

A Survey of Corporate Social Responsibility Reporting Practices of Australian and U.S. Financial Services Firms

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Abstract

Current concern over a variety of environmental and social issues such as global warming, treatment of labor around the world, and the depletion of natural resources has caused stakeholders of firms to renew their interest in corporate social responsibility (CSR) reporting. This study examines the extent of CSR reporting used by firms in the financial services sector listed in the US S&P 500 and the Australian ASX 200. The CSR reporting by 25 Australian and 79 US firms was compared to the supplemental environmental and social performance indicators for the financial services sector established by the Global Reporting Initiative (GRI). The results of the study indicate discrete reports produced by a firm provided the greatest amount of information on CSR issues relative to coverage provided in annual reports. Although firms in both countries were found to report their codes of conduct in their corporate governance documents, the level of disclosure of a large number of environmental and social performance indicators by the largest firms in the financial services sector fell well short of meeting the GRI guidelines.

I. Introduction

The topic of corporate social responsibility (CSR) is particularly timely given the theme of this year's MBAA meeting is "Focus on Change: Succeeding in a Global Environment." The idea of firms reporting on the social and environmental impact of their business operations has its roots in the 1970s (Tsang, 1998; Mathews, 1997). Stakeholder interest in this kind of reporting waned in the 1980s as the focus of business shifted to facilitating the expansion of global economic activity. Much of this activity took place in countries such as China and Russia when they began moving to a market-based economy. The mid-1990s saw a surge in interest in CSR reporting as it relates to strategic decision-making as social and environmental concerns such as global warming, depletion of natural resources, and treatment of labor in lesser developed countries began to emerge. Firms around the world are beginning to include CSR as part of their culture in a genuine attempt to reflect social and environmental impacts of their business operations thereby enhancing their financial performance.

The rationale behind CSR means a firm accounts for social, environmental and ethical consequences that result from the operation of the business (Robins, 2006a). 'Triple Bottom Line' accounting (TBL) is a new measure of the degree that CSR has been included in strategic decision-making (Deegan 2002; Elkington, 1998). TBL includes in the firm's balance sheet, financial (economic), environmental, and social consequences of business strategy. TBL is growing in use around the world because it provides a growing accepted measure of a firm's performance in an investment world increasingly concerned about issues of quality of life on earth. The fact that investment in U. S. professionally managed portfolios that used social and environmental criteria to screen investment opportunities surged to more than \$2.3 trillion in

2005 is evidence of the growing interest in CSR (Robins, 2006b). Investment in funds that stress socially responsible investing is also growing in Australia (van der Laan & Lansbury, 2004)

A number of reporting guidelines have been developed to assist firms in their reporting of CSR issues. In some cases, countries have mandated financial reporting of environmental and social issues. For example, the United Kingdom (UK) requires companies listed on stock exchanges in the UK to provide an Operating and Financial Review in their annual report that describes any ethical, social and environmental aspects of their strategies, performance and future plans (KPMG, 2005). However, most countries allow firms to voluntarily report on most CSR issues. The US and Australia are two such countries.

In the current study, the Global Reporting Initiative (GRI) guidelines are used to evaluate the scope of CSR reporting by the financial firms listed in the US S&P 500 and the Australian ASX 200. Australia was selected to be compared to the US as it has a similar business climate. Legislation that governs business in Australia often mirrors laws enacted in the US. For example, the US enacted the Sarbanes-Oxley Act in 2001 after the accounting scandals involving Enron and WorldCom and Australia passed in 2004 the Corporate Law Economic Reform Programme after several large corporate collapses occurred in Australia (Robins, 2006a). If there is a difference between the two countries in the way firms are managed, it may be due to the fact that Australia has a history of relying on voluntary compliance with guidelines rather than civil and criminal enforcement of their laws regulating business practices (Robins, 2006a).

II. CSR Reporting and GRI Guidelines

CSR has been defined as a company's ethical behavior towards society. CSR reports usually include narratives related to workplace issues (e.g., recruitment policies and employee development), environmental issues, community involvement, and corporate governance and codes of conduct (O'Donovan, 2002). TBL extends CSR reports to include a financial measure of the above issues. While surveys have shown that company executives overwhelmingly believe CSR reports can deliver benefits to a firm (i.e., enhanced reputation), relatively few executives report they have made progress in implementing a CSR strategy (SustainAbility, 2006; KPMG, 2005; Watson & MacKay, 2003; Dickson, 2002; O'Donovan, 2002).

Detailed disclosure of environmental and social impacts of a firm's business operations remains elusive in countries that allow voluntary reporting. The annual report is often used as the vehicle to communicate to stakeholder groups the information that is environmental and social in nature (Tilt 2001; Mathews 1997). The Center for Australian Ethical Research (CAER, 2005) found that such information in annual reports is primarily targeted to employees. Hogner (1982) and Wilmshurst and Frost (2000) suggest firms report the social and environmental impacts of their business operations because it legitimizes their business activities. They predict that firms will disclose more information on environmental and social performance of the firm if more groups of stakeholders demand it. To date, the treatment of these issues is superficial because few, if any, stakeholder groups pressure firms to provide greater disclosure, and may only serve as a promotional device (Tilt 2001; Gray, Kouhy & Lavers 1995).

The GRI was established in 1997 by the Coalition for Environmentally Responsible Economies (CERES) and the United Nations Environment Programme (UNEP). Although the

original intent of the GRI was to foster environmental reporting, the GRI guidelines were expanded to include social and economic issues in 2002. In 2006, the GRI guidelines were revised to expand to include 79 performance indicators covering six categories: environmental, human rights, labor practices, society, product responsibility and economic (GRI 2007). Fifty of the performance indicators are labeled 'core' or those indicators that are considered to be of interest to most stakeholders. Twenty-nine performance and performance indicators are labeled 'additional,' or those that are considered to be emerging practice or topics that may be of interest to only some stakeholders. In addition, supplemental performance measures have been developed for various business sectors. Exhibit 1 and Exhibit 2 contain the 33 supplemental social and environmental performance indicators for firms in the financial services sector. Finally, the GRI guidelines encourage firms to seek independent assurance of the accuracy of their reports.

More than 1,000 companies throughout the world use the GRI guidelines to voluntarily report the social, environmental and economic performance of their business (CERES, 2006a). Research on the use of the GRI guidelines is only now beginning to emerge in the literature. A recent survey of Fortune's Global 250 firms by KPMG (2005) found the most common tool used to develop report content was the GRI guidelines. Moneva, Rivera-Lirio and Munoz-Torres (2007) explored the quality of CSR reports on financial performance of Spanish companies. They reported that although there was a positive relationship between using the GRI guidelines and financial performance, the relationship was not statistically significant. Furthermore, firms in the financial services and real estate investment sectors generated the weakest relationship. Galbreath (2006) examined the strategic benefits of stakeholder management as defined by corporate governance, employee management, environment performance, and social impact. Galbreath (2006) reported corporate governance and employee management were positively and significantly associated with a firm's financial performance. However, environmental performance and social impact had a negative and significant association with a firm's financial performance.

The current study contributes to the growing body of literature on the use of the GRI guidelines by conducting a content analysis of CSR information reported by the financial services firms listed in the US S&P 500 and Australian ASX 200. The financial services sector was selected because the detailed information required by the supplemental performance indicators of the GRI guidelines gives a comprehensive picture of the social and environmental consequences of investments made in other businesses.

III. Methodology

The production of CSR reports is an expense beyond the normal financial reporting requirements of firms listed on stock exchanges in the US and Australia. Therefore, it is expected that only the largest firms would be able to afford this added expense of reporting. In addition, since CSR reports are meant for a firm's stakeholders, it was assumed that publicly traded firms would be the most likely ones to prepare a CSR report because they have more external stakeholders. Therefore, the firms selected for the sample were taken from those listed on the ASX 200 and the S&P 500. The ASX 200 was selected because it represents 88.2% (July 2007) of the capitalization of the firms listed on the Australian Stock Exchange (ASX). The

S&P 500 represents the US firms with the largest capitalization listed on US stock exchanges. The financial service firms listed on these exchanges were identified by SIC.

Each firm's discrete CSR reports and annual reports were examined for use of the GRI G3 supplemental social and environmental performance indicators listed in Exhibits 1 and 2. The supplemental and environmental performance indicators were selected because they are specific to the financial services sector. The standard disclosures of the GRI guidelines are already required by Australian and U.S. regulations. For example, publicly traded companies must report corporate governance and ensure report quality as part of Australian and U.S. reporting requirements, as well as, being part of the GRI guidelines. In addition, the GRI database was examined to see if each firm had voluntarily listed its report with the GRI and whether the report was independently checked under the GRI G3 guidelines.

The web sites of the firms in the sample were examined for discrete CSR reports and annual reports on 25 Australian and 79 US financial services firms. The content of the discrete CSR reports and annual reports were analyzed following the method used by Frost *et al.* (2005). The content of each report was judged by one of the researchers using the five point scale developed by SustainAbility (2006) as presented in Table 1. To more accurately assess the amount of disclosure for each indicator, firms with measures of '0' for a particular indicator were excluded from the computation of the mean scores. A mean score was determined for each criterion to arrive at an overall assessment of the use of the supplement environmental and social performance indicators of the GRI guidelines for the financial service sector in the US and Australia.

IV. Results

Table 2 indicates the number of companies in each country listed in the US S&P 500 and ASX 200 that disclosed the information on the social and environmental performance indicators listed in Exhibit 1 and Exhibit 2. The most common sections reported by firms in the US were descriptions of corporate governance and codes of conduct. Fifty-five of the US financial services firms listed a separate corporate governance or code of conduct document. The high number of firms producing separate documents is probably due to the Sarbanes-Oxley Act. This Act requires the open reporting of such information. Only nine of the Australian financial services firms listed a separate corporate governance or code of conduct on their web sites.

All US and Australian firms reported the remuneration of senior management and board of directors (INT4). Again, this information is required by regulatory agencies in each country. Fifty-two US financial services firms (65.8%) provided a description of stakeholder dialogue and involvement procedures (CSR6) compared to nine (36%) of the Australian firms. Slightly more US firms (34.1%) provided a description of the procedures for handling issues sensitive to stakeholders and responsiveness (CSR4). Twenty-eight percent of the Australian firms provided this description. Finally, seventeen (21.5%) of the US firms and eight (32%) of the Australian firms reported contributions to charitable causes, community investments and commercial sponsorships (SOC1).

More than double of the proportion of Australian versus US firms reported descriptions of social elements of their corporate social responsibility policy (CSR1), and structure and relevant corporate social responsibilities (CSR2).

The mean score in terms of disclosure paralleled the number of firms that reported information on the supplemental social and environmental performance indicators. US firms scored relatively higher than Australian firms on describing social elements of their CSR policy (CSR1), describing the structure and relevant CSR responsibilities (CSR2), and reporting remuneration of senior management and board of directors (INT4). Australian firms provided more disclosure on describing procedures for handling issues sensitive to stakeholders (CSR4), describing stakeholder dialog and involvement procedures (CSR6), and reporting contributions to charitable causes (SOC1).

Although relatively few sample firms addressed the environmental performance indicators (F1-F13), proportionally more Australian firms did include the indicators. Firms in both countries did not do a good job of reporting these indicators. This is perhaps because most of the social performance indicators require only descriptions of processes rather than hard figures. The environmental performance indicators are more detailed in terms of amount and type of information that must be reported.

V. Discussion

This study examined the extent that the largest 79 US and 25 Australian firms in the financial services sector meet the GRI G3 sector supplemental social and environmental performance indicators. Overall, firms in both countries do not come close to meeting the standards of the GRI guidelines in terms of the information that they choose to report. This result is similar to previous studies (Baue 2006). Understandably, the highest rates of reporting are for information that is required to be disclosed by the regulatory agencies in each country. In the case of US and Australian firms, external stakeholders (i.e., investors, analysts) need to push for the disclosure of additional information on social and environmental impacts of a firm's business operations before such information is forthcoming (CERES 2006b). Until this happens, the focus of management will likely remain on short-term performance as the additional investment in time and resources cannot be justified in a highly competitive global environment. In addition, the costs in terms of staff time and checking data to ensure it is in compliance with the GRI guidelines can be significant.

The GRI report database was examined in an effort to gain further insight into the use of all of the GRI guidelines by Australian and US financial services firms included in the study's sample. It was thought that a firm would only choose to include its CSR reports in the GRI database if it was in full compliance of the guidelines. Four US financial services firms (Bank of America, Citigroup, State Street Corporation, and Wells Fargo) and three Australian financial services firms (Australia and New Zealand Banking Corporation, National Australia Bank Ltd. and Westpac Banking Corporation) listed their CSR reports in the GRI database. Of the seven firms, only Citigroup, Australia and New Zealand Banking Corporation and National Australia Bank Ltd. had their reports independently checked by GRI for assurance of adherence to the guidelines. Westpac Banking Corporation self-checked its report for assurance of adherence to the guidelines.

Current credit crisis that is impacting the financial services sector worldwide prevented the testing of whether firms that adhere to the GRI guidelines are more profitable. Future research may explore this issue once the turbulence surrounding the credit markets settles down.

This study has some limitations that need to be highlighted when interpreting the results. First, only the largest financial firms listed in the S&P 500 and ASX 200 were included in the sample. It could be that smaller firms have a higher rate of reporting of the supplemental social and environmental performance indicators as a way to legitimize themselves and attract investors and customers that are motivated to seek out socially responsible firms. Testing for differences in reporting by size of firm is not possible given the 2006 revision of the GRI guidelines provides relatively few data points for analysis. Future research may be able to test for a possible difference based on size of firm by creating sub-groups as more data become available. In addition, privately held companies may differ in their reporting of these indicators depending on what is demanded by their stakeholders.

A second limitation is that only one judge scored the amount of coverage of these indicators. The study needs to be replicated with two more judges completing the content analysis so interjudge reliability can be computed and resolution of disagreements in scoring can be completed through normally accepted means.

A third limitation in the study is that it used the GRI supplemental indicators to assess the firms' disclosure of certain social and environmental information. Although the GRI guidelines are followed by over 1,000 firms worldwide, other organizations have developed different measures. The current study tried to address this possibility by judging the extent of the coverage of the topics contained in the indicators rather than using a discrete 'addressed' or 'not addressed' measure for each guideline.

Exhibit 1. Supplemental Social Performance Indicators for Financial Services Sector

Management System

CSR1 CSR Policy: Description of social elements of the CSR policy, including corporate definition of CSR

CSR2 CSR Organization" Description of the structure and relevant CSR responsibilities, including explanation of the installed procedures

CSR3 CSR Audits: Number of audits and auditor hours

CSR4 Management of Sensitive Issues: Description of the procedures for handling issues sensitive to stakeholders and responsiveness

CSR5 Non-Compliance: Number of non-compliance incidents with any law or regulatory code of conduct

CSR6 Stakeholder Dialogue: Description of stakeholder dialogue and involvement procedures

Internal Social Performance

INT1 Internal CSR Policy: Description of social responsibility issues covered in the company's human resources policies

INT2 Staff Turnover and Job Creation

INT3 Employee Satisfaction: Employee satisfaction, based on survey results, covering: job security, remuneration & benefits, work/life balance, training & development, internal communications, company's social performance towards society

INT4 Senior Management Remuneration: Remuneration of senior management and board of directors

INT5 Bonuses Fostering Sustainable Success: Bonuses that are not oriented purely towards short term financial success, but which contain additional sustainability elements

INT6 Female-Male Salary Ratio: Ratio of female to male salaries including bonuses per hierarchy level

INT7 Employee Profile: Employee profile per hierarchy level and country according to gender, ethnicity and disability

Performance to Society

SOC1 Charitable Contributions: Contributions to charitable causes, community investments and commercial sponsorships

SOC2 Economic Value Added: 'Value added' expresses the economic value created by a company's activities

Suppliers

SUP1 Screening of Major Suppliers: Policy and procedures to screen suppliers' social performance Performance towards Suppliers

SUP2 Supplier Satisfaction: Supplier satisfaction with prompt payment, prices and treatment

Asset Management

AM1 Asset management Policy (socially relevant elements): Social criteria applied by the reporting organization in Asset management

AM2 asset under Management with High Social Benefit: Provision of tailored and innovative products and services applying special positive ethical/sustainability criteria

AM3 SRI Oriented Shareholder Activity: Description of activities with companies invested in, where CSR issues either are raised in communications with board and management or explicitly considered when exercising shareholder rights

Exhibit 2. Supplemental Environmental Performance Indicators for Financial Services Sector

Management System

- F1** Description of environmental policies applied to core business lines
 - F2** Description of process(es) for assessing and screening environmental risks in core business lines
 - F3** State the threshold(s) at which environmental risk assessment procedures are applied to each core business line
 - F4** Description of processes for monitoring clients' implementation of and compliance with environmental aspects raised in risk assessment process(es)
 - F5** Description of process(es) for improving staff competency in addressing environmental risks and opportunities
 - F6** Number and frequency of audits that include the examination of environmental risk systems and procedures related to core business lines
 - F7** Description of interactions with clients/investee companies/business partners regarding environmental risks and opportunities
 - F8** Percentage and number of companies held in the institution's portfolio with which the reporting organization has engaged on environmental issues
 - F9** Percentage of assets subjected to positive, negative and best-in-class environmental screening
 - F10** Description of voting policy on environmental issues for shares over which the reporting organization holds the right to vote shares or advise on voting
 - F11** Percentage of assets under management where the reporting organization holds the right to vote shares or advise on voting
 - F12** Total monetary value of specific environmental products and services broken down according to the core business lines
 - F13** Value of portfolio for each core business line broken down by specific region and by sector
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Table 1. Measurement Scale

| | |
|----------------|--|
| Nothing = 0 | The report provides no information on the criteria. |
| Sketchy = 1 | Coverage suggests the company recognizes the criterion to some degree and is attempting to present it in a serious way. |
| Systematic =2 | Coverage suggests the company is taking the criterion seriously and is seeking to present the information systematically. Overall there is a sense that the company is on the right track in terms of satisfying the criteria. |
| Extensive = 3 | Coverage is serious and systematic, and does not suffer from major gaps in coverage, presentation or interpretation. |
| Integrated = 4 | Reporting is serious, systematic and extensive, and evidence is given that shows how reporting in this area is linked to general business decision-making and core processes to improve sustainable development effectiveness. |

Table 2. Comparison of US and Australian Financial Service Firms on Supplemental Social and Environmental Performance Indicators

| Indicator | US Firms | | | # of Firms | Australian Firms | |
|-----------|------------|------------|------|------------|------------------|------|
| | # of Firms | % of Total | Mean | | % of Total | Mean |
| CSR1 | 8 | 10.10% | 2.75 | 6 | 24% | 2.33 |
| CSR2 | 8 | 10.10% | 2.62 | 5 | 20% | 2.6 |
| CSR3 | 4 | 5.00% | 1.75 | 3 | 12.50% | 1.33 |
| CSR4 | 27 | 34.10% | 1.96 | 7 | 28% | 2.28 |
| CSR5 | 1 | 1.26% | 2 | 3 | 12.50% | 1 |
| CSR6 | 52 | 65.80% | 2.2 | 9 | 36% | 2.44 |
| INT1 | 8 | 10.10% | 1.75 | 7 | 28% | 1.14 |
| INT2 | 1 | 1.26% | 2 | 3 | 12.50% | 2 |
| INT3 | 8 | 10.10% | 1.75 | 7 | 28% | 1.14 |
| INT4 | 79 | 100% | 2.32 | 25 | 100% | 2.2 |
| INT5 | 1 | 1.26% | 1 | 3 | 12.50% | 1.33 |
| INT6 | 8 | 10.10% | 1.25 | 7 | 28% | 1.14 |
| INT7 | 1 | 1.25% | 2 | 3 | 13% | 1.66 |
| SOC1 | 17 | 21.50% | 1.81 | 8 | 32% | 2.75 |
| SOC2 | 1 | 1.26% | 2 | 3 | 12.50% | 1 |
| SUP1 | 5 | 6.30% | 1.2 | 3 | 12.50% | 1 |
| SUP2 | 1 | 1.26% | 2 | 3 | 12.5% | 1 |
| AM1 | 1 | 1.26% | 2 | 3 | 12.5% | 1.66 |
| AM2 | 1 | 1.26% | 2 | 3 | 12.5% | 1.33 |
| AM3 | 1 | 1.26% | 2 | 3 | 12.5% | 1 |
| F1 | 1 | 1.26% | 2 | 3 | 12.5% | 1.66 |
| F2 | 1 | 1.26% | 2 | 3 | 12.5% | 1.66 |
| F3 | 1 | 1.26% | 2 | 3 | 12.5% | 1.33 |
| F4 | 1 | 1.26% | 2 | 3 | 12.5% | 1.33 |
| F4 | 1 | 1.26% | 2 | 3 | 12.5% | 1.33 |
| F5 | 1 | 1.26% | 2 | 3 | 12.5% | 1.33 |
| F6 | 1 | 1.26% | 2 | 3 | 12.5% | 1.33 |
| F7 | 1 | 1.26% | 2 | 3 | 12.5% | 1.33 |
| F8 | 1 | 1.26% | 2 | 3 | 12.5% | 1.33 |
| F9 | 1 | 1.26% | 2 | 3 | 12.5% | 1.33 |
| F10 | 1 | 1.26% | 2 | 3 | 12.5% | 1.33 |
| F11 | 1 | 1.26% | 2 | 3 | 12.5% | 1.33 |
| F12 | 1 | 1.26% | 2 | 3 | 12.5% | 1.33 |
| F13 | 1 | 1.26% | 2 | 3 | 12.5% | 1.33 |

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