Corporate Social Responsibility. Strategy for sustainable business success. An analysis of 20 selected British companies.

Odemilin, E.G., Samy, M., Bampton, R.

Leeds Metropolitan University

Corresponding author: Dr Martin Samy, Senior Lecturer, Leeds Business School, Leeds Metropolitan University, Leeds LS1 3HE, m.a.samy@leedsmet.ac.uk, Telephone: 07858828849 (mobile)

CORPORATE SOCIAL RESPONSIBILITY: A STRATEGY FOR SUSTAINABLE BUSINESS SUCCESS. AN ANALYSIS OF 20 SELECTED BRITISH COMPANIES.

Type of paper: Research paper

Purpose of this paper: This study attempted to prove that strategically investing in corporate social responsibility (CSR) will maximize profits while satisfying the demands from multiple stakeholders.

Design methodology of paper: Quantitative analysis and exploratory approach. This paper studies the CSR practices of 20 selected UK companies. The analysis of CSR policies is based on the Global Reporting Initiative (GRI) guidelines. The analysis took a further step in examining the trends of earnings per share (EPS) of the selected companies.

Findings: The findings revealed that out of the 20 selected companies, only 4 achieved all six guidelines as per the GRI. In regression analysis of the variables CSR and EPS, a very weak (causal) but positive relationship was evident (R^2 = 0.147).

Research limitations: The study was applied to 20 selected companies in the UK. Future research should be extended to a larger sample in order to analyse the strength of the relationship between EPS and CSR. The study applied variables of CSR based on GRI. Other measures may reveal different insights.

Practical Implications: In the strategic sense, CSR investments are not just another business cost but are essential for a firm's continued survival in the ever increasingly competitive business world of today. This understanding is crucial as there is an escalation of concern by both society and corporations in the modern world. More so, it is increasingly and widely accepted that attempting to isolate business from society is unrealistic and that dichotomising economic and social objectives as distinct and competing is false.

Originality: The paper applies the variable EPS and seeks to establish a relationship with the CSR as measured according to the GRI.

Keywords: EPS, GRI, Corporate Social Responsibility, Profit and CSR, Stakeholder.

Introduction

Recent years have seen the concept of corporate social responsibility gain prominence among academics from a wide range of disciplines (Dentchev, 2005). The strategic challenge to businesses of today, however, is how to become socially and environmentally sustainable alongside immediate business issues of survival, competition and development (Crosbie and Knight, 1995). One such strategy involves the business being socially responsible; which is believed to present an opportunity to build competitive advantage, increase market share and open new markets.

The UK government has a vision for businesses to consider the economic, social and environmental impacts of their activities and act to address the key sustainable development challenges based on their core competencies wherever they operate in the world. It sees CSR as beneficial for society and businesses and believes that better understanding of the potential benefits of CSR for the competitiveness of individual companies can lead to enormous returns on investment. This viewpoint was further evidenced when the UK government appointed a CSR minister in March 2000. This appointment strongly supported the increased significance of CSR policies across government departments and the private sector (DTI, 2004). In conjunction with organisations committed to enhancing the performance of businesses in developing competencies in social accountability and sustainable development, they have worked on projects looking at the links between CSR / sustainability and business performance (www.csr.gov.uk, 2006). Businesses can maximize their long-term returns by minimizing their negative impacts as evidenced from their voluntary reporting on CSR sustainability performance (Halabi, et al. 2006).

In examining CSR from a strategic point of view, the use of CSR must be *'genuine as an impact-management strategy at the core of the business'* (Hazlett et.al,, 2007, p.669). Mintzberg (1978, p.12) opines that in particular, strategic management supports that;

"the strategic decisions of large organisations inevitably involve social as well as economic consequences, inextricably intertwined…there is no such thing as a purely economic strategic decision."

Although some firms have committed to investments in CSR through the allocation of more resources, other companies have resisted. This could, at least in part, be because of the debate on whether a corporation should go beyond maximizing the profit of its owners as the only social responsibility of business, to being accountable for any of its actions that affect the people, communities and environments in which they operate (Clutterbuck et al., 1992). This is a topical issue in today's business world involving interests from various organisations, NGO's, Human rights activists and governments alike. Furthermore, several arguments have arisen on whether there really is an association between CSR and financial performance, e.g. several studies undertaken in the 1970's and 1990's revealed contradictory findings as to whether there is an association or causal relationship (Belkaoui, 1976: Anderson and Frankle, 1980). The results from a study of 56 large British companies showed a weak correlation and lacked overall consistencies in the findings (Balabanis et al., 1998).

The main objective of this research therefore, is to see if business can be sustainable through the use of corporate social responsibility as a strategic tool for business sustainability and profitability. Business success will be measured by financial performance. Although there has been no consensus on an effective measure(s), some researchers such as Balabanis et al., (1998) have made use of stock – market based indicators and accounting indices such as price earnings ratio (P/E RATIO), return on assets (ROA) and price per share measure or share price appreciation index. The research methodology of this paper looks at a regulatory international accounting standard requirement of reporting performance i.e. earnings per share (EPS) as a variable to examine its relationship to CSR reporting measurement as per Global Reporting Initiative (GRI) indices of 20 selected UK corporations.

The resultant research questions therefore, include:

RQ1 To examine the extent of the corporate social responsibility (CSR) policies of twenty (20) selected UK companies

RQ2 To examine if there is a causal relationship between earnings per share and the corporate social responsibility (CSR) policies of twenty (20) selected UK companies.

The rationale for this study is justifiable as there is a growing perception among enterprises that sustainable business success and shareholder value cannot be achieved exclusively through maximizing short-term profits, but instead through market-oriented but also responsible behaviour (Halabi et. al., (2006). Companies are aware that they can contribute to sustainable development by managing their operations in such a way as to enhance economic growth and increase competitiveness whilst ensuring environmental protection and promoting social responsibility, including consumer interests. As such, evidence of a relationship between strategic CSR and a firm's business success or its ability to take advantage of a good reputation for a going concern is therefore a significant issue for corporate management (Kotler and Lee, 2005). Refuting either of these assumptions would mean that businesses should be more cautious in investing in corporate social activities. However, proving the existence of relationships would encourage management to pursue such activities vigorously to increase shareholder value.

Literature review

Within the literature on corporate social responsibility, we can identify developments in our understanding as well as in business practice (Moir, 2001). Fredrick (1986 and 1994) identified corporate social responsibility as an examination of corporations' obligation to work for social betterment and refers this to as CSR1. According to Frederick (1994), the move to 'corporate social responsiveness' started from 1970, which he now calls CSR2. He defines corporate social responsiveness as the capacity of a corporation to respond to social pressures. He argues that the effect of the move from CSR1 to CSR2 is reflected from a philosophical approach to one that focuses on managerial action that is, will the organisation respond and how.

Frederick (1994) developed this analysis to include a more ethical base to managerial decision taking in the form of corporate social rectitude and termed this CSR3. He stated that the study of business and society needs an ethical anchor to permit a systematic critique of business's impact upon human consciousness, human community and human continuity. He went further to assert that CSR1 was normative and that CSR2 led to non-normative enquiry. Thus, the requirement for a moral basis provided a normative foundation for managers to take and make decisions in the area of CSR. Cannon (1992) discussed the development of corporate social responsibility via the historical development of business involvement leading to a post-war re-examination of the nature of the relationship between business, society and government. This traditional contract between business and society has changed over the years because of the addition of new social value responsibilities placed upon business. Some of these new social value responsibilities include: stricter compliance with local, state, federal, and international laws; social problems; human values; health care; pollution; quality of life; equal employment opportunities; sexual harassment; elimination of poverty; child care and elderly care; support of the arts and universities; and many others. Basically, each of these areas of social value responsibility can be placed in one or more of three broader categories or headings of social responsiveness, namely legal, moral ethical, and philanthropic.

The Harvard business review on corporate responsibility gathers the latest thinking on the strategic significance of CSR and concentrates on a concept of "corporate philanthropy". Companies such as AT&T, IBM and Levi Strauss, have joined forces to develop strategies that increase their name recognition among customers, boost employee productivity, reduce R&D costs, overcome regulatory obstacles and foster synergy among business units. In short, the strategic use of philanthropy has begun to give companies a powerful competitive edge (HBR, 2003).

Another perspective of corporate social responsibility is corporate social reporting. It can be argued that corporations have an ethical duty to disclose the impact their actions have on society. With the demise of state enterprises and the growing dominance of business in our everyday lives, there is a focus on management philosophy as there is a consensus that business thrives best under certain strategic and structural conditions (McIntosh et al, 1998). This gave rise to the concept of Corporate Governance, which is the system of laws, rules, and factors that control the operations of a company (Fisher and Lovell, 2006). Business advisors see it as a process of high-level control of an organisation. Corporate Governance is however not an abstract goal but exists to serve corporate purposes by providing a structure within which stockholders, directors and management can pursue most effectively and responsibly the objectives of the corporation.

Whether or not business should undertake CSR, and the forms the responsibility should take, depends upon the economic perspective that is adopted by the firm (Cozens, 1996). According to Moir (2001) those firms or organisations that adopt the neo-classical view of the firm believe that the social responsibility of any firm or organisation to be adopted is the provision of employment and payment of taxes. This view is reinforced by Friedman (1970, p.13):

"*Few trends would so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their shareholders as they possibly can.*"

Another view is that the firm or organisation following the behavioural theorists (Wartick and Cochran, 1985; Wood, 1991) holds the view that corporate social activity examines the political aspects and non-economic influence on managerial behaviour. Holmes (1976) stated that this view be extended to examine personal motivations, such as the Chairman's personal preferences or alternatively some of the critical perspectives associated with the exercise of power. This approach has two identifiable strands of development. The first is associated with some form of moral or ethical imperative that because business has resources, it is the duty or role of business to assist in solving social problems. To this regard, Holmes (1976 cited in Moir, 2001, pp23) in his study of executive attitude to social responsibility, found that the strongest response was that:

"…in addition to making profit, business helps to solve social problems whether or not business helps to create those problems even if there is probably no short –run or long-run profit potential".

Baker (2006) argues that proponents of CSR claim that it is in the enlightened self-interest of business to undertake various forms of CSR. A report by the World Business Council for Sustainable Development stated in its introductory section on Corporate Social Responsibility (WBCSD, 1999, pp 5) that:

"…business benefits… accrue from the adoption of a broader world view, which enables business to monitor shifts in social expectations and helps control risks and identify market opportunities. Such a strategy also helps to align corporate and societal values, thus improving reputation and maintaining public support."

This analysis is supported by a study in Australia of motivations by business for community involvement (CCPA, 2000). The study revealed that Australian businesses were experiencing a positive transition in expectations of its social role, but part of the reason was that this social role contributes to the continuing health and growth of business. The study pointed out that 75% of the companies surveyed favoured community involvement. The involvement was a way to maintain trust, support and legitimacy with the community, government and employees. In addition, the study found that a further 10 % of the companies claimed that community involvement is a way to put back without seeking a return and 10 % saw their social obligations as being met exclusively by returning value to their shareholders.

Europe's approach to corporate social responsibility is that business benefits from being more socially responsible and that this can help to build sales, the workforce and trust in the company as a whole. The objective is to build sustainable growth for business in a responsible manner (Moir, 2001). The World Business Council for

Sustainable Development (WBCSD, 1999 pp6) defined corporate social responsibility as:

"*The ethical behaviour of an organisation towards society* -----*management acting responsibly in its relationship with other stakeholders who have legitimate interest in the business"*

Basically, corporate social responsibility is how companies manage their business processes to produce an overall positive impact on society. However, what constitutes corporate social responsibility varies from company to company, as there have been conflicting expectations of the nature of companies' responsibility to society. For example, CSR is defined by Barclays Bank Plc, through the concept of 'responsible banking';

"*Responsible banking means making informed reasoned and ethical decisions about how we conduct our business, how we treat our employees and how we behave towards our customers and clients"* (Barclays. 2006).

Likewise, Tesco Plc's CSR policy includes using their strength to deliver unbeatable value, playing their part in local communities, working with their customers to help the environment and supporting good causes (Tesco, 2006).

<u>Stakeholder theory</u>

Several theories have been proposed to overcome the apparent incompatibility between profitability and social responsibility. This study however, goes further to discuss the responsibility of businesses not only to the owners of the business but also to the individual stakeholder groups connected to the business. It is therefore important to examine the theories that determine how and why companies undertake corporate social responsibility. These theories include: stakeholder theory, legitimacy theory and social contracts theory. This study looks at the stakeholder theory reasoning as the basis for contemporary thinking of corporations.

The term "stakeholder," like corporate citizenship, has much metaphorical value as it is aimed at diverting attention, both managerial and scientific from the term "stockholders" or from the general neoclassical attention to profit maximisation (Jawahar and McLaughlin, 2001). The stakeholder conceptualised the firm as an aggregation of groups or individuals who affect or are affected by the firm's activities (Freeman, 1984). The stakeholder view of the firm correctly describes organisations as an aggregation of groups or individuals with specific interests. Considering this interest as legitimate (Pava and Krauz, 1995) and with intrinsic value is a valid normative assumption in stakeholder theory (Werhane and Freeman, 1999). Moreover, without stakeholder support and stakeholder efforts, an organisation cannot contribute to the value chain (Freeman and Liedtka, 1991), and as a result the achievement of its objectives will remain unrealised as organisational performance is dependent on the determinants of stakeholder action i.e. stakeholder interests and stakeholder identity (Rowley and Moldoveanu, 2003).

For the purpose of this research, stakeholder theory is the accepted paradigm to explain why companies involve themselves in socially responsible activity as a strategy to maximize their long-term return on investment – sustainable business success, by recognising the importance of each stakeholder group and incorporating this knowledge into their corporate strategy. The need to satisfy the various stakeholder groups as major influences on the context within which businesses operate cannot be overemphasized and recognition of this has immeasurable bottom line and sustainable benefits for organisations (Halabi et al., 2006).

Previous research

A large number of empirical papers have examined in the past the relationship between social responsibility and corporate performance. Controversies about the link have however been debated since the mid 1970s and still have not resulted in a consensus. (Burke and Logsdon, 1996; McWilliams and Siegel, 2001). A significant proportion of previous research revealed that there is an adverse relationship between CSR and financial performance due to the additional costs associated with high investments in social responsibility. It is the belief that those profit opportunities forgone by investing in CSR will depress the profit of the organization (McGuire et al, 1988; Aupperle et al., 1985; Ullmann, 1985; Vance, 1975 cited in Dentchev, 2005).

