental impact. In order to expand and support this investigation, this research also investigates the corporate social disclosure of an additional eight large New Zealand companies.

Corporate social disclosure has been broadly defined as:

"The process of communicating the social and environmental effects of organisations' economic actions to particular interest groups within society and to society at large." (Gray, Owen and Adams, 1996, p. 3).

Corporate social disclosure has more specifically been defined as:

"Provision of financial and non-financial information relating to an organisation's interaction with its physical and social environment, as stated in corporate annual reports or separate social reports." (Guthrie and Mathews, 1985, cited in Hackston and Milne, 1996, p. 78).

This research, like many other studies (Trotman, 1979; Trotman and Bradley, 1981; Gray, Kouhy and Lavers, 1995b), measures corporate social disclosure using operational definitions consisting of examples of information considered a corporate social disclosure. This research uses Hackston and Milne's (1996) operational definitions, which were tested by Milne and Adler (1999) who concluded that "the coded output from inexperienced coders using the Hackston and Milne approach can be relied on for aggregate total disclosures analysis" (p. 237). Milne and Adler (1999) also concluded that after training, more detailed sub-category coding by an inexperienced researcher could be relied on.

Corporate social disclosure is measured (in terms of number of sentences disclosed) in the areas of theme (environment, product, energy, community, employee health and safety, employee other and general) and evidence (monetary quantitative, non-monetary quantitative and declarative).

This study focuses on corporate social disclosures made in the annual report, and on trends in corporate social disclosure by five large, high profile industry companies. It focuses on corporate social disclosures made in the annual report because the annual report represents

probably the most important document in terms of the organisation conveying a view of its operations to the public (Hines, 1988; Neimark, 1992), and is automatically sent to all shareholders (Adams, Hill and Roberts, 1998). This study considers trends in corporate social disclosure in large, high profile industry companies because these companies are likely to have a significant social and environmental impact (Cowen, Ferreri and Parker, 1987; Hackston and Milne, 1996), and thus it is important to consider the level and quality of their disclosures. To confirm any differences in corporate social disclosure between 1996 and 2000 by the five large, high profile industry companies, the corporate social disclosures of an additional eight large companies is measured in 1996 and 2000.

This report outlines the background of corporate social disclosure, the motivation for this research, and the methodology and method of this research. The results are then presented and conclusions drawn.

In summary, New Zealand companies' corporate social disclosures is an important issue because there is increased worldwide support for corporate social reporting (e.g. Nash and Awty, 2001; O'Dwyer, 2001; Cheney, 2001), corporate social disclosure can be beneficial for companies, and corporate social disclosure can assist in fulfilling the accountability objective of financial reporting outlined in New Zealand's Statement of Concepts (paragraph 3.1). This research aims to investigate changes in corporate social disclosure by New Zealand companies, and any changes will be evaluated in relation to whether New Zealand companies are responding to the trend of increased corporate social disclosure, and whether the Statement of Concepts' accountability objective is being met in relation to these companies reporting on their social and environmental impact.

2. BACKGROUND AND MOTIVATION

This section outlines the history of corporate social disclosure, then considers the theoretical background behind research into corporate social disclosure. It concludes by explaining the research's motivation for investigating New Zealand companies' corporate social disclosures. This is discussed in terms of a theoretical explanation, and in terms of the benefits to companies making corporate social disclosures.

2.1. HISTORY OF CORPORATE SOCIAL DISCLOSURE

The emergence of corporate social disclosure can be traced back to the 1960s, when a higher degree of affluence, rising levels of education, and increasing pluralism and individualism resulted in increased expectations that businesses assume more responsibility for their social and environmental impact (Burke, 1984). This was reflected in the formation of social interest groups who demanded greater corporate accountability with reference to social problems such

as ecology, minority rights, education, safety and health (Parker, 1986). Corporate social disclosures were an important way for companies to communicate to stakeholders that they were responding to this increased concern about their social and environmental impact.

In a New Zealand context, Von Tunzelmann and Cullwick (1996) argue that the persistence of social and environmental problems, combined with a dynamic business environment (resulting from deregulation and globalisation), and increased stakeholder expectations, "creates a heightened need for business to demonstrate to....the wider public that it can successfully manage the balance between the pursuit of business growth and development on one hand, and social responsibility and corporate citizenship on the other." (Von Tunzelmann and Cullwick, 1996, p. 20). There is also an expectation from stakeholders for New Zealand companies to report on environmental aspects of their performance in their annual reports (Orr, 2000).

Worldwide, corporate social disclosure is an increasingly important issue (Nash and Awty, 2001; O'Dwyer, 2001; Cheney, 2001), demonstrated by initiatives such as the Global Reporting Initiative (2000), and interest by large corporations in accounting techniques such as triple bottom line reporting.

The increased importance of corporate social disclosure has resulted in a number of organisation-centred benefits for companies who make corporate social disclosures. KMPG (1998) outline a number of benefits, including improved environmental risk management, gaining competitive advantage, and preparing for possible regulatory changes. Burke (1984) and Parker (1986) consider that responding to pressure from interest groups, and assisting in internal cost management, are important benefits from corporate social disclosures. Corporate environmental reporting is also seen as an indication of quality management (Deloitte Touche Tohmatsu International, 1993), and Gilkison and KPMG (1999) argue that it is important to maintain New Zealand's 'clean green' image through making corporate social disclosures. Ethical investment is also a potential benefit; almost \$1 out of every \$8 in managed funds in the United States is invested in ethically screened funds, and these investments have been growing at double the rate of conventional funds (Gilkison, 2001). The many benefits for companies resulting from corporate social disclosure provides an important reason to investigate New Zealand companies' corporate social disclosure.

2.2 THEORETICAL BACKGROUND OF CORPORATE SOCIAL DISCLOSURE

Gray, Kouhy and Lavers (1995a) consider that although corporate social disclosure has been the subject of substantial accounting research, it lacks a coherent theoretical framework. Mathews (1987) structures corporate social disclosure theories into three major paradigms: the functionalist, interpretative and radical paradigms.

The functionalist paradigm includes theories based on neo-classical economic theory, and considers limited user groups, typically the investor (Hooper and Powell, 1985, cited in Tilt, 1994). An example of research in this area is Bowman and Haire (1975, cited in Mathews, 1993) who concluded that the median return on equity is higher for firms with some social and environmental disclosure than for firms with none, providing a reason to make corporate social disclosures.

The interpretative paradigm considers that human nature is important, recognising a wider, pluralistic set of users (Mathews, 1987). Research within this paradigm includes research based on Donaldson's (1982) social contract, Lindblom's (1994) organisational legitimacy theory, and Gray, Owen and Adam's (1996) accountability theory.

The radical paradigm also considers a wider range of users, although in contrast to the interpretative paradigm, assumes conflict between users and institutions in society. "The dominant theory of social accounting under this paradigm is political economy of accounting, which rejects market based solutions and considers that the structure of society shapes all that goes on within it" (Tilt, 1994, p. 49; as well as Cooper, 1980; Tinker, 1980; Cooper and Sherer, 1984).

Gray et al. (1995a) also structure corporate social disclosure research into three areas; decision-usefulness studies, economic theory studies, and social and political theory studies. The decision usefulness approach is based on the theory that companies release information on their social and environmental activities because users find this information useful for their investment decisions (Kirk, 2000). Economic theory is similar to Mathews' (1987) functionalist paradigm, drawing on neo-classical economic theory to explain corporate social disclosure. Gray et al. (1995a) believe that limited insights can be made using this paradigm. Studies informed by social and political theory (which would be within the interpretative and radical paradigms) however offer the potential for "far more interesting and insightful theoretical perspectives" (Gray et al., 1995a, p. 52). Gray et al. (1996) divide the theories in this area into three overlapping categories: stakeholder theory, legitimacy theory and political economy theory. These theories take a systems perspective, recognising that businesses interact with and affect entities beyond their artificial boundaries (Gray et al., 1996). Although these theories provide a useful framework to study corporate social disclosure, they are not fully developed theories for explaining corporate social disclosure (Gray et al., 1996).

Stakeholder theory recognises that there are a number of stakeholders in society who interact in a dynamic and complex manner. Stakeholder theory explains corporate social disclosure as a way of communicating with stakeholders, and has two branches; the ethical/normative branch and the positive/managerial branch (Deegan, 2000). The positive branch explains corporate social disclosure as a way of managing the organisation's relationship with different stakeholder

groups. The more important the stakeholders are to the organisation, the more effort will be made to manage the relationship (Deegan, 2000). The ethical branch argues that "all stakeholders have the right to be treated fairly by an organisation, and that issues of stakeholder power are not directly relevant" (Deegan, 2000, p. 268). This view is reflected in the Gray et al. (1996) accountability framework, which argues that the organisation is accountable to all stakeholders to disclose social and environmental information.

Legitimacy theory argues that organisations seek to ensure that they operate within the bounds and norms of society (Deegan, 2000). Society's expectations have changed to expect businesses to "...make outlays to repair or prevent damage to the physical environment, to ensure the health and safety of consumers, employees, and those who reside in the communities where products are manufactured and wastes are dumped..." (Tinker and Niemark, 1987, p. 84). Corporate social disclosures are an important way for organisations to establish and maintain their legitimacy, providing an explanation why organisations make corporate social disclosures.

Political economy theory takes a wider view in explaining corporate social disclosure, incorporating "the social, political and economic framework within which human life takes place" (Gray et al, 1996, p. 47). Political economy theory considers that economics, politics and society are inseparable and should all be considered in accounting research. Political economy can be either classical, which is concerned with structural conflict, inequality and the role of the state (e.g. within the radical paradigm), or bourgeois, which takes these aspects as given and is concerned with interactions between groups in a pluralistic world (Gray et al., 1996). Legitimacy theory and stakeholder theory are derived from bourgeois political economy theory (Deegan, 2000).

2.3 MOTIVATION

This research agrees with the Gray et al. (1996) accountability framework as to why it is important for companies to make corporate social disclosures. Accountability is "the ability to provide an account or reckoning for those actions for which one is held responsible" (Gray et al., 1996, p. 38). Gray et al. (1996) base their framework on the idea of neo-pluralism, which considers there is more than one source of power in society, which is unevenly distributed. They consider corporate social disclosures are a way to overcome this uneven distribution of power, through making the organisation accountable by making its actions visible and allowing stakeholders to judge its impact on society. Gray et al. (1996) consider that accountability provides a suitable theoretical basis for why companies should make corporate social disclosures. The organisation owes accountability to all of its stakeholders, and this accountability extends beyond legal responsibilities to include moral or natural responsibilities, including the absolute duty to respect the natural environment (Gray et al. 1996).

New Zealand's Statement of Concepts also outlines an accountability objective of financial reporting (paragraph 3.1). Accountability is defined as the requirement for one party to account to another party for its performance for a given period (paragraph 3.3). Accountability requires that financial reports identify either financial or non-financial objectives and targets, and measure actual achievements against those objectives and targets (paragraph 3.5), so that financial reports reflect the nature and dimensions of performance relevant to the entity (paragraph 3.4). Other aspects of New Zealand GAAP also require an organisation to report on aspects of its environmental impact (see Gilkison and KPMG, 1999, p. 88-93 for a detailed summary). Therefore, it is important that a company makes corporate social disclosures in order to discharge its accountability and fulfil the Statement of Concepts' accountability objective, providing an important reason to consider corporate social disclosures by New Zealand companies.

In summary, this research considers that corporate social disclosures are desirable and beneficial, because it is important that an organisation discharges its accountability, and because of the many organisation-centred benefits from corporate social disclosures. There is also increased worldwide interest in corporate social disclosures; "the growing interest in general social responsibility accounting disclosures extends throughout the English-speaking accounting environment" (Mathews, 1993, p. 65). Therefore, as corporate social disclosure is desirable and beneficial, it is important to investigate changes in corporate social disclosure by New Zealand companies.

3. LITERATURE REVIEW

This section provides an overview of previous research into corporate social disclosure, including previous longitudinal research, and then considers in more detail previous Australian and New Zealand research.

3.1 PREVIOUS RESEARCH INTO CORPORATE SOCIAL DISCLOSURE

There has been a substantial amount of previous research into corporate social disclosure (see Mathews, 1993 or Gray et al., 1996 for a detailed summary). One of the earliest studies was a series of surveys by Ernst and Ernst (1972-1978), who measured average pages of corporate social disclosure in the annual reports of US Fortune 500 companies in the areas of environment, energy, fair business practices, human resources, community involvement, products and other. Their surveys showed a trend of increasing corporate social disclosure, with 89% of Fortune 500 companies making at least one corporate social disclosure in 1977. Most previous studies have used content analysis based on Ernst and Ernst's method (Adams, Hill and Roberts, 1998), although some research (e.g. Gamble, Hsu, Kite and Radtke, 1995) has measured corporate social disclosure using significantly different methods of content analysis than used by Ernst and Ernst (1972-1978).

The few longitudinal studies examining large samples of companies have used content analysis to measure corporate social disclosure, extending the analysis over a number of years. Gray et al. (1995a) documented a general increase (with some fluctuations) in corporate social disclosure in UK companies over a 13-year period, and Trotman (1979) also documented increasing levels of corporate social disclosure by Australian companies. Ng (1985) examined corporate social disclosure in 32 New Zealand companies, concluding that over a three-year period there was no clear trend of increasing corporate social disclosure, and that companies appeared to make disclosures when it benefited them or when specific issues arose that required disclosure.

3.2 PREVIOUS AUSTRALIAN AND NEW ZEALAND RESEARCH

Because corporate social disclosure is influenced by culture (Mathews, 1993), this section examines Australian and New Zealand research for trends in corporate social disclosure. Tables 1 and 2 summarise previous Australian and New Zealand research.

TABLE 1 PREVIOUS AUSTRALIAN RESEARCH

	Trotman (1979)			Pang (1982)	Trotman & Bradley (1981)	Guthrie & Mathews (1985)
Year	1967	1972	1977	1980	1981	1983
Sample size (listed companies)	100 largest	100 largest	100 largest	70 largest + 30 random	207	50 largest
% companies making at least one corporate social disclosure	26	48	69	79	40	56
<i>Type of disclosure (% companies making disclosure)</i>						
Environment	6	18	35	19	n/a	12
Energy	1	0	35	19	n/a	2
Human resources	17	30	43	61	n/a	52
Product	3	3	4	18	n/a	0
Community	5	19	23	23	n/a	16
Other	5	13	34	20	n/a	10

Note: n/a means that this category was not measured by the research.

TABLE 2 PREVIOUS NEW ZEALAND RESEARCH

	Robertson (1978)	Davey (1982)	Ng (1985)	Hackston and Milne (1996)
Year	1976	1982	1982	1992
Sample size (listed companies)	100 largest	32 random	32 random	50 largest
% companies making at least one corporate social disclosure	54	84	100	83
<i>Type of disclosure made (% companies making disclosure)</i>				
Environment	19	6	23	33
Energy	n/a	0	3	6
Human Resources	50	66	88	74
Product	2	3	28	38
Community	8	13	3	18
Other	2 (minority)	13	3	18
Corporate objectives	n/a	38	41	n/a

Note: n/a means that this category was not measured by the research.

When comparing the results of these studies to determine trends in corporate social disclosure it is important to note that the studies were conducted in different time periods, and involved different sample sizes, different methods and different researchers (Hackston and Milne, 1996). Different methods used to measure the level of corporate social disclosure include; number of lines as a percentage of total lines (Trotman and Bradley, 1981), average pages per company report (Ernst and Ernst, 1972-1978; Trotman, 1979; Guthrie and Mathews, 1985), number of words (Davey, 1982; Ng, 1985) and number of sentences (Hackston and Milne, 1996). A number of different categories have also been used, including; location (Guthrie and Mathews, 1985), evidence (Gray et al., 1995a; Hackston and Milne, 1996) and a subjective measure of quality (Davey, 1982). The previous studies are also largely un-replicated and their conclusions provide only tentative evidence of type, volume and trends of corporate social disclosure (Ng, 1985; Hackston and Milne, 1996). However, despite these limitations, the previous studies show a general increase in the level of corporate social disclosure, with disclosure mostly in the human resources category.

3.3 SUMMARY

Although levels of corporate social disclosure by Australian and New Zealand companies were relatively low compared to other countries (Gray et al., 1996), there appears to be a trend of increasing corporate social disclosure, which is reflected in other research from around the world (Mathews, 1993). Disclosures are highest in the human resources category, and considerable in the community and environment categories. There has been a range of methods used to measure the level of corporate social disclosure, with average pages per report the most common method. The studies typically have examined disclosure at a single

point in time, although Gray et al. (1995a) undertook a longitudinal study of corporate social disclosure by UK companies, and Ng (1985) and Trotman (1979) considered corporate social disclosures over a three-year period.

An important limitation of the previous research is its subjectivity and unreliability, which arises because the researcher determines whether a disclosure is classified as a corporate social disclosure. Ng (1985) demonstrated this limitation by repeating Davey's (1982) study using the same sample and finding 100% of the companies made at least one disclosure, compared to Davey's 84% disclosure rate. This research attempts to minimise this limitation by examining trends in corporate social disclosure through longitudinal analysis conducted by the same researcher, instead of comparing the results of research conducted by different researchers.

Overall, the literature provides a useful summary of corporate social disclosure, showing a trend of increasing corporate social disclosure. However, the literature uses a variety of methods of content analysis, and therefore may not be comparable. This research builds on the existing literature by documenting corporate social disclosure by New Zealand companies using content analysis. It focuses on a longitudinal analysis, rather than comparisons with other research, because of the subjectivity of content analysis and the different methods used by previous research to measure corporate social disclosure.

4. METHODOLOGY

This research measured corporate social disclosure in large companies operating in industries with a high profile in relation to social and environmental issues ('high profile industry' companies). Using content analysis, corporate social disclosure was measured by number of sentences disclosed, and classified in terms of theme and evidence.

4.1 CONTENT ANALYSIS

The most common method of measuring a company's corporate social performance has been measuring corporate social disclosure in annual reports using content analysis (Ng, 1985; Milne and Adler, 1999). Because there is substantial previous literature available on measuring corporate social disclosure using content analysis, and because content analysis allows corporate social disclosure to be systematically classified and compared, which is useful for determining trends, content analysis was used by this study to measure corporate social disclosure.

Content analysis is a method of codifying the text (or content) of a piece of writing into various groups (or categories) depending on selected criteria (Weber, 1985). Following coding, quantitative scales are derived to permit further analysis (Milne and Adler, 1999). Content

analysis relies on the assumption that the extent of disclosure can be taken as some indication of the importance of an issue to the reporting entity (Krippendorf, 1980). Content analysis requires objectivity, and the specification of variables so that any item may be consistently judged as falling or not falling into a particular category (Guthrie and Mathews, 1985). Categories are defined as precisely as possible, requiring detailed specifications for the operational definitions and decision rules used.

Content analysis relies on the individual researcher's judgement of what constitutes a corporate social disclosure (Hackston and Milne, 1996). Because of this, this study compares corporate social disclosure over a five-year period, instead of making comparisons between studies conducted by different researchers. Previous researchers (Ng, 1985; Gray et al., 1995b) have mentioned the need for longitudinal studies, as comparison between studies by different researchers is not always appropriate (Hackston and Milne, 1996).

4.2 SAMPLE CHOICE

This research considers corporate social disclosure in large, high profile industry companies, because it is important to consider these companies' disclosures as they are more likely to have a significant social and environmental impact (Cowen, Ferreri and Parker, 1987; Hackston and Milne, 1996). Large, high profile industry companies also make more corporate social disclosures. Previous research (Pang, 1982; Hackston and Milne, 1996; and Adams, Hill and Roberts, 1998) shows a significant positive association between company size and corporate social disclosure. This relationship may occur because larger companies tend to receive more attention from the general public, and therefore are under greater pressure to exhibit social responsibility, in addition to having more shareholders who might be concerned with social programmes undertaken by the company (Cowen et al., 1987).

Previous research (Patten, 1991; Roberts, 1992; Hackston and Milne 1996; Adam et al., 1998) has also found that high profile industry companies disclose significantly more social and environmental information than low profile industry companies. The relationship between industry and corporate social disclosure may occur due to consumer perceptions, government pressure (Cowen et al., 1987) or the industries' environmental or social impact (Pang, 1982; Cowen et al., 1987). Gray, Javad, Power and Sinclair (2001) also found that corporate social disclosure is related to size and industry in UK companies, although there is an absence of any unique and stable relationship, with the detailed functional models of the relationships between different measures of corporate social disclosure and size/industry varying with both the variables chosen and the time period selected.

Because large, high profile industry companies have a greater social and environmental impact, and generally make more corporate social disclosures, this study examines corporate social disclosure in large companies chosen from high profile industries. Previous research by

Dierkes and Preston (1977), Patten (1991), Roberts (1992), Hackston and Milne (1996), and Brown and Deegan (1999) identified a number of high profile industries, including the petroleum, chemical, forest and paper, automobile, airline, extractive, agriculture, liquor and tobacco, and media and communication industries. A study (College of Business, Massey University, 1999) ranked the corporate environmental reports of manufacturing industries highest, suggesting this industry felt pressure to make quality corporate social disclosures. Based on this previous research, five companies operating in high profile industries were chosen from the largest 26 New Zealand companies (based on asset size and market capitalisation). These companies were:

- Carter Holt Harvey Ltd (forestry)
- Lion Nathan Ltd (liquor)
- Natural Gas Ltd (extractive)
- Independent Newspapers Ltd (media and communications)
- Fisher and Paykel Industries Ltd (manufacturing)

An additional eight companies (see Appendix 3) were also randomly selected from the 26 largest New Zealand companies. The purpose of this was to gather additional evidence to expand on the results in 1996 and 2000 for the five large, high profile industry companies.

4.3 METHOD OF CONTENT ANALYSIS

This research measures the level of corporate social disclosure in terms of number of sentences disclosed, based on Hackston and Milne's (1996) method. Previous research has used a number of methods, including proportion of pages of corporate social disclosure (Gray et al., 1995b), and number of words disclosed (Davey, 1982). Number of sentences disclosed was used because proportion of pages of disclosure does not consider different print and page sizes (Hackston and Milne, 1996). Number of sentences disclosed was also used because measuring number of words disclosed is time consuming as words are smaller and more numerous as a unit of measurement compared to sentences. Ng (1985) also concluded that the results were not reliable when numbers of words disclosed was used as a measurement unit. Although measuring corporate social disclosure in terms of number of sentences does not measure pictures, research by Hackston and Milne (1996) showed that measurements of average page amounts (including pictures) and numbers of sentences of corporate social disclosure were both significantly correlated with a number of important variables, meaning the choice between the two methods had little impact on results. Deegan, Rankin and Voght (2000) also did not measure pictures, considering that it was difficult to place an objective measure on pictures.

This research also measures corporate social disclosure in terms of theme and evidence, using Hackston and Milne's (1996) operational definitions. Theme is measured in the categories of

environment, energy, product, community, employee health, employee other and general. Evidence is measured in the categories of monetary quantitative, non-monetary quantitative and declarative (declarative disclosures being disclosures other than those featuring monetary amounts or numerical figures). Corporate social disclosure was measured in terms of theme because this is a common classification (e.g. Ernst and Ernst, 1972-1978; Trotman, 1979; Hackston and Milne, 1996). Evidence was used to measure the type of corporate social disclosure so that some indication of the quality of the disclosures could be measured. Content analysis has been criticised because the measures used consider quantity not quality of disclosure (Unerman, 2000), however, this limitation has been considered acceptable by other studies (Campbell, 2000). This research believes that distinguishing between monetary quantitative, non-monetary quantitative and declarative disclosures provides some indication of the quality of disclosures, because numerical information is generally more useful than descriptive information on a company's social and environmental impact (Gray, Bebbington and Walters, 1993; Gilkison and KPMG, 1999).

5. METHOD

1. Each company's annual report for 1996, 1997, 1998, 1999 and 2000 was read once from cover to cover, and any corporate social disclosure (see Appendix 1 for operational definitions) classified on an individual recording sheet.
2. Hackston and Milne's (1996) operational definitions were modified to include corporate social disclosures (e.g. existence of an environmental management system) not included in the operational definitions. Clarifications were made to assist the researcher to consistently apply the operational definitions.
3. Each company's annual report for 1996, 1997, 1998, 1999 and 2000 was read again from cover to cover, and the disclosures classified on an individual recording sheet.
4. Each company's annual report for 2000 was read a third time from cover to cover, and the disclosures classified on an individual recording sheet. The results from this third reading were compared to the results from the second reading. Because the difference between the second and third reading was within 5% for all the companies, the results from the second reading were used in subsequent analysis, and no further content analysis was performed.
5. The additional eight large companies' annual reports for 1996 and 2000 were read once from cover to cover, and the disclosures classified on an individual recording sheet. Only two years were measured because the purpose of considering the additional eight

companies was to expand and support the results for the five companies in 1996 and 2000.

6. Data was summarised and crosschecked, and entered into Microsoft Excel for graphical analysis.

Figure 1 shows the recording sheet.

Figure 1 Recording Sheet

Company name and year	Environment	Energy	Community	Employee health	Employee other	General	Total
Monetary quantitative							
Non-monetary quantitative							
Declarative							
Total							

(Based on Hackston and Milne, 1996).

All information in the annual report, including the financial statements and notes to the financial statements were examined. The mandatory disclosures on employee remuneration included in the notes to the financial statements were excluded from analysis because this disclosure was not required in the 1996 annual reports.

For marginal disclosures that were difficult to classify as corporate social disclosures, only disclosures that specifically related to a company's actions or impact were classified as a corporate social disclosure. For example, *“Alf Moetu and Brian Inia, Wood Prep and Plant Operators at our Kinleith Pulp and Paper mill, know who’s the boss in their team.”* (Carter Holt Harvey Annual Report, 2000) was not classified as a corporate social disclosure. *“Self-directed work teams are progressively being introduced in the mill and since January 2000, 12% of the workforce has moved to this way of operating.”* (Carter Holt Harvey Annual Report, 2000) was

classified as a corporate social disclosure because it referred to a specific action designed to improve employee satisfaction.

Disclosures also needed to refer to a particular action or impact, not a general commitment to socially desirable actions. For example, *“Our approach to supporting those less-advantaged in the community continues in a way that complements our culture.”* (Fisher and Paykel Annual Report, 1998) was not included as a corporate social disclosure. However, *“Our support for the Project Crimson Trust has enabled more than 150 000 Pohutukawa and Rata trees to be planted in New Zealand”* (Carter Holt Harvey Annual Report, 1999) was considered a corporate social disclosure.

The existence of a health, safety and environment report (HSE report), and disclosure of social and environmental information on the company's website was also investigated. The purpose of investigating this additional disclosure was to give a broad indication of other mediums of corporate social disclosure utilised by the companies, and this disclosure was not coded in terms of number of sentences disclosed. Carter Holt Harvey and Lion Nathan disclosed additional social and environmental information on their website, and Carter Holt Harvey published a separate HSE report in 1997 and 2000. Apart from the environmental disclosures by Carter Holt Harvey in the HSE report, the additional information disclosed by Carter Holt Harvey and Lion Nathan complemented rather than replaced the information disclosed in the annual report. INL, Fisher and Paykel and Natural Gas did not disclose any additional social and environmental information on their websites.

6. RESULTS

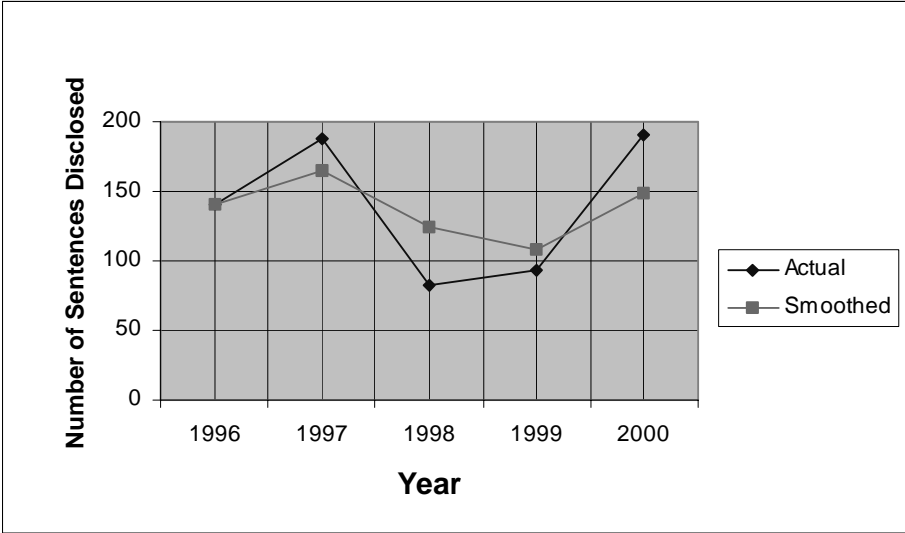
6.1 TRENDS IN CORPORATE SOCIAL DISCLOSURE BETWEEN 1996 AND 2000

This section considers trends in total corporate social disclosure, and in the categories of theme and evidence, for the five large, high profile industry companies (see Appendix 2 for results for the five companies for 1996 to 2000).

6.1.1 TOTAL CORPORATE SOCIAL DISCLOSURE

There is a trend of an increase in total corporate social disclosure from 1996 to 1997, a substantial decrease from 1997 to 1998, and an increase from 1999 to 2000. Although Independent Newspapers Ltd (INL) contributes significantly to this trend because it focused on employees in its 1997 annual report, this trend is still apparent when the results are exponentially smoothed, when INL is removed from the results, and when exponentially smoothed results for INL are used. Figure 2 demonstrates how the smoothed results show an increase in 1997 followed by a decrease in 1998 and 1999.

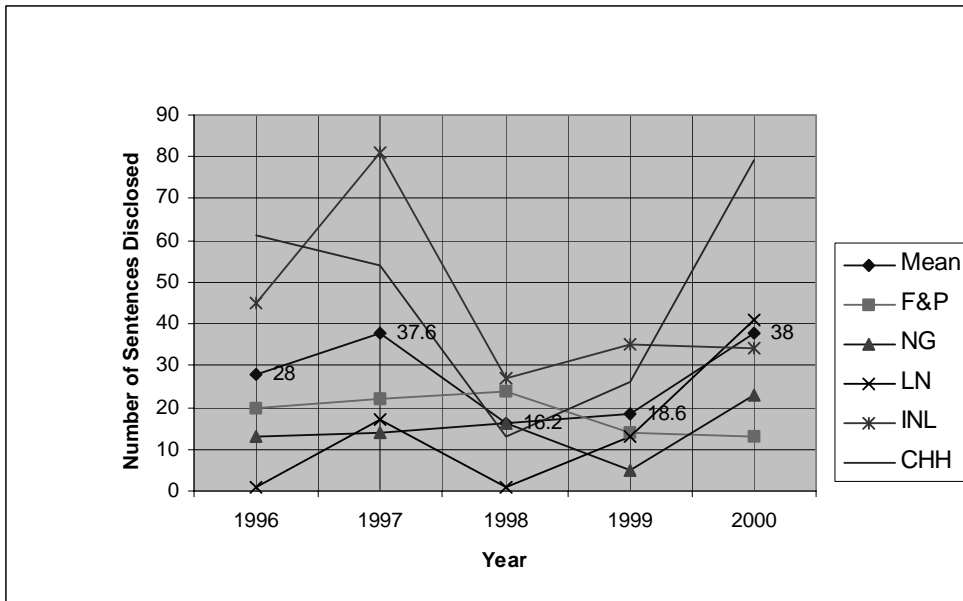
Figure 2 Total Sentences Of Corporate Social Disclosure



Smoothing constant - alpha = 0.5

Three of the companies showed a decrease in corporate social disclosure in 1998 and the other two showed a decrease in 1999, and four of the companies showed an increase in 1997. Although INL's 1997 annual report focused on employees, INL showed a substantial decrease in 1998 to 27 sentences, lower than the 45 sentences disclosed in 1996, which supports the trend but is not easily explained through other factors. Lion Nathan and Carter Holt Harvey also clearly follow the trend of increasing disclosure in 1997 followed by a sharp decrease in 1998; Carter Holt Harvey also reflected this trend by publishing a health safety and environment report in 1997 but not in 1998. Fisher and Paykel and Natural Gas show a decrease in 1999 instead of 1998, and Natural Gas shows a rise from 1999 to 2000. Figure 3 shows total corporate social disclosure for the five companies.

Figure 3 Total Corporate Social Disclosure For Each Company.



Note F&P= Fisher and Paykel
 NG = Natural Gas
 LN = Lion Nathan
 INL = Independent News Papers
 CHH = Carter Holt Harvey

6.1.2 THEME

‘Employee other’ disclosure dominates, accounting for between 37% and 58% of total corporate social disclosure over the five years. Total sentences of ‘employee other’ disclosure reflects the trend shown by total corporate social disclosure, and as a percentage of total corporate social disclosure, ‘employee other’ shows an increase in 1997 and a decrease in 1998. Although INL contributes noticeably to this trend, the other companies (excluding Natural Gas) also increase their ‘employee other’ disclosure in 1997, and decrease in 1998.

‘Community’ disclosure also reflects the trend shown by total corporate social disclosure, while ‘employee health’ and ‘environment’ (as a percentage of total corporate social disclosure) have gradually risen from 1998. ‘Product’ has decreased from 1998 in terms of percentage of total corporate social disclosure, and ‘energy’ and ‘general’ remain low.

Figure 4 shows the different themes as a percentage of total corporate social disclosure, showing the decrease in ‘employee other’ and ‘community’ in 1998. Figure 5 shows a similar trend in terms of number of sentences disclosed.

Figure 4 Theme As A Percentage Of Total Corporate Social Disclosure

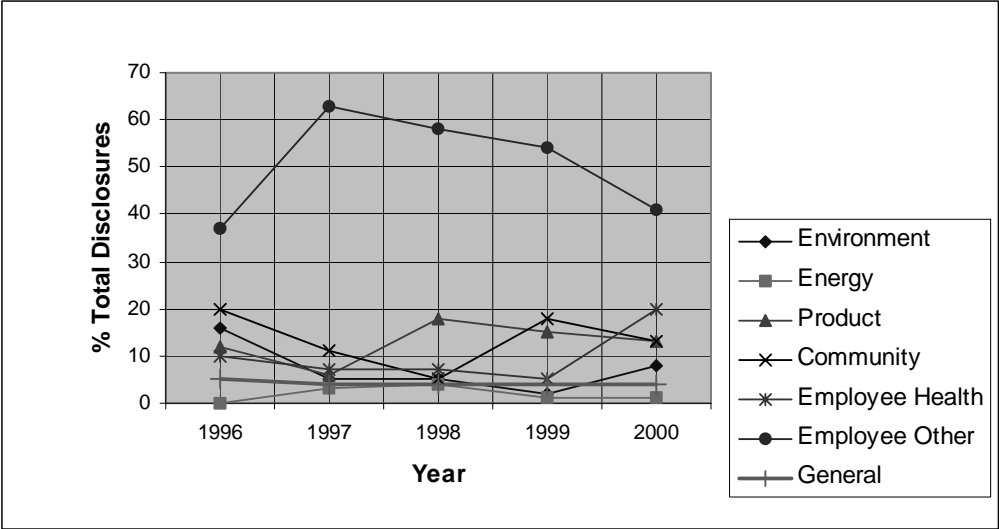
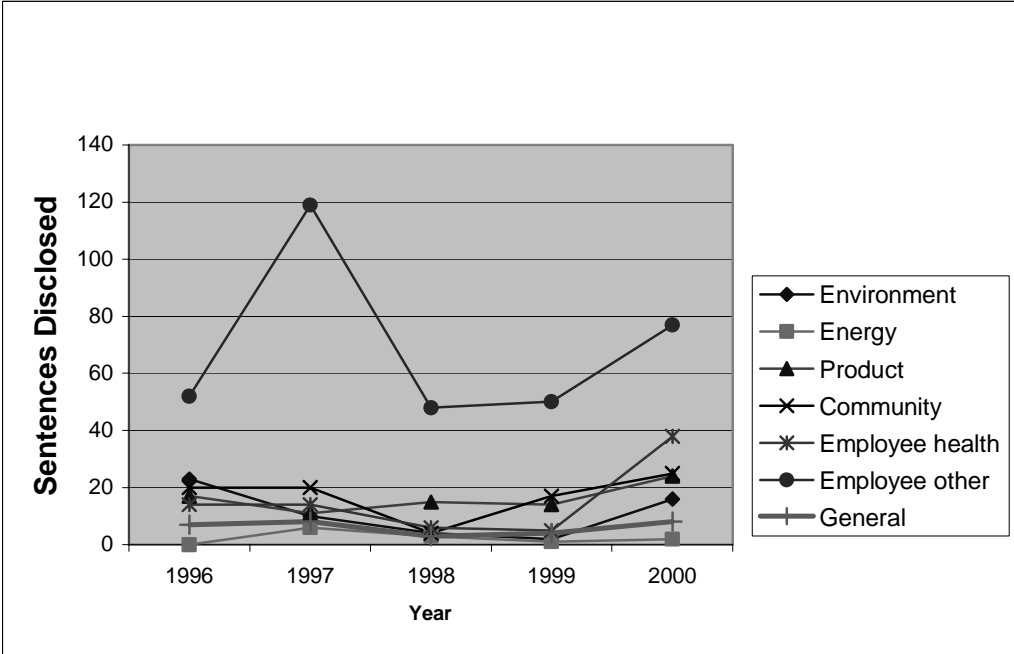


Figure 5 Theme In Terms Of Number Of Sentences Disclosed



6.1.3 EVIDENCE

'Declarative' disclosures dominate, ranging from 53% to 70% of total corporate social disclosure between 1996 and 2000. 'Declarative' disclosures also follow the trend of total corporate social disclosure in terms of number of sentences disclosed, and as a percentage of total corporate social disclosure. INL does not noticeably contribute to the trend, and INL, Carter Holt Harvey and Lion Nathan follow the trend of a decrease in declarative disclosures during 1998.

'Monetary quantitative' and 'non-monetary quantitative' disclosures do not appear to follow a clear trend, although both 'monetary quantitative' and 'non-monetary quantitative' increase as a percentage of total corporate social disclosure in 1998. 'Non-monetary quantitative' is also consistently slightly higher than 'monetary quantitative' disclosures. 'Non-monetary quantitative' disclosures decreased from 1996 to 2000 as a percentage of total corporate social disclosure, while 'monetary quantitative' disclosures increased from 1996 to 2000 as a percentage of total corporate social disclosure.

Figures 6 and 7 show corporate social disclosure in terms of evidence, showing that 'declarative' disclosures reflect the trend shown by total corporate social disclosure of increasing in 1997, decreasing in 1998, and increasing from 1999-2000.

Figure 6 Evidence As A Percentage Of Total Corporate Social Disclosure

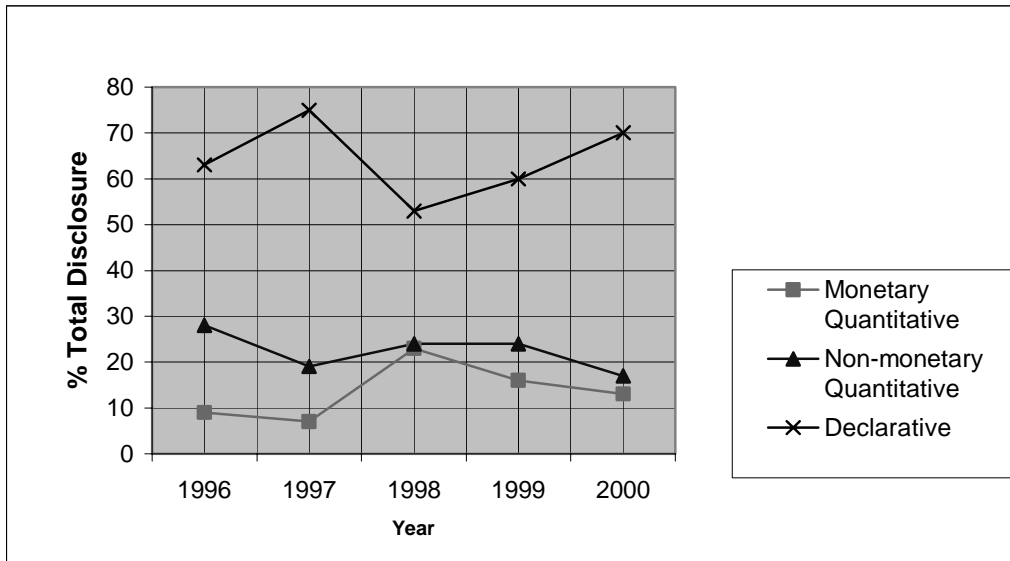
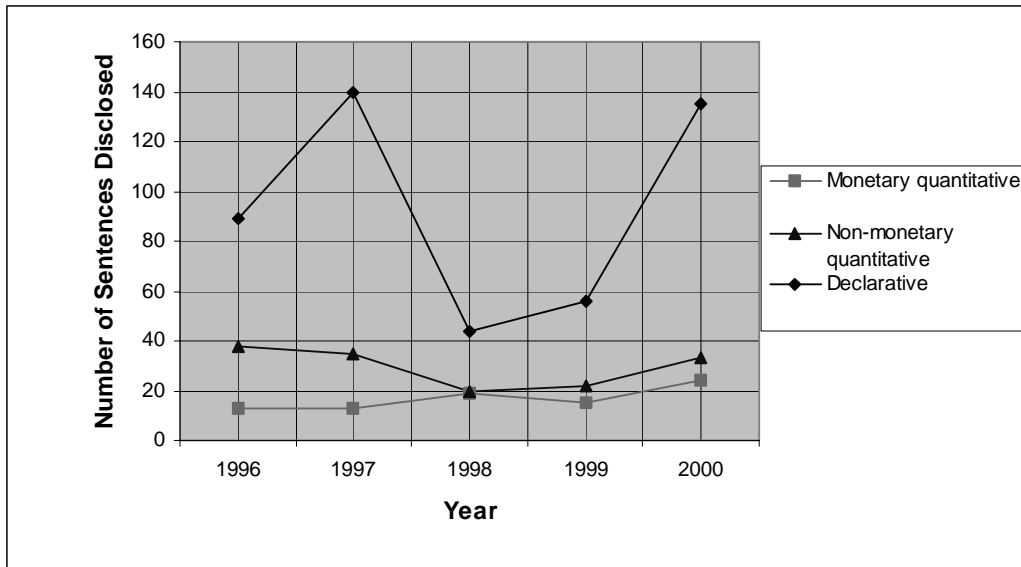


Figure 7 Evidence In Terms Of Number Of Sentences Disclosed



6.2 COMPARISON OF CORPORATE SOCIAL DISCLOSURE IN 1996 AND 2000

This section considers corporate social disclosure in 1996 and 2000 for the extended sample of 13 companies (see Appendix 3 for total corporate social disclosure, and disclosure in the categories of theme and evidence).

A Wilcoxon signed rank test was conducted to evaluate whether the median level of corporate social disclosure in 2000 was higher than the median level of corporate social disclosure in 1996. A Wilcoxon signed rank test is used to compare two populations when the data is quantitative, the distribution of differences is non-normal, and the experiment design is matched pairs (Keller and Warrick, 2000), and was used because the differences between corporate social disclosure in 1996 and 2000 were not normally distributed. The results indicated no significant difference, $z = -1.218$, $p = .223$ (2 tailed), indicating that the median level of corporate social disclosure in 2000 of 23 sentences is not significantly different from the median level of corporate social disclosure of 16 sentences in 1996.

Because non-parametric tests are less powerful than parametric tests (Pallant, 2001), a t-test for paired samples was also conducted to determine if there was any significant difference between the mean level of corporate social disclosure in 1996 and 2000. The results also indicated no significant difference between the mean level of corporate social disclosure of 22.7 in 1996, and of 30.3 in 2000; t statistic = -1.41086 , $p = .183681$ (2-tailed).

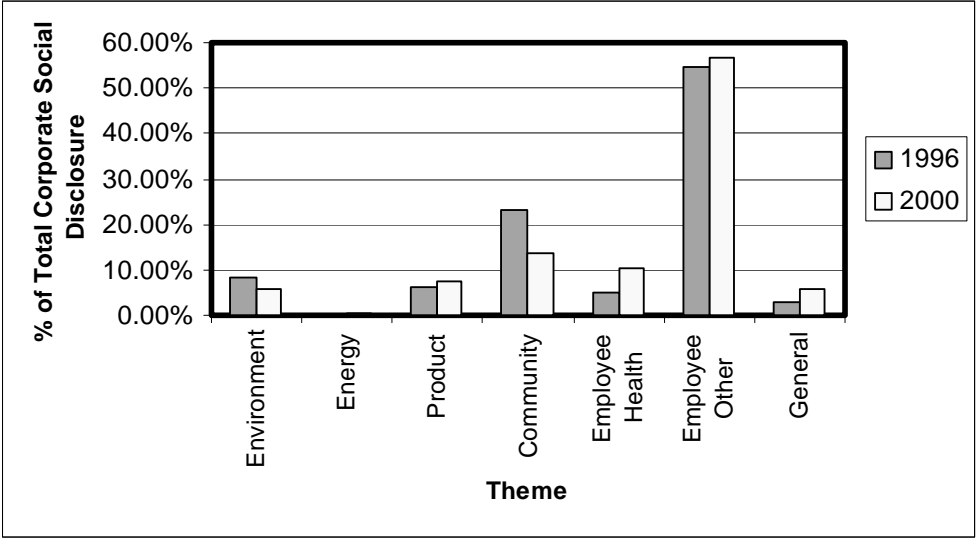
Although the difference in 1996 and 2000 levels of corporate social disclosure is not statistically significant, because of the small sample size it is possible that the non-significant results are

due to insufficient power of the tests (Pallant, 2001). Corporate social disclosure increases from 296 sentences in 1996 to 394 sentences in 2000, but only a few companies with higher levels of corporate social disclosure increase their levels, while other companies' disclosure remains static or decreases (see Appendix 3). Therefore, although corporate social disclosure increased between 1996 and 2000, only a few companies contributed to this increase, and the increase is not statistically significant.

6.2.1 THEME

'Environment' and 'community' (as a percentage of total corporate social disclosure) have decreased, with the decrease quite apparent for 'community'. 'Product' and 'employee other' increased slightly, and 'employee health' increased noticeably. Figure 8 shows these changes.

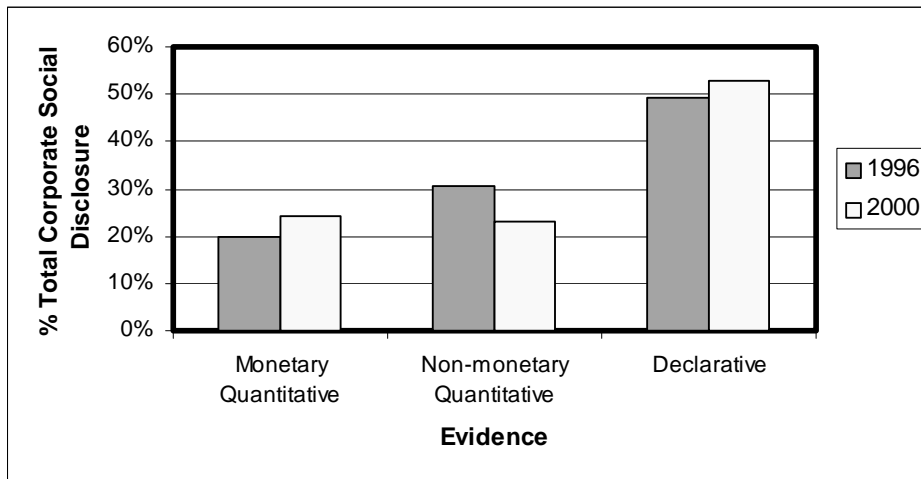
Figure 8 Percentage Of Total Corporate Social Disclosure, In Terms Of Theme



6.2.2 EVIDENCE

'Monetary quantitative' and 'declarative' (as a percentage total corporate social disclosure) slightly increased, while 'non-monetary quantitative' decreased. Figure 9 shows these changes.

Figure 9 Percentage Of Total Corporate Social Disclosure, In Terms Of Evidence



7. CONCLUSIONS

The aim of this research was to investigate changes in the level and type of corporate social disclosure over the past five years. This section draws conclusions on changes in corporate social disclosure between 1996 and 2000, and on the level and type of corporate social disclosure in 2000 compared to 1996. Limitations and future research opportunities are considered, and it is evaluated whether New Zealand companies are responding to the trend of increased corporate social disclosure, and whether the Statement of Concepts' accountability objective is being achieved.

7.1 TRENDS IN CORPORATE SOCIAL DISCLOSURE BETWEEN 1996 AND 2000

This section draws conclusions on trends in corporate social disclosure between 1996 and 2000 for the five large, high profile industry companies.

7.1.1 MAIN TREND

The main conclusion is that although total sentences of corporate social disclosure increased from 1996 to 2000, there is no clear trend of increasing corporate social disclosure. Instead there is an increase in corporate social disclosure in 1997 (141 sentences), a decrease in 1998 (88 sentences), and increase from 1999-2000 (190 sentences in 2000). This trend is difficult to explain, however it is apparent that corporate social disclosure increased in 1997, and fell around 1998; three of the companies demonstrated this decrease in 1998, while the other two showed a decrease in 1999. This trend may be in response to the threat of environmental reporting legislation. In 1997, the National/New Zealand First coalition government's environmental policy stated that it intended to amend the Companies Act 1993 to require statutory disclosure of environmental impacts by companies. However, by 1998/1999 it was

unlikely that this legislation for mandatory environmental reporting would be drafted (Milne and Owen, 1999; Gilkison and KPMG, 1999).

The trend can be explained using legitimacy theory, which asserts that organisations continually seek to ensure that they operate within the bounds and norms of their respective societies, that is, they attempt to ensure that their activities are perceived by outside parties as being legitimate (Deegan, 2000). Legitimacy theory is based on the idea of a social contract between business and society; society allows businesses to exist and have rights, and in return expects businesses to fulfil societies' expectations about how it should conduct its operations. Corporate social disclosure provides a way for an organisation to communicate its legitimacy to stakeholders (Lindblom, 1994; Dowling and Pfeffer, 1975 cited in Deegan, 2000), and as management controls the content of annual reports, disclosures in annual reports play an important role in achieving corporate legitimacy (Godfrey, Hodgson and Holmes, 2001). Legitimacy theory also argues that corporate social disclosure is a reaction to factors the organisation may see as threatening its legitimacy (Guthrie and Parker, 1989; Mathews, 1993; Gray et al., 1996). Many previous studies (e.g. Hogner, 1982; Deegan and Rankin, 1996; Brown and Deegan, 1999; Deegan, Rankin and Voght, 2000; Savage, Cataldo and Rowlands, 2000) have used legitimacy theory to explain patterns of corporate social disclosure.

Companies may have seen the threat of environmental reporting legislation as a broad indication that they were not meeting societies' expectations in relation to disclosing their social and environmental impact, in response increasing their corporate social disclosure. This is consistent with one strategy an organisation can use to legitimate its activities; "the organisation can adapt its output, goals and methods of operation to conform to prevailing definitions of legitimacy" (Dowling and Pfeffer, 1975, p. 127, cited in Deegan, 2000). This conclusion is further supported because 'employee other', 'community' and 'declarative' disclosures reflect the trend of increasing in 1997 and decreasing in 1998, and these disclosures are relatively easy to generate, compared to disclosures involving collecting quantitative information. Additionally, all five companies demonstrated the trend, in particular the decrease in corporate social disclosure in 1998 or 1999, suggesting that the factors driving the trend applied to a range of industries, as the threat of mandatory environmental reporting would.

Therefore, it appears that companies responded to the threat of mandatory environmental reporting legislation by increasing corporate social disclosure, and levels fell again in 1998 and 1999 when it was apparent that legislation would not be drafted. This behaviour can be explained through legitimacy theory; the companies appear to be adapting their output (corporate social disclosure) to conform to the expectation (indicated through potential mandatory environmental reporting legislation) that companies should make more corporate social disclosures, and when this expectation/threat was no longer perceived as existing, corporate social disclosure decreased.

Another interesting result is that the companies that most clearly show this trend (Carter Holt Harvey, Lion Nathan and INL) had a prominent presence in the media in relation to a number of issues, indicating pressure for these companies to legitimise their actions to society.

However, there are other factors that may influence corporate social disclosure by causing companies to take proactive action to preserve their legitimacy. These include: industrial conflict, accidents, environmental pollution, fraudulent management behaviour, and product safety issues (Kirk, 2000). A search of newspaper databases did not uncover any alternative explanations for the trend in corporate social disclosure. However, in 1998 the domestic economy was in recession, and the Asian crisis was impacting on the economy, particularly on Carter Holt Harvey. Mathews (1995) considers that the volume of corporate social disclosure varies with economic conditions; therefore another possible reason for the decrease in disclosures in 1998 could be that firms were responding to negative economic conditions by not utilising resources on additional disclosures.

Another alternative explanation for the lack of a clear trend of increasing corporate social disclosure is based on a political economy of accounting framework. Although political economy theory is difficult to empirically test (Campbell, 2000) this research considers it is important to acknowledge competing theories that have the potential to explain corporate social disclosure. It is also important to note that legitimacy theory and political economy theory adopt similar perspectives, considering that corporate social disclosure plays a role in legitimising corporate activities. The main difference is that political economy theory suggests that disclosure is pre-emptive, while legitimacy theory suggests disclosure is reactive, i.e. in response to external factors (Godfrey et al., 2001).

The political economy perspective perceives accounting reports as social, political and economic documents which serve as a tool for constructing, sustaining, and legitimising economic and political arrangements, institutions, and ideological themes that contribute to the corporation's private interests (Guthrie and Parker, 1990, cited in Deegan, 2000). Some previous studies (e.g. Ng, 1985; Guthrie and Parker, 1989; Campbell, 2000) have demonstrated fluctuating disclosure levels over time that are difficult to explain through external environmental factors impacting on the company's legitimacy. Political economy theory suggests that corporate social disclosure is a proactive process of information provided from management's perspective and serving management's own self-interest (Guthrie and Parker, 1989), which provides an alternative explanation for fluctuating levels of corporate social disclosure. Therefore, it is possible that the fluctuating disclosure levels reflect managers' use of corporate social disclosures to further their own interests by maintaining the current social, economic and political structures.

Overall, there is not a clear trend of increasing corporate social disclosure; instead the companies demonstrate an increase in 1997, a decrease in 1998, and an increase from 1999 to 2000. Legitimacy theory, political economy theory, and the recession in 1998 can explain this trend, however it is difficult to draw clear conclusions. This research supports the Gray et al. (1995a) conclusion that corporate social disclosure is a complex activity that cannot fully be explained by a single theoretical perspective or from a single level of resolution. However, it is important to note that large, high profile industry New Zealand companies do not show a clear trend of increasing corporate social disclosure, and other factors apart from the growing importance of corporate social disclosure appears to influence the corporate social disclosure of large, high profile industry New Zealand companies.

7.1.2 OTHER TRENDS

Although 'employee other' and 'community' disclosures increased in 1997 and decreased in 1998, the other themes did not follow this trend. 'Employee health' and 'environment' decreased (as a percentage of total corporate social disclosure) from 1996 to 1999, but increased from 1999 to 2000, possibly reflecting an improvement in the quality of corporate social disclosure in 2000, also noted by Gilkison (2000). 'Employee health' was higher in 2000 than in 1996, although 'environment' was higher in 1996 than in 2000, possibly reflecting Carter Holt Harvey's decision to disclose environmental information in a health, safety and environment report. 'Product' fell in 1997, peaked in 1998 and fell from 1999-2000, and 'general' and 'energy' were low and did not follow a clear trend.

Although 'declarative' disclosures increased in 1997 and decreased in 1998, 'monetary quantitative' and 'non-monetary quantitative' disclosures did not follow this trend. Instead these disclosures peaked in 1998 and decreased from 1999-2000 (as a percentage of total corporate social disclosure). This may be because many 'monetary quantitative' and 'non-monetary quantitative' disclosures were regularly made each year (e.g. information on employee share ownership plans), therefore as total disclosure rose, these disclosures fell as a percentage of total corporate social disclosure. 'Non-monetary disclosures' also decreased from 1996 to 2000, while 'declarative' and 'monetary' disclosures increased, possibly reflecting a preference for disclosures that can be easily generated within the accounting system.

7.2 COMPARISON OF CORPORATE SOCIAL DISCLOSURE IN 1996 AND 2000

This section compares the level and type of disclosure in 1996 and in 2000 for an expanded sample of 13 companies, including the five large, high profile industry companies. The 13 companies showed the same changes in corporate social disclosure as the five large, high profile industry companies, supporting the conclusions relating to the five large, high profile industry companies. Discussion relating to the categories of corporate social disclosure refers to sentences disclosed as a percentage of total corporate social disclosure.

There is no clear trend of increased corporate social disclosure, and disclosure is mostly 'declarative' and 'employee' other. The increase in corporate social disclosure from 296 sentences in 1996 to 394 sentences in 2000 is not statistically significant, and only some of the sample increased their corporate social disclosure. The majority of disclosures were 'declarative' and 'employee other', with little change between 1996 and 2000, although 'declarative' disclosure is often of lower quality than 'quantitative' disclosure (Gray, Bebbington and Walters, 1993; UNEP/SustainAbility, 1997; Gilkison and KPMG, 1999). Companies with low levels of corporate social disclosure (e.g. Air New Zealand, Fisher and Paykel) made mostly 'employee other' and 'declarative' disclosures, while disclosures in other areas were made by a few companies with higher levels of corporate social disclosure (e.g. The Warehouse, Carter Holt Harvey). 'Monetary quantitative' and 'declarative' disclosures increased, and 'non-monetary quantitative' disclosures decreased, although 'non-monetary quantitative' disclosure can communicate useful information (Gilkison and KMPG, 1999). There was also a noticeable decrease in 'community' and 'environment', and a noticeable increase in 'employee health', while 'energy', 'product' and 'general' remained relatively constant.

Overall the extended sample of 13 companies showed the same changes in corporate social disclosure between 1996 and 2000 as the five large, high profile industry companies. There is no clear trend of increasing corporate social disclosure, and disclosure is primarily 'declarative' and 'employee', with lower levels of disclosure in potentially informative categories such as 'non-monetary quantitative' and 'environment'.

7.3 LIMITATIONS AND OPPORTUNITIES FOR FURTHER RESEARCH

Although this research has shown interesting trends in corporate social disclosure, it is limited by the small sample size and short time period considered. The research could be extended through extending the sample size (using a random sample or a sample of large companies), or by conducting the longitudinal analysis over a longer time period, allowing more in-depth examination of trends. A larger sample also offers scope for investigating the determinants (e.g. size, profits) of corporate social disclosure, as investigated by Hackston and Milne (1996).

This research is also limited because it only formally measured corporate social disclosure in the annual report. It is also limited by the subjectivity of content analysis. These limitations are arguably necessary to classify and analyse the diverse phenomenon of corporate social disclosure, and this research has attempted to minimise these limitations to give an indication of changing levels of corporate social disclosure. However, increasingly companies are using other mediums of disclosure (e.g. a health, safety and environment report) to communicate their social and environmental impact. Although it is arguably still appropriate to focus on the quantity of disclosure in the annual reports of New Zealand companies, future research will have to consider methods capable of classifying alternative mediums of disclosure. The author suggests that future research instruments used to classify corporate social disclosure should

focus on quality rather than quantity of disclosure, considering what the disclosure communicates in relation to the company's social and environmental impact. One possible method of measuring the quality of disclosure is to measure if the disclosure represents substantive or symbolic legitimization strategies. Substantive strategies involve real material change to organisational goals, structures and processes (Savage, Cataldo and Rowlands, 2000), while symbolic strategies do not involve real changes, but attempt to portray corporate activities as compatible with societal norms and values (Pfeffer, 1981; Ashforth and Gibbs, 1990, cited in Savage et al., 2000). Because companies increasingly are making disclosures through a variety of mediums, it is becoming more difficult to measure corporate social disclosure practices through quantity of disclosure in the annual report. Therefore, measuring whether disclosure reflects real changes, or if disclosure attempts to portray corporate activities as compatible with societal norms, has the potential to better classify corporate social disclosure practices.

7.4 SUMMARY

This research aimed to investigate changes in the level and type of corporate social disclosure, and concludes that there is no clear trend of increasing corporate social disclosure between 1996 and 2000, and that disclosure is mostly 'declarative' and 'employee other'. The five companies showed a trend of increasing disclosure in 1997 followed by a decrease in 1998. Possible explanations for this trend include the threat of environmental reporting legislation, or the economic recession in 1998. Taking a broader perspective, political economy of accounting can be applied to explain the fluctuating levels of disclosure as a reflection of management's attempts to advance its own interests. It also concludes that although disclosures in areas such as 'employee health' and 'product' increased, there is scope for more quantitative disclosures, especially for 'environment', 'product' and 'employee health' disclosures.

Although internationally, corporate social disclosure is an increasingly important issue, the companies' disclosures arguably do not fully reflect the social and environmental performance of these companies which have a significant social and environmental impact. Therefore, the five large, high profile industry companies are not fulfilling the Statement of Concepts' accountability objective (which requires that financial reports reflect the nature and dimensions of performance relevant to the entity) in terms of reporting on their social and environmental impact, and are not discharging their accountability in terms of the Gray et al. (1996) accountability framework. The fluctuating levels of disclosure, combined with the high proportion of descriptive and employee information disclosed, leads this research to support the suggestion of other researchers (e.g. Gray et al., 1996; Schaltegger, Muller and Hindrichsen, 1996; Mathews, 1998; Gilkison and KMPG, 1999) that social and environmental reporting legislation could be beneficial to ensure that companies communicate their social and environmental impact.

The conclusions of this research are important, as it is important to consider companies' social and environmental impact as well as their economic performance (Gray et al., 1996; Elkington, 1999), and additionally many companies have had a detrimental impact on society and the environment; "the land, water, air and sea have been functionally transformed from life supporting systems into repositories for wastes. There is no polite way to say that business is destroying the world" (Hawken, 1993, cited in Gilkison and KMPG, 1999, p. 3). It is also argued that; "in the future, annual environmental and social reports will be as common a feature as financial reports" (Monaghan, 1999, p. 61). This research has demonstrated that large, high profile industry companies with a significant social and environmental impact are not responding to the increased importance of corporate social reporting, and are not adequately reporting on their social and environmental impact. This research suggests that this finding has important implications for businesses, legislators, accountants and society in general.

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APPENDIX 1 CHECKLIST OF CATEGORIES OF CORPORATE SOCIAL DISCLOSURE

The following is a taxonomy of the types of corporate social disclosure that form the substance of the content analysis of annual reports. The list is intended to represent an exhaustive itemisation of information with social importance (Hackston and Milne, 1996).

Any additions to the list used by Hackston and Milne (1996) are shown in italics.

ENVIRONMENT

1. Environmental pollution
 - Pollution control in the conduct of business operations; capital, operating and research and development expenditures for pollution abatement.
 - Statements indicating that the company's operations are non-polluting or that they are in compliance with pollution laws and regulations.
 - Statements indicating that pollution from operations has been or will be reduced.
 - Prevention or repair of damage to the environment resulting from processing or natural resources, e.g. land reclamation or reforestation.
 - Conservation of natural resources, e.g. recycling glass, metals, oil, water and paper; using recycled materials.
 - Efficiently using materials resources in the manufacturing process.
 - Receiving an award relating to the company's environmental programmes or policies.
 - Preventing waste.
2. Aesthetics
 - Designing facilities harmonious with the environment.
 - Contributions in terms of cash or art/sculptures to beautify the environment.
 - Restoring historical buildings/structures.
3. Other
 - Undertaking environmental impact studies to monitor the company's impact on the environment.
 - Wildlife conservation.
 - Protection of the environment, e.g. pest control.
 - *Signatory status to agreements that commit the organisation to consider the environment in its operations.*
 - *Discussion of environment management systems*

ENERGY

- Conservation of energy in the conduct of business operations.
- Using energy more efficiently during the manufacturing process.
- Utilising waste materials for energy production.
- Disclosing energy savings resulting from product recycling.
- Discussing the company's efforts to reduce energy consumption.
- Disclosing increased energy efficiency of products.
- Research aimed at improving energy efficiency of products.
- Receiving an award for an energy conservation programme
- Voicing the company's concern about the energy shortage.
- Disclosing the company's energy policies

EMPLOYEE HEALTH AND SAFETY

- Reducing or eliminating pollutants, irritants, or hazards in the work environment.
- Promoting employee safety and physical or mental health.
- Disclosing accident statistics.
- Complying with health and safety standards and regulations.

- Receiving a safety award.
- Establishing a safety department/committee/policy.
- Conducting research to improve work safety/*implementing devices to improve safety.*
- Providing low cost health care for employees.
- *Disclosing benefits from increased health and safety expenditure.*

EMPLOYEE OTHER

1. Employment of minorities or woman
 - Recruiting or employing racial minorities and/or women.
 - Disclosing percentage or number of minority and/or women employees in the workforce and/or in the various managerial levels.
 - Establishing goals for minority representation in the workforce.
 - Programme for the advancement of minorities in the workplace.
 - Employment of other special interest groups, e.g. the handicapped, ex-convicts or former drug addicts.
 - Disclosures about internal advancement statistics.
 2. Employee training.
 - Training employees through in-house programmes.
 - Giving financial assistance to employees in educational institutes or continuing education courses.
 - Establishment of trainee centres.
 - *Do not include performance monitoring schemes*
 3. Employee assistance/benefits
 - Providing assistance or guidance to employees who are in the process of retiring or who have been made redundant.
 - Providing staff accommodation/staff home ownership schemes.
 - Providing recreational activities/facilities.
 4. Employee remuneration
 - Providing amount and/or percentage figures for salaries, wages, PAYE taxes, superannuation (*figures only – not associated explanations*).
 - Any policies/objectives/reasons for the company's remuneration package/schemes.
 5. Employee profiles
 - Providing the number of employees in the company and/or at each branch/subsidiary.
 - Providing the occupations/managerial levels involved.
 - Providing a description of staff – where the staff are stationed and the number involved.
 - Providing statistics on the number of staff, the length of service in the company and their age groups.
 - Providing per employee statistics, e.g. assets per employee and sales per employee.
 - Providing information on the qualifications of employees recruited.
- Note – disclosures relating to individual employees (e.g. length of service) as well as disclosures in aggregate were included in this category.
6. Employee share purchase schemes
 - Providing information on the existence of or amount and value of shares offered to employees under a share purchase scheme or pension programme (*only values – not explanations*).
 - Providing any other profit sharing scheme.

7. Employee moral
 - Providing information on the company/management's relationships with the employees in an effort to improve job satisfaction and employee motivation.
 - Providing information on the stability of the workers' jobs and the company's future.
 - Providing information on the availability of a separate employee report.
 - Providing information about any awards for effective communication with employees.
 - Providing information about communication with employees on management styles and management programmes which may directly affect the employees.

8. Industrial relations
 - Reporting on the company's relationship with trade unions and/or workers.
 - Reporting any strikes, industrial action/activities and the resultant losses in terms of time and productivity.
 - Providing information on how industrial action was reduced/negotiated.

9. Other
 - Improvements to the general working conditions – both in the factories and for the office staff.
 - Information on the re-organisation of the company/discussion/branches which affect the staff in any way.
 - The closing down of any part of the organisation, the resultant redundancies created, and any relocation/retraining efforts made by the company to retain staff.
 - Information and statistics on employee turnover.
 - Information about support for day-care, maternity and paternity leave.
 - *Winning an award for being a good employer.*

PRODUCTS

1. Product development
 - Information on developments related to the company's products, including its packaging, e.g. making containers reusable.
 - The amount/percentage figures of research and development expenditure and/or its benefits (*needs to relate to a specific product*).
 - Information on any research projects set up by the company to improve its product in any way.

2. Product safety
 - Disclosing that products meet applicable safety standards.
 - Making products safer for consumers.
 - Conducting safety research on the company's products.
 - Disclosing improved or more sanitary procedures in the processing and preparation of products.
 - Information on the safety of the firm's product.

3. Product quality
 - Information on the quality of the firm's products as reflected in prizes/awards received (*any award from an independent organisation for the firm's product*).
 - Verifiable information that the quality of the firm's product has increased (e.g. ISO 9000).

COMMUNITY INVOLVEMENT

- Donations of cash, products or employees services to support established community activities, events, organisations, education and the arts (*includes declarations of sponsorship*).
- Summer or part-time employment of students.
- Sponsoring public health projects.
- Aiding medical research.
- Sponsoring educational conferences, seminars or art exhibits.
- Funding scholarship programmes or activities.
- Other special community related activities, e.g. opening the company's facilities to the public.
- Supporting national pride/government sponsored campaigns.
- Supporting the development of local industries or community programmes and activities.

OTHERS

1. Corporate objectives/policies: general disclosure of corporate objectives/policies relating to the social responsibility of the company to the various segments of society. *Disclosure of objectives/policies that pertain to the environment, health and safety, where neither the environment or health and safety can be classified as the dominant topic.*
2. Other: disclosing/reporting to groups in society other than shareholders and employees, e.g. consumers; any other form of information that relates to the social responsibility of the company.

APPENDIX 1 (continued) DECISION RULES

- Discussion of directors' activities is not to be included as discussion on employees.
- All sponsorship activity is to be included no matter how much it is advertising.
- All disclosures must be specifically stated; they cannot be implied. *All disclosures must specifically relate to the company and its actions, they cannot be general background information about an action.*
- If any sentence has more than one possible classification, the sentence should be classified as to the activity most emphasised in the sentence.
- *When a CSD contains monetary and non-monetary quantitative disclosure, classify CSD as the dominant type of evidence (monetary or non-monetary quantitative). When there is an equal amount of monetary and non-monetary quantitative disclosure in a sentence, classify the CSD as monetary quantitative disclosure.*
- Tables (monetary and non-monetary) that provide information that is on the checklist should be interpreted as one line equals one sentence and classified accordingly. *Headings to tables are also classified.*
- Graphs are classified as the heading equalling one sentence, and each bar on a bar graph/point on a line graph/segment of a pie graph, is classified as one sentence of disclosure.
- Innovations in products or services should not be included unless they are beyond what is necessary to compete in the marketplace or attract business.
- Innovations in products or services should not be included unless they specifically benefit the customer (e.g. through safety) or the community or environment (e.g. through recyclable packaging), while also being beyond what is necessary to compete in the marketplace or attract business.
- Any disclosure that is repeated shall be recorded as a CSD sentence each time it is discussed.
- Discussions relating to the quality of goods and services will not be a CSD unless it contains notice or a verifiable change in quality, e.g. accreditation to the International Standards Organisation ISO 9000 quality series standard.
- Only the caption of pictures is classified.

APPENDIX 2 RESULTS FOR FIVE LARGE, HIGH PROFILE INDUSTRY COMPANIES

Number of Sentences of Corporate Social Disclosure, 1996-2000

	1996	1997	1998	1999	2000
THEME					
Environment	23	10	4	2	16
Energy	0	6	3	1	2
Product	17	11	15	14	24
Community	20	20	4	17	25
Employee health	14	14	6	5	38
Employee other	60	119	48	50	77
General	7	8	3	4	8
<u>TOTAL</u>	141	188	83	93	190
EVIDENCE					
Monetary quantitative	13	13	19	15	24
Non-monetary quantitative	39	35	20	22	33
Declarative	89	140	44	56	133
<u>TOTAL</u>	141	188	83	90	190

Percentage of Total Corporate Social Disclosure, 1996-2000

	1996	1997	1998	1999	2000
THEME					
Environment	16.40%	5.30%	4.80%	2.10%	8.40%
Energy	-	3.20%	3.60%	1.10%	1.10%
Product	12.10%	5.60%	18.10%	15.00%	12.60%
Community	20.00%	10.60%	4.80%	18.30%	13.20%
Employee health	10.00%	7.40%	7.20%	5.40%	20.00%
Employee other	37.00%	63.30%	57.80%	53.80%	40.50%
General	5.00%	4.30%	3.60%	4.30%	4.20%
<u>TOTAL</u>	100%	100%	100%	100%	100%
EVIDENCE					
Monetary quantitative	9.30%	6.90%	22.90%	16.00%	12.60%
Non-monetary quantitative	27.10%	18.60%	24.10%	23.70%	17.40%
Declarative	63.60%	74.50%	53.00%	60.20%	70.00%
<u>TOTAL</u>	100%	100%	100%	100%	100%

APPENDIX 3 RESULTS FOR EXTENDED SAMPLE OF 13 COMPANIES

Number of Sentences Disclosed

	1996	2000
THEME		
Environment	24	22
Energy	0	2
Product	18	30
Community	68	53
Employee Health	15	41
Employee Other	162	224
General	9	22
TOTAL	296	394

EVIDENCE		
Monetary Quantitative	59	95
Non-monetary Quantitative	91	91
Declarative	146	208
TOTAL	296	394

Percentage of Total Corporate Social Disclosure

	1996	2000
THEME		
Environment	8.10%	5.60%
Energy	0	0.50%
Product	6.10%	7.60%
Community	23.00%	13.50%
Employee Health	5.10%	10.40%
Employee Other	54.70%	56.80%
General	3.04%	5.60%
TOTAL	100%	100%

EVIDENCE		
Monetary Quantitative	20%	24.10%
Non-monetary Quantitative	30.70%	23.10%
Declarative	49.30%	52.80%
TOTAL	100%	100.00%

APPENDIX 3 (continued)

RESULTS FOR EXTENDED SAMPLE OF 13 COMPANIES

Number of Sentences Disclosed for each of the 13 Companies

	1996	2000	Difference
Brierley	8	19	11
<i>Kiwi Income Property Trust</i>	0	0	0
<i>Air New Zealand</i>	10	9	-1
Sky City	16	59	43
Telecom	60	43	-17
Baycorp	4	15	11
<i>AMP</i>	18	0	-18
The Warehouse Ltd	39	59	20
Lion Nathan	1	41	40
Carter Holt Harvey	61	79	18
Natural Gas	13	23	10
Independent Newspapers	45	34	-11
<i>Fisher and Paykel</i>	20	13	-7

Note that the four companies in bold type all have high levels of corporate social disclosure, and all have increased their levels of corporate social disclosure from 1996 to 2000.

Note that the four companies in italic type all have low levels of corporate social disclosure, and all have decrease their levels, or their levels of corporate social disclosure have remained static, from 1996 to 2000.

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