Corporate Social Responsibility Reporting:  
Linkages in New Zealand

Abstract:

Using triple bottom line (TBL) reporting as a surrogate for the concept of corporate social responsibility (CSR), we investigate New Zealand Stock Exchange firms from 2000 through 2003 for linkages with CSR. We find a (weakly) positive relationship between the number (percentage) of independent directors on the board of a company and the amount of CSR-reporting in support of the hypothesis that having more independent directors on the board of a company increases the amount of TBL reporting. While no significant relationship between CSR-reporting and profitability is found, there is evidence of a size effect with larger firms reporting more than smaller firms. The size- and independent director-linkages indicate that firms that are larger and more ‘connected’ to the wider society are embracing the growing CSR-reporting trend without linkages to profitability. We interpret this to imply that the recent increase in CSR-reporting will continue since no financial harm (or benefit) seems to be linked to this activity. Shareholders will be neutral financially and some may also find emotional meaning in the increasing amounts of reporting.

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Corporate Social Responsibility: More Pages To Read In New Zealand With Doubtful Links To Profitability

Introduction

The area of ‘corporate social responsibility’ is being addressed by more and more businesses, including those in New Zealand. Corporate social responsibility (CSR henceforth) refers to a companies concern for their social, environmental and ethical affect on stakeholders. CSR suggests that it is important for firms to ‘maximise shareholder wealth’ in a socially, environmentally friendly way. It is a topic in the lime-light particularly because of the recent corporate accountability failings involving companies such as Enron. The New Zealand Stock Exchange has demonstrated their support for CSR and accountability through a related issue – corporate governance reforms, and this paper will check for linkages between CSR-reporting and independent directors. Proposed listing rule changes based on a ‘Corporate Governance Best Practice Code’ include the requirement for boards to have a minimum number of independent directors. (The ASX proposed that the majority of board members should be independent). The theory is that independent directors are more likely to represent ‘minority stakeholder groups’. It is apparent that the public are also pressuring companies to be accountable, and it is becoming less acceptable for companies to focus solely on ‘maximising shareholder wealth’. The New Zealand Securities Commission’s Corporate Governance in New Zealand Principles and Guidelines (2004) states:

2. Board Composition and Performance

Principle: “There should be a balance of independence, skills, knowledge, experience, and perspectives among directors so that the board works effectively”

Guideline 2.1: “Every issuer’s board should have an appropriate balance of executive and non-executive directors, and should include directors who meet formal criteria for “independent directors”.”

As quoted in Port of Tauranga’s 2003 annual report (www.port-tauranga.co.nz):

“The survey included in the previous annual report showed that shareholders were extremely positive about our move to sustainability reporting. We are continuing to
develop and follow this practice, which we believe is fully appropriate at a time when
the investment world is increasingly looking for the highest standards of corporate
behaviour and responsibility” (Port of Tauranga annual report, 2003, p. 5).

Many companies in New Zealand have started reporting on their actions in such areas, making
use of ‘triple bottom line’ reporting. Triple bottom line reporting (TBL henceforth) involves
reporting on three key areas of a company’s activities. These include ‘social and people’
responsibilities, ‘planet and environmental’ responsibilities’, and ‘profits and financial’
responsibilities (as categorised on Hubbard’s website, www.hubbards.co.nz ). Many
advocates of CSR believe that firms can increase their profitability by adopting the TBL
reporting and accountability standards suggested. This paper begins addressing the question
of whether CSR (as measured by TBL reporting) is connected to the profitability of firms in
New Zealand.

This study aims to answer three main questions concerning New Zealand firms and CSR.

Question One:
• Is there a relationship between the number (percentage) of independent directors on
  the board of a company and its observable levels of CSR (as measured by the amount
  of TBL reporting)?

It is hypothesised that having more independent directors on a board translates into greater
amounts of TBL reporting. The second and third questions focus on the profitability of TBL
reporting.

Question two:
• Is the profitability of a company affected by its levels of TBL reporting?

It is proposed that a positive relationship exists between the profitability of a firm and its
amount of CSR (measured by TBL reporting)

Question three:
• Does the profitability of firms that have some measure of TBL reporting differ from
  the profitability of their counterparts who do not report any TBL?

It is anticipated that companies who utilise some degree of TBL reporting experience greater
profitability than their counterparts. The following section motivates these questions.

LITERATURE REVIEW
An abundance of research concerning CSR has developed over the years. This research can be categorised into four main streams, as suggested by Ibrahim, Howard & Angelidis (2003). The first stream incorporates research which develops conceptual models to assist in analysing the relationship between businesses and their larger environments. Examples of such studies are McMahon (1986) and Carroll (1979). The second stream consists of studies which examine the attitudes of senior management towards corporate social responsibility (refer to Ford and McLaughlin, 1984; Frederick, 1983 for examples). The third stream looks at how board member characteristics affect their individual CSR orientation (Ibrahim & Angelidis, 1995; Kelley, Whatley & Worthley 1987). The final stream examines the link between a firm’s social responsibility and its financial performance.

The third and fourth streams relate most specifically to this investigation, and will now be examined in more detail. Ibrahim & Angelidis (1995) examine board member characteristics and CSR orientation. They find significant differences between the CSR orientation of outside (independent) and inside directors. In their study with Howard (2003), they directly measure the CSR orientation of board members in the service industry. They find support for the common conjecture that outside (independent) directors have a greater orientation towards corporate social responsibility than inside directors. This finding is supported by a number of other studies, and by reforms attempting to increase the social responsiveness of firms through increasing their number of outsiders (independent directors), as also evidenced in New Zealand. Ibrahim, Howard & Angelidis (2003) do not examine the amount of CSR observable within firms with different board member characteristics, rather they focus on director orientation.

Aupperle, Carroll & Hatfield (1985) offer a comprehensive summary of studies examining corporate social responsibility and profitability from the years 1972 to 1979. The methods and findings of these studies vary significantly. Their own study is survey based and utilises Carroll’s (1979) construct. They find no significant relationship between CSR and profitability. A more recent study in this field by Orlitzky (2001) integrates three meta-analyses to combine an array of research. The focus of Orlitzky’s paper is to find out whether firm size confounds the relationship between CSR and profitability. It is concluded that firm size does not affect the relationship, as a positive correlation still exists when firm size is controlled for. Murphy (2002) examines whether the ‘best’ corporate citizens perform better financially. The average three year shareholder return of 100 companies well known for their
‘superior corporate citizenship’ is compared to the performance of the rest of the S&P500. A strong link is found between ‘superior corporate citizenship’ and superior financial performance. Simpson & Kohers (2002) find a positive link between social and financial performance when they examine the banking industry. All of these studies use US or Australian data samples.

Unerman (2000) examines methodological issues involved in quantifying corporate social reporting. His work can be included as part of the first stream. Unerman offers an interesting discussion on the use of annual reports as a data source to measure CSR. He comments that most CSR content analysis studies only analyse annual reports. Reasons for this include the high degree of credibility of the information they provide (Tilt, 1994), their role as sole sources of specific information for certain stakeholders (Deegan & Rankin, 1997), and their availability. A quote from Neimark (1992) offers further support for the use of annual reports as a suitable data source to gain insight into a company’s situation:

“In preparing the annual report, a company’s management makes choices about the issues and social relationships they consider sufficiently important or problematic to address publicly. The annual report presents the world of corporate concerns in microcosm; it is a repository that is both comprehensive and compact. Moreover, because annual reports are regularly produced, they offer a snapshot of the management’s mindset in each period; before they have had too much time to reflect on or fully digest the events they are describing and/or trying to influence… the preparers of the annual report do not have the benefit of hindsight nor an extended period of reflection, and are thus caught up in the moods and passions of their time (Neimark, 1992, p. 100-1).

Unerman studies the measurement of CSR reporting. He concludes that while the measurement of sentences of CSR reporting can be calculated with greater precision, the measurement of proportions of a page produce more relevant results. Reasons for this include the differences in grammar and font type that page proportions can surpass, and the inclusion of charts and pictures in such a measure. An important point raised by Unerman is that a key assumption of quantitative CSR research is that the quantity of disclosure signals the importance of the item being disclosed (Deegan & Rankin, 1996; Krippendorff, 1980).
This paper builds on the studies of others, and adds a New Zealand perspective to the effect of CSR on firm profitability. This paper adopts the suggestion for future research made by Ibrahim, Howard, & Angelidis (2003); one of its aims is to determine whether a director’s orientation toward CSR translates into corporate action. Ibrahim, Howard & Angelidis (2003) find that outside (independent) directors are more sensitive to altruistic needs, because they are outsiders. This study builds on this finding by measuring the amount of CSR observable within firms in relation to its number (and percentage) of independent directors. While more refined measures such as usage of CSR board committees and the auditing of CSR reports may add deeper understandings, we are limited in this study by the available data. Further, this study measures the relationship between CSR and profitability, using a New Zealand based data sample. Based on the points made by Unerman and others concerning methodological issues, this study implements the ‘proportions of a page’ technique of measuring CSR in annual reports, assuming also that the quantity of disclosure signals the significance of the item disclosed.

DATA
This study examines the annual reports of New Zealand firms listed on the New Zealand Stock Exchange (NZX) over the years 2000 to 2003. The names of all NZX firms listed as at May 2004, and their industry classification, are sourced from the NZX website (www.nzx.com). The focus is on annual reports for reasons mentioned above (Section 2.1), and the fact that in New Zealand annual reports are one of the few corporate reports that are publicly available. The measurement of TBL reporting does however include any separate ‘environmental / TBL’ reports sent out with annual reports to shareholders. There are 6 instances of this happening, and on each occasion the number of pages of the additional report is added on to the total number of pages of the annual report. (The measurement of TBL-reporting is discussed below.) Annual reports are initially sourced from the website of a firm, and if unavailable there, from (www.companies.govt.nz), the New Zealand Companies Office website.

Variables analysed include the size, industry, use of independent directors, amount of TBL reporting, and the profitability of each firm for each year. Total assets proxy for the size of the firm. Two measures are used concerning independent directors; both the absolute number of independent directors, and the percentage of independent directors. Thus the number of outside directors and total number of directors are gathered from each report. The amount of
TBL reported is also measured in two forms: the absolute amount of pages (total proportions) and the percentage of the report devoted to TBL reporting (total proportions divided by the overall number of pages of the report, multiplied by 100). Reports are scanned from cover to cover for statements, pictures and general information regarding the firms social, people, planet and environmental actions / responsibilities. ‘Social and people’, and ‘planet and environmental’ reporting, though measured separately, are analysed together. This lessens the affect of industry on the amount of TBL reporting in any of the areas. Firms in the forestry industry are likely to have more environmental reporting than firms in industries such as media and communications or investment. The nature of business dealings in media and communications industries is less likely to involve the environment. Yet firms in such an industry may demonstrate more community involvement and staff initiatives.

Three proxies are used to represent firm profitability. These consist of the percentage change in the firms’ gross market capitalisation (GMC), the firms’ net operating margin (NOM), and the firms’ cash flow to price ratio (CTP), between years. GMC data for 31st December of report year is sourced in index form from First NZ Capital’s Excel database (information originally sourced from Reuters). The net operating margin is calculated as:

\[
\frac{\text{Net Operating Income}}{\text{Total Revenue}} \times 100
\]

The ‘net operating income’ equals income after operating expenses, before income tax and interest. The cash flow to price ratio consists of cash flow for the year ended as in the report date (e.g. 31st March 2003), divided by market equity for 31st December of the report year (e.g. 31st December 2003). Cash flow is measured as ‘total earnings before extraordinary items, plus equity’s share of depreciation, plus deferred taxes where available’. ‘Equity’s share of depreciation’ equals ‘equity’s share’ (say 0.49) multiplied by the depreciation figure. Equity’s share is defined as:

\[
\frac{\text{ME}}{\text{Total Assets} - \text{BE} + \text{ME}}
\]

‘ME’ stands for market equity, and ‘BE’ for book equity. Market equity is sourced from First NZ Capital’s Excel database (information originally sourced from Reuters), and from ‘DataStream’ database.

A point must be made concerning the disclosure of the amount of independent directors on a board. The proposal of listing rule changes by the NZX include a definition of an independent
director, and the suggestion that listed companies should report the number of independent
directors on their board. With this proposal, the number of companies reporting the amount of
independent directors on their board significantly increased (from 2 companies in 2000 to 27
companies in 2003). However many companies do not yet report this measure. The sample is
likely to include a significant number of firms which have not mentioned but do in fact have
one or more independent directors on their board.

Table 1 shows the final sample used, as affected by data availability.

<table>
<thead>
<tr>
<th>Table 1. Initial Sample, and Final Sample Used</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number of firms from the NZX list</td>
</tr>
<tr>
<td>- Less 63 with no index / classified as ‘overseas’</td>
</tr>
<tr>
<td>- Less 42 without reports for all the years 2000, 2001, 2002, 2003</td>
</tr>
<tr>
<td>- Less 7 with only ‘financial statements’ available (no TBL, ID)</td>
</tr>
<tr>
<td>-  Total number of firms</td>
</tr>
<tr>
<td>Multiplied by four years of observations - Total number of observations</td>
</tr>
<tr>
<td>- 11 ‘observations’ with ME data unavailable</td>
</tr>
<tr>
<td>- 20 ‘observations’ with Gross market capitalisation data unavailable</td>
</tr>
</tbody>
</table>

METHODOLOGY

Question One

- Independent Directors and CSR (as measured by TBL reporting)

Spearman’s ‘Non-Parametric Test for Rank Correlation’ is employed to answer research
question one. The variables focused on for this question are the number and percentage of
outside (independent) directors, and the absolute amount of TBL and percentage of TBL in
the total report. Observations are separated into four groups, irrespective of the year and
cOMPANY they belong to. These four groups and their count are as follows:

Table 2.

Observations separated according to TBL reporting and independent director reporting
The last group (where observations include both TBL reporting and director reporting) is analysed using Spearman’s Rank Correlation test. This test measures the strength of association between two variables (Spearman 1904). The null hypothesis is that no correlation exists between the ranked pairs, i.e. in this case the null hypothesis proposes no relationship between the number of independent directors and the amount of TBL reporting. Four Spearman tests are carried out. The absolute number of independent directors is compared with the absolute amount of TBL reporting, the percentage of outside directors on the board is compared with the total percentage of the reported dedicated to TBL reporting, and vice versa.

**Question Two**

**Profitability and Quantity of TBL reporting**

To answer research question two, the 65 observations with TBL reporting are examined. Because the profitability proxies (percentage change in gross market capitalisation, net operating margin and cash-flow to price ratio) are related to the quantity of TBL reporting in the year prior, the 95 observations with TBL reporting shown in question one (71 + 24) reduces to 65. For example, the percentage change in profitability measures the change between 2000-2001, 2001-2002 and 2002-2003, and these changes are related to the TBL reporting in 2000, 2001 and 2002 respectively. The size of firms is not considered in this section of analysis, because the profitability is measured in percentage change and not absolute values. Observations are not being matched to each other.

The observations reporting TBL are analysed with the use of the Spearman Rank Correlation test described earlier. The absolute number of TBL reporting pages is compared with each of the three profitability measures, followed by the comparison of the percentage of TBL reporting with each profitability measure, for each industry group. Observations are grouped according to industry to hold constant for any industry affects on profitability. The overall relationships (irrespective of industry) are also examined.
Based upon the NZX industry classifications there are 13 groups, some with a very small sample size. To improve the usefulness of the observations, like industries are grouped together, reducing the number of industry groups to seven as shown in the table below.

Table 3. Industry Re-grouping

<table>
<thead>
<tr>
<th>Code</th>
<th>Industry Description</th>
<th>Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>AF+FOR+FBV+MNG</td>
<td>Agriculture &amp; Fishing, Forestry, Food &amp; Mining</td>
</tr>
<tr>
<td>B</td>
<td>BMC+IND</td>
<td>Building, &amp; Intermediaries &amp; Durables</td>
</tr>
<tr>
<td>C</td>
<td>CON+TA</td>
<td>Consumer, &amp; Textiles &amp; Apparel</td>
</tr>
<tr>
<td>D</td>
<td>ENE</td>
<td>Energy</td>
</tr>
<tr>
<td>E</td>
<td>FIN+INT+PTY</td>
<td>Finance &amp; Other Services, Investment, &amp; Property</td>
</tr>
<tr>
<td>F</td>
<td>LEI+MT</td>
<td>Leisure &amp; Tourism, and Media &amp; Communications</td>
</tr>
<tr>
<td>G</td>
<td>PORT+TRN</td>
<td>Ports &amp; Transport</td>
</tr>
</tbody>
</table>

Question Three

- Profitability with TBL reporting vs. Profitability with no TBL reporting

The analysis to answer question three involves separating the observations into two groups - those that report TBL and those that do not report TBL. Again, the 95 TBL observations reduces to 65 (66 for GMC and NOM), and the 209 non-TBL observations reduce to 153 (162 for NOM) because of the matching of profitability to TBL reporting as explained in the methodology for question two.

Once these observations are separated, they are broken down into industry groupings (again as described for question two), and then broken down further according to size. The observations are separated into three size groupings within each industry, group ‘a’ (with total assets of $500 million and above), group ‘b’ (100m < X < 500m) and group ‘c’ (<100m).

The TBL groups are then matched with their non-TBL counterparts – those in the same industry and size grouping but without any TBL. A ‘two sample t-test’ (assuming unequal variance) is then run to test the difference between the mean profitability of the two matched groups; where two groups exist that have enough observations. For example, in Industry A,
size group b, there are 12 observations with TBL and 8 without. The mean profitability of the two groups is compared with the t-test for each of the profitability measures.

RESULTS

Question One

- Independent Directors and CSR (as measured by TBL reporting)

<table>
<thead>
<tr>
<th>Variables</th>
<th>$R^2$</th>
<th>n</th>
<th>Test stat (Rs) at 5% level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of ID vs. TBL pages</td>
<td>0.42</td>
<td>24</td>
<td>0.409</td>
</tr>
<tr>
<td>% of ID vs. % TBL</td>
<td>0.39</td>
<td>24</td>
<td>0.409</td>
</tr>
<tr>
<td>Number of ID vs. % TBL</td>
<td>0.322</td>
<td>24</td>
<td>0.409</td>
</tr>
<tr>
<td>% of ID vs. TBL pages</td>
<td>0.542</td>
<td>24</td>
<td>0.409 (0.537 at 1% level)</td>
</tr>
</tbody>
</table>

As table 4 above shows, the majority of results suggest a weakly positive relationship between the number (and percentage) of independent directors on a firm’s board and the amount of CSR as measured by TBL reporting. It is interesting that the percentage of independent directors’ measure and the absolute amount of TBL reporting pages should be more significantly positively correlated than any other measures. This may imply that when the majority of a board’s directors are independent, they have more say over how and what the firm reports. So the amount of TBL reporting increases, thus demonstrating the greater
orientation of independent directors toward CSR as shown by Ibrahim, Howard & Angelidis (2003). In general, because the results above range from 0.39 to 0.542, it is safe to assume that a weakly positive relationship exists which is very close to being considered a strong positive relationship.

4.2 Question Two

- Profitability and Quantity of TBL reporting

<table>
<thead>
<tr>
<th>Industry Group</th>
<th>N</th>
<th>Testable using % TBL?</th>
<th>$R^2$ for GMC</th>
<th>$R^2$ for NOM</th>
<th>$R^2$ for CTP</th>
<th>Test stat (Rs) at 5% level</th>
<th>Significant?</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>19</td>
<td>Yes</td>
<td>0.23</td>
<td>0.01</td>
<td>0.09</td>
<td>0.475</td>
<td>No</td>
</tr>
<tr>
<td>B</td>
<td>6</td>
<td>No</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>C</td>
<td>6</td>
<td>No</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>D</td>
<td>6</td>
<td>No</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>E</td>
<td>15</td>
<td>Yes</td>
<td>-0.25</td>
<td>0.14</td>
<td>-0.24</td>
<td>0.544</td>
<td>No</td>
</tr>
<tr>
<td>F</td>
<td>5</td>
<td>No</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>G</td>
<td>8</td>
<td>No</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>65</td>
<td>Yes</td>
<td>-0.08</td>
<td>0.06</td>
<td>-0.06</td>
<td>0.364*</td>
<td>No</td>
</tr>
</tbody>
</table>

* For n = 30

It is clear from the table above that the results suggest the presence of a weakly positive or weakly negative relationship between profitability and the quantity of CSR, as measured by TBL reporting. None of these results are significant at the 5% level, and so it is appropriate to accept the null hypothesis – that no significant relationship exists for this sample between profitability and the quantity of TBL reporting a firm undertakes. (Though not reported above, the results are very similar when using the absolute amount of pages of TBL reporting). It is unfortunate that the small sample sizes created when data is separated by industry prevent analysis within most industry groups. It is positive however that the results for the total sample of 65 observations support those found in those industries that are examined.

4.3 Question Three

- Profitability with TBL reporting vs. Profitability with no TBL reporting

Table 7 Sample Distribution by Industry and Size
<table>
<thead>
<tr>
<th>Size (Sm)</th>
<th>Industry:</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
<th>G</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt;500</td>
<td>TBL?</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>100–500</td>
<td></td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>&lt;100</td>
<td>a</td>
<td>2</td>
<td>8</td>
<td>0</td>
<td>3</td>
<td>0</td>
<td>4</td>
<td>6</td>
<td>9</td>
</tr>
<tr>
<td></td>
<td>b</td>
<td>12</td>
<td>8</td>
<td>0</td>
<td>1</td>
<td>4</td>
<td>1</td>
<td>1</td>
<td>17</td>
</tr>
<tr>
<td></td>
<td>c</td>
<td>5</td>
<td>11</td>
<td>0</td>
<td>16</td>
<td>2</td>
<td>23</td>
<td>4</td>
<td>30</td>
</tr>
<tr>
<td></td>
<td>TOTAL</td>
<td>19</td>
<td>20</td>
<td>8</td>
<td>16</td>
<td>6</td>
<td>27</td>
<td>5</td>
<td>4</td>
</tr>
</tbody>
</table>

An interesting feature of the sample distribution table above is that firms that report TBL tend to be in the largest size category (a), i.e. they have total assets over $500 million. Firms that do not report TBL however tend to be in the smallest size category, with total assets under $100 million. The table also shows what industry and size group the biggest groups’ are in, and where no matched pairs or groups exist at all.

**Table 8**  **Significant variables at the 10% level or better**

<table>
<thead>
<tr>
<th>Profitability</th>
<th>Mean GMC</th>
<th>Mean CTP</th>
</tr>
</thead>
<tbody>
<tr>
<td>TBL? Size</td>
<td>P Value</td>
<td>P Value</td>
</tr>
<tr>
<td>Industry</td>
<td>Yes (n)</td>
<td>No (n)</td>
</tr>
<tr>
<td>C</td>
<td>c</td>
<td>46.51% (2)</td>
</tr>
<tr>
<td>F</td>
<td>a</td>
<td>14.09% (4)</td>
</tr>
<tr>
<td>G</td>
<td>a, Total</td>
<td>34.31% (4)</td>
</tr>
</tbody>
</table>

As table 8 shows, there are few means found to be significantly different between the two groups. Of those that are, there is little consistency as to why they are significantly different (with 90% or more certainty of a difference). Although all the TBL means are positive, not all of them exceed that of the non-TBL mean (e.g. industry F, size group a). Overall, only 4 P Values are significant out of the total 54 P Values calculated. This suggests that there is no relationship between the profitability of firms that use TBL reporting and firms that do not use TBL reporting. However, the sample size for many of the categories is rather small, which limits their usefulness.

**5  SUMMARY OF FINDINGS**

Analysis of the data sample in this study suggests that the answer to research question one is yes: a (weakly) positive relationship exists between the number (percentage) of independent directors on the board of a company and the observable levels of CSR by the company (as measured by TBL reporting). The evidence supports the hypothesis that having more
independent directors on the board of a company increases the amount of TBL reporting undertaken. However, as mentioned earlier, the sample of independent directors is made up of those who chose to report on this area of their board composition. The evidence appears to supports the assumption posed earlier that firms who disclose their number of independent directors are in general more focused on the area of CSR and accountability than other firms.

This study finds no significant relationship between CSR-reporting and a firm’s profitability, similar to Aupperle, Carroll & Hatfield (1985). The answer to the second research question based on the evidence is no: the profitability of a company is not linked to increasing the amount of TBL reporting. If one believes the quantitative CSR assumption mentioned earlier that ‘the quantity of disclosure signals the importance of the item being disclosed’, these findings could be taken to imply that a company signalling the importance it places on CSR issues by disclosing a higher quantity of CSR information does not have a positive or, importantly, a negative affect on the profitability of a company. The hypothesis that a relationship exists between a firm’s profitability and its amount of CSR cannot be supported based on these findings. Leading on from this, the answer to question three is consistent with that of question two in that no significant relationship is found between profitability and CSR-reporting for either measure used. According to the results of this study, the profitability of firms that incorporate some degree of TBL reporting does not generally differ from the profitability of their non-TBL reporting counterparts (as measured by industry and size). The evidence suggests the hypothesis that firms who utilise some degree of TBL reporting experience different profitability than their counterparts may also be refuted. The sample distribution of question three provides evidence that TBL reporting firms tend to be larger firms. Further study is needed here nevertheless, with more statistically sound sample sizes and more comprehensive research methods as the data will allow.

6 DISCUSSION OF FINDINGS AND CONCLUSION

The lack of a link to profitability may be seen as good news for those who believe that CSR is simply an excuse for handing out shareholders’ money without their say-so. But there’s another way to look at the findings. CSR doesn’t appear to make firms more profitable, but neither does it make them less profitable. So while there’s no compelling financial reason to adopt triple bottom line reporting; there’s also no compelling reason not to. This looks a lot like the Merger and Acquisition market. There, too, we see managers (of the acquiring firms)
undertake activity (buying other firms) that does not help (nor hurt, too much) the wealth of the shareholders. So they continue to do it because the society at large benefits.

Operations with triple bottom line reporting tend be larger, with assets in excess of $500 million. Big companies have reputations to maintain, they’re more visible and they have a bigger impact on their community, so for them it seems clear that more transparency (or, rather, reporting) is appropriate. But this doesn’t mean that smaller companies are out to fleece their customers and shareholders, and wreck the environment. It may just mean that they’re working from the heart, quietly doing their bit for their community without all the fanfare, without spending resources reporting on their efforts. Small and medium-sized enterprises (SMEs) are well known as businesses that put their connected values (with employees, customers, and suppliers) high on their priority list, yet they do not formally report on the nature or the value of these networks and relationships.

If there’s no obvious link between CSR-reporting and making money, then what should we make of this trend toward heart-driven activities of companies? With our results indicating no relationship to profitability, it seems likely that CSR related activity (and reporting) will continue to increase as it reflects the belief of the managers that connected values are important. This is especially so for larger firms. At the very least, these firms could well argue that they manage to avoid loosing good will and ‘connected’ relationships by engaging in CSR (and CSR-reporting). ‘Not loosing’ money is a good thing, and often a difficult task in a changing environment.

It turns out, then, to be true that the number of independent directors in New Zealand is related to the amount of CSR-reporting (but only just barely significant). The lack of connection to profitability can have many meanings. It could mean that many firms are CSR active, and just do not report (SMEs being a good example of this). Therefore, those who do report are not significantly different, they are just reporting more. It could mean that the market does not value CSR-reporting, but it could also mean that CSR-reporting prevents a loss in profitability – especially for larger firms.

Finally, we are left observing that the CSR-related activity (not always reported) is increasing. We see that such reporting may not add value, but it may prevent a loss. And we see the very real possibility that the connected values, a heart (?), which have been long evident in the
SME sector are now emerging in the publicly listed arena. Should consumers continue to care about social responsibility without necessarily expecting to have to pay more for the expectation, being socially responsible may increasingly become the normal way of doing business. This study concludes that the CSR-reporting trend is not apparently related to profitability in New Zealand, but this does not imply that these companies are any more or less ‘responsible’ than those that do not report.

**Reference List**