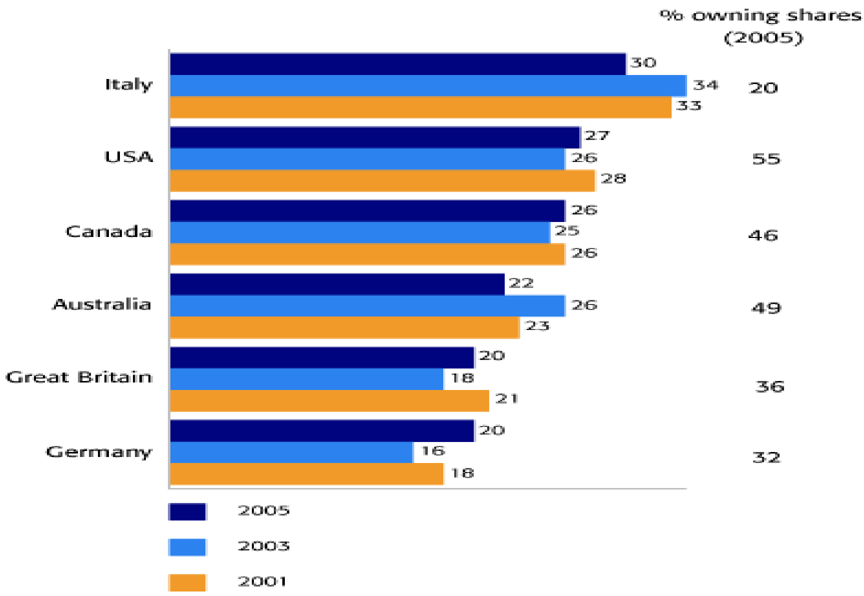
However, a much more significant proportion has similarly argued that corporations that are socially responsible obtain internal benefits that influence financial performance. For example, Curran (2005), in summarizing the available research on the effects of CSR on indicators of financial performance discovered that 24 of the 34 studies (70%) were positive. These studies showed a positive and statistically significant relationship between CSR and financial performance.

One of the most impressive researches done in this field is the rigorous and groundbreaking study that took place in October 2004 which won the Moskowitz Prize of the Social Investment Forum, an awarded for outstanding research in social investing. The research was undertaken by Orlitzky, Schmidt, and Rynes (2003). Their meta-analysis on Corporate Social Responsibility and Financial Performance was a compilation of 52 studies over 30 years. Their research showed that a positively and statistically significant association between corporate social performance and financial performance exists, which varies from highly positive to modestly positive.

However, due to varying and questionable measures of CSR, differences in measures of business success and research methodology used, there have been inconsistencies in studies of the association between CSR and corporate performance (Balabanis et al., 1998). Decisions have been inconclusive about whether the relationship between the two variables remains negative, positive or neutral.

Customers may favourably be disposed to products of firms seen to be socially responsible. In addition, they are more likely to believe that by consuming those products they are directly or indirectly supporting the CSR cause. In the UK alone, ethical consumer purchases, at a conservative estimate, made up over €14 billion in 2000 (Economist survey, 2005). In addition, research by Globescan (2007) showed that investors in developed countries do consider the social performance of companies when they make decisions about buying or selling shares (figure 1).

Figure 1 Share ownership made on the basis of the social performance of companies by country (n=2395, 2001-2005) Source: http://www.globescan.com/rf_csr_ethical_01.htm.



Therefore the CSR policies of companies could arguably make an impact to the bottom-line of companies as consumers and investors become more civic conscious.

The next section explains the methodology of the research which is followed by an analysis of the findings.

Methodology

According to Halabi, et al. (p.23, 2006), "*currently CSR reporting is voluntary, although with increase importance?*" The multiplicity of CSR measurement standards that exist globally poses problems for companies (Briggs and Verma, 2006). O'Rourke (2004) states that there are several measurement standards which includes Global Reporting Initiative (GRI) guidelines, AA 1000, ISO 14001, OHSAS 18001, Dow Jones Sustainability Index and the Domini Social index 400. However the Global Reporting Initiative (GRI) has emerged as one attempt to respond to these reporting debates and problems of measuring standard. WBCSD (1999) argues that the GRI report is a widely acceptable reporting guideline. GRI is a large multi-stakeholder network of experts represented by many countries who contribute to the development and continuous refinement of the reporting framework. The global networks of members participate in working groups and governance bodies (see: http://www.globalreporting.org/AboutGRI/WhoWeAre/).

O'Rourke (2004) stated that the GRI set the standard for sustainability reporting for all firms. As stated on the GRI (2007) website the vision

"… is that reporting on economic, environmental, and social performance by all organizations becomes as routine and comparable as financial reporting. GRI accomplishes this vision by developing, continually improving, and building capacity around the use of its Sustainability Reporting Framework."

The GRI is a variable used in the analysis of the relationship between CSR and financial performance. The GRI reporting guidelines are measured according to the reports on the following headings that companies would need to disclose:

I. economic
II. environmental
III. social
IV. human rights
V. society and
VI. product responsibility

The GRI Reporting Framework contains general and sector specifics which have been accepted by stakeholders globally to be generally applicable for reporting on an organisation's sustainability performance. The GRI is not merely a reporting indicator but goes beyond by adopting key performance indicators and for certain sectors it specifies core indicators. It has the principles of materiality, stakeholder inclusiveness, sustainability context and completeness.

For the purpose of this research, the dependent variable will be measured by financial performance. This research will base its measurement of business success on five years (5) earning per share ratio (EPS) of the selected 20 companies. The authors reached a consensus that due to the historical basis of accounting measurement and reporting it is prudent to adopt a time frame of 5, 10 or 15 years of mean EPS to smooth the effects of investor reactions to information, market sentiments and economic factors. According to Penman (1992), earnings per share (EPS) calculation is regarded as an important piece of information for the investment community. Watts and Leftwich, (1977) argue that a primary concern of investors was how profitable a company is relative to their investment in the company. Abarbanell and Bushee (1997) stressed that EPS is an important indicator for both outside investors and internal managers. Outside the firms, investors use these forecasts as a basis to form profitable investment portfolios. Inside the firms, managers use these forecasts for a host of critically important decisions including operational budgeting, capital investments, and other resource allocation decisions. Williams (1995) stated that financial analysts often focus on EPS as a simple and easy to use indicator of the overall performance of a public company. They went further to state that EPS identified the relationship between net income and issued shares, thereby a handy basis for comparing different company's performance regardless of their relative size (Abarbanell and Bushee, (1997). EPS has relevance to stakeholders as they can influence the profitability of a corporation. Negative publicity can have a great impact as stakeholders would shun the goods and or services of a corporation and the resulting effect on profitability affects the calculation of the EPS for that corporation. As such companies would report on CSR practices comprehensively in order to inform the stakeholders. Therefore, it is prudent for companies to ensure that they are able to meet as many indicators as possible according to the GRI.

All 20 companies selected for this study are listed in the FTSE 100. Table 2 below shows the list of companies in their respective sectors.

Table 1 Companies and their respective sectors and abbreviations for research analysis.

COMPANY	**SECTOR**	**ABREVIATION**
Alliance Boots	Retail	BOOTS
Barclays Bank	Banking	BAR
British Airways	Travel and Leisure	BA
British petroleum	Oil and Gas	BP
GlaxoSmithKline	Pharmaceuticals and Biotechnology	GSL
HSBC Holdings	Banking	HSBC
Marks and Spencer	Retail	M & S
Royal Dutch Shell	Oil and Gas	SHELL
Tesco Plc	Retail	TESCO
Vodafone Group	Mobile Telecommunications	VODA
Associated British foods plc	Retail group	ABF
British America Tobacco company	Consumer Goods	BAT
Centrica	Utilities	CENT
Cadbury Schweppes	Consumer Goods	CAD
BT Group	Telecoms	BT
AstraZeneca	Pharmaceuticals and Biotechnology	AZ
Imperial Tobacco Company	Consumer Goods	ITC
3i Group	Investments	3G
BHP Billiton	Investments	BHP
Diageo	Consumer Goods	DIA

Findings and discussions

The data are actual historical data collected from each of the company's corporate social responsibility reports or sustainability reports. The EPS were results posted from 2002-2006, while the CSR policies were from the 2006 CSR published reports. Figure 2 shows the CSR policies as measured according to the GRI guidelines. The graph shows the UK's selected 20 Companies and their CSR policies as indicated in their CSR annual reports (2006) or sustainability reports (2006). To answer RQ1, that is to examine the extent of corporate social responsibility (CSR) policies of twenty

(20) selected UK companies, the following analysis was undertaken. From analysis of the selected twenty companies, Barclays Bank, Shell, 3i and British Petroleum met the GRI guidelines in all areas of CSR. The following companies met 5 areas under the GRI guidelines:

- Vodafone: economic, environmental, labour practices, society and product responsibility
- British Telecom: economic, environmental, labour practices, society and product responsibility
- Cadbury Schweppes: economic, environmental, labour practices, human rights and product responsibility
- Centrica: economic, environmental, labour practices, human rights and product responsibility
- Associated British Foods: economic, product responsibility, labour practices, human rights and product responsibility

The following eight companies fell short of the GRI guidelines as they only met four areas:

- Boots: environmental, labour practices, society and product responsibility
- British Airways: economic, environmental, labour practices and, society
- Glaxo Smith-Kline: economic, labour practices, product responsibility and society
- Marks and Spencer: economic, environmental, labour practices and product responsibility
- British America Tobacco : economic, environmental, human rights and product responsibility
- Imperial Tobacco Company: economic, environmental, product responsibility and society
- BHP Billiton : economic, environmental, product responsibility and society
- Astra Zeneca: economic, environmental, labour practices and product responsibility

Finally, three companies had short falls from the required GRI standard in three areas, namely;

- TESCO: economic, environmental, society

- HSBC Bank: economic, environmental, society
- Diageo: economic, environmental, society

Figure 2 CSR policies as per GRI guidelines

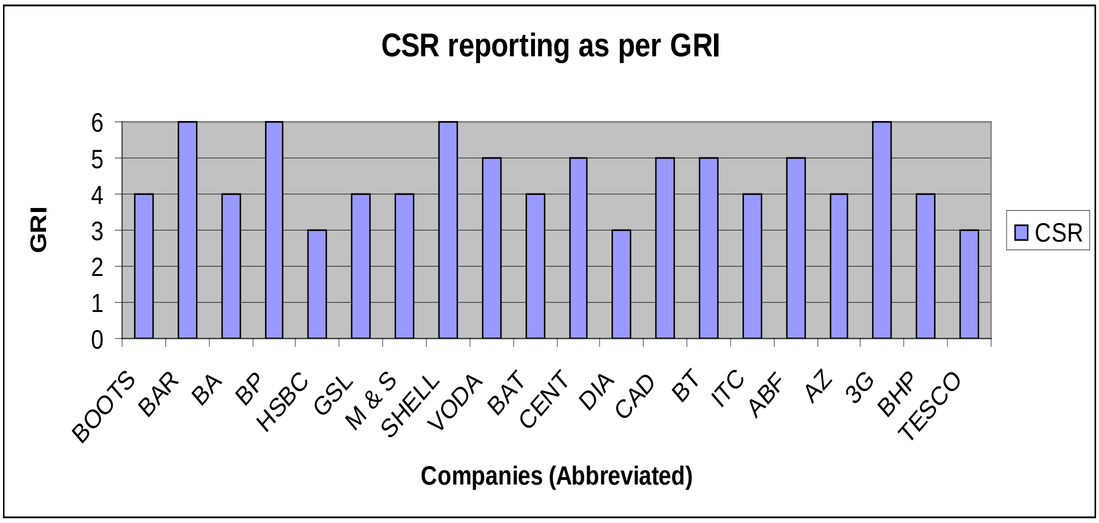


Table 2 shows EPS for the years 2002-2006, CSR policies as measured by GRI index and EPS mean of the selected companies.

YEAR	BOOTS	BAR	BA	BP	HSBC	GSL	M & S	SHELL	VODA	BAT
2002	49.9	33.7	13.2	30.55	0.67	66.2	19.8	2.96	23.77	50.91
2003	45.2	42.3	6.7	47.27	0.84	77.2	24.8	3.15	14.41	69.21
2004	52.8	51.2	12.1	78.24	1.09	75	24.2	4.31	13.24	77.16
2005	40.9	54.4	35.2	104.87	1.36	82.5	29.1	2.74	8.12	90.06
2006	21.8	71.9	40.4	109.84	1.45	95.5	31.4	3.97	-27.6	98.93
% of CSR	67%	100%	67%	100%	50%	67%	67%	100%	83%	67%
CSR	4	6	4	6	3	4	4	6	5	4
EPS 𝔛	42.12	50.7	21.52	74.154	1.082	79.28	25.86	3.426	6.388	77.254
YEAR	**CENT**	**DIA**	**CAD**	**BT**	**ITC**	**ABF**	**AZ**	**3G**	**BHP**	**TESCO**
2002	16.89	48.8	32	17.5	68.4	39.1	1.64	24.55	30.3	12.14
2003	16.9	47.7	32	6.1	90	41.3	1.78	19.09	26.2	13.54
2004	16.5	48.2	27.4	14.2	101.6	46.6	2.28	88.57	54.7	15.05
2005	17.9	39.7	29.8	16.9	112.2	53	2.91	153.4	104.4	19.44
2006	19.6	50.1	31.5	18.4	122.2	50.9	3.86	215.89	173.2	20.07
% of CSR	83%	50%	83%	83%	67%	83%	67%	100%	67%	50%
CSR	5	3	5	5	4	5	4	6	4	3
EPS 𝔛	17.558	46.9	30.54	14.62	98.88	46.18	2.494	100.3	77.76	16.048

From table 2 (above), EPS growth varies for each of the companies. For example, TESCO, M & S, CENT, ABF and AZ, showed an even geometric progression growth for the five yrs (2002-2006), While others like ITC, BR, HSBC and GSL, posted high increases in their 2005 and 2006 financial reports whereas in their 2002 to 2004 financial reports, there was a decrease in EPS. While BOOTS posted four years (2002, 2003, 2004, 2005) increase in EPS it then dropped down drastically in 2006 financial year. BAR and DIA, recorded a geometric EPS increase for four years and then dropped slightly in 2006.

CAD, BT, BHP and BA posted increases in EPS in various financial years (2002, 2004, 2005, 2006), but there was a reduction in the financial year of 2003. BAT and 3G posted increases in the majority of years but also had a slight drop in the 2004 financial year. SHELL reported increased growth between, 2002, 2003, and 2004 and dropped down in 2005.

VODAFONE posted a drop in EPS for four years (2002, 2003, 2004, and 2005) but made a slight increase in 2006.

The authors' view of adopting a five year average of EPS was based on the variations in the data of many companies in the study. The scope of this study was limited in that the analysis of the variations was not investigated. The variations could arguably be fundamentals of individual corporations. As the denominator of EPS calculation is the number of ordinary shares, the ratio can vary for a number of reasons such as share rights issues, buy back of shares and public issue. The numerator in the equation is the earnings before interest and tax (EBIT). EBIT is based on the degree of operational revenue less its expenses. Proponents of CSR have a strong view that a corporation would be able to increase its profits (earnings) through the positive perceptions of a socially responsible entity.

The EPS $\mathfrak{x}$ reveals the wide variations for BA, BP, Vodafone, ITC, 3G and BHP. The variations were in the EPS reported in 2006 which was a marked increase compared to previous 4 years. The rest of the selected corporations did not show major variations.

GRI data was based on 2006 CSR reports as the position taken in this study is that companies react to stakeholders perceptions through their CSR reporting and that it has sustain effects on the financial performance over a number of years prior.

In analysing RQ2, that is to examine if there is a causal relationship between financial performance i.e. average earnings per share and the corporate social responsibility (CSR) policies of twenty (20) selected UK companies, a common statistical calculation known as product moment correlation coefficient was undertaken. The statistic indicates the strength and direction of the association between the variables EPS mean between 2002 and 2006 and CSR reporting according to the GRI guidelines. The findings indicate that there is a causal relationship between the EPS and CSR reporting ($R^2 = 0.147$: $n = 20$).

In analysing the EPS over the 5 year period (2002-2006) for the 20 companies, a number of combinations were undertaken statistically to determine if there is a stronger relationship between EPS and CSR reporting. The result of R^2 from the above shows positive which Clemson, (2002) have suggested that If $R^2 >= 0$, then a positive relationship exists. Statistical analysis clearly shows that there is a causal relationship between EPS and CSR policies. However, in analysing the strength of the relationship, the findings indicated that it is weak. The weak relationship could be a result of the sample size of the study or the variations in the mean EPS. Variations in the EPS is based on the denominator as the number of ordinary shares, as it is common practice for corporations to issues rights issues or bonus issues form time to time.

This research supports the views of Edward Friedman (1970) on stakeholder theory, which asserts that managers must satisfy a variety of constituents (e.g. workers, customers, suppliers, local community organizations) who can influence firm outcomes. According to this view, it is not sufficient for managers to focus exclusively on the needs of stockholders, or the owners of the corporation. Stakeholders may not have to hold stocks or shares with the corporation but they do have an impact on the EPS as they can affect the profitability or earnings by boycotting products or services. It is important to note that this research did not use share price as a variable as shareholders are arguably a negligible group of stakeholders. There is a possibility of applying profitability as a variable but the researchers took the view that EPS is an important indicator of a corporation's wealth. Another convincing argument for the use of EPS is that the complex calculation is legislated in the International Accounting Standard 33 or IAS 33 (IASB, 2008).

The findings of this study also support the conclusions expressed in other research studies that applied different financial performance indicators Curran (2005), The findings in this study indicates that EPS which is influenced by stakeholders perception of corporations has an association with CSR reporting through the measure of GRI which further influences the perceptions of stakeholders. For example strike actions due to unfair retrenchment conditions by a corporation affects its profit or earnings through loss of production as well as lower sales or revenue as stakeholders perceptions are adversely affected by the negative publicity. In this instance the EPS calculation would be lower and the reporting of the corporation through the GRI guidelines would not satisfy the core indicator such as LA5 that requires the disclosure of minimum notice period(s) regarding operational changes including whether it is specified in collective agreements (SRG, 2006).

The contention by the authors is that the perceptions either positive or negative of corporations by stakeholders is not solely based on the GRI reports but either in combinations or singly based on media reports and experiences. For example the free advice through leaflets on saving household gas and electricity consumptions and the complimentary energy saving bulbs by British Gas to all household is perceived by stakeholders as being positive.

Stakeholder theory implies that it can be beneficial for the firm to engage in certain CSR activities that non-financial stakeholders perceive to be important, because, in the absence of this, these groups might withdraw their support for the firm which can have adverse effects on the firm’s profitability (McWilliams et al., 2006). This study therefore further supports this theory judging by the positive relationship between CSR policies and EPS on the causal link between strategically embarking on CSR and a company’s successful performance. The understanding of the causal link as revealed in RQ2 can also be extended to an examination of CSR as a strategic tool for business success. Forbrun and Shanley (1990) established that investing in CSR attributes and activities might be important strategies for product differentiation and reputation building. Similarly, recent research suggests that CSR activities be included in strategy formulation and that the level of resources devoted to CSR be determined through cost/benefit analysis (McWilliams et al, 2006).

Conclusions and future research

Companies like Barclays Bank, The Royal Dutch Shell Company, British Petroleum and 3G achieved the best results by virtue of the fact that their CSR policies were able to meet the required six GRI reporting guidelines. This research revealed that UK companies tended to disclose the positive impacts they made on the environment, which has to do with environmental issues. This includes environmental pollution, waste disposal, gas emissions and other related environmental issues.

Another policy was labour practice, it was discovered from the study that most of the companies also made labour practice a priority, as they focus on providing employees with a safe working environment and diverse workplaces with equal opportunities. Human rights were the most common CSR policy among the companies. This has to do with policies such as indigenous rights, collective bargaining, freedom of associations and child labour. Society also featured prominently, as most of the companies were able to prove the positive impact they made in the community in terms of voluntary works and also giving support to charity organisations.

Future research could explore a larger data of company's reports. One of the arguments that were not tested in this study was the analysis of EPS data over a 10 year average. In addition the analysis of comparing GRI to EPS at staggered intervals of 5 years periods could reveal findings that shed light on the evolving perceptions of stakeholders on CSR.

References

Abarnell, J.S and Bushee, B.J. (1997), "Fundamentals analysis, future EPS, and Stock price", *Journal of Accounting Research*, Vol. 35, No. 1, pp.1-24.

Aupperle, W.F., Carroll, A.B. Hatfield, J.D. (1985), "An empirical examination of the relationship between corporate social responsibility and profitability", *Academy of Management Journal,* Vol. 289, No. 2, pp. 446-463.

Anderson, J., Frankle, A. (1980), "Voluntary social reporting: an iso-beta portfolio analysis", *Accounting Review*, Vol. 55, pp. 468-479.

Balabanis, G., Philips, H.C., Lyall, J. (1998), "Corporate social responsibility and economic performance in the top British companies; are they linked?" *Economic Business Review,* Vol. 98, No. 1, pp. 25-44.

Belkaoui, A. (1976), "The impact of the disclosure of the environmental effects of organizational behaviour on the market", *Financial Management,* Vol. 5, No. 4, pp. 6-31.

Baker, M. (2006), "Corporate Social Responsibility, News and Resources", available at: www.mallenbaker.net/csr.

Barclays Bank (2007), "Sustainability Review 2007", available at: *www.Barclays.com*.

Briggs, W. and Verma, A. (2006), "Sharing the wealth: by giving in times of need, corporations can do good in the community - and for the bottom line", *Communication World*, Vol. 23, No. 1, pp. 25-28.

Burke, l., Logsdon, J., M. (1996), "How corporate social responsibility pays off". *Long range planning*. Vol. 29, No. 4, pp. 495-502.

Campbell, D. J. (2003), "Intra- and Intersectional effects in environmental disclosures: Evidence for legitimacy theory?" *Business Strategy and the Environment*, Vol. 12, No. 6, pp. 357 -375.

Cannon, T. (1992), *Corporate Responsibility*, 1st ed., Pitman Publishing, London.

CCPA. (2000), *Corporate Community Involvement: Establishing a business case*, Centre for Corporate Public Affairs, Melbourne.

Clutterbuck, D., Dearlove, D., Snow, D., (1992), *Actions Speak louder: A management guide to corporate social responsibility*, Kingfisher. London.

Cozens, C. (1996), "Facing the risk in a stricter environment", *Corporate Finance*, Vol. 134, pp. 47-48.

Crosbie, L., and Knight, K., (1995), *Strategy for sustainable business*. *Environmental opportunity and strategic choice,* McGraw- Hill. London.

Curran, M.M (2005), *Assessing the Rate of Return of the Adoption of Corporate Social Responsibility Initiatives*, A thesis submitted in fulfillment of the requirements for the degree of Doctor of Philosophy. University of Edinburgh.

(DTI) Department of Trade and Industry (2004), *Corporate Social Responsibility, A Government Update*, available at: http://www.csr.gov.uk/pdf/dti_csr_final.pdf

Daly, H. & Cobb, J. (1989), *For the Common Good*, Boston: Beacon Press.

Dentchev, N (2005), "Corporate Social Performance: As Business strategy", *Journal of Business Ethics*, Vol. 55, No. 4, pp. 395-410.

Economist Survey (Jan 22, 2005), *The world according to CSR Good corporate citizens believe that capitalism is wicked but redeemable* Vol. 374, Iss. 8410, pp. 11.

Fisher, C. and Lovell, A. (2006), *Business Ethics and Values: Individual, Corporate and International Perspectives*, 2nd Ed .Harlow Pearson.

Forburn, C. and Shanley, M. (1990), "What's in a Name? Reputation Building and Corporate Strategy", *Academy of Management Journal*, Vol. 33, No. 2, pp. 233-258.

Frederick, W.C. (1986), "Toward CSR3; why ethical analysis is indispensable and unavoidable in corporate affairs", *California Management Review*, Vol. XXVIII, pp. 126-141.

Frederick, W.C. (1994), "From CSR1 to CSR2", *Business and Society*, Vol. 33, pp. 150-66.

Frederick, W.C., Post, J.E. and Davis, K. (1992), *Business and society: Corporate Strategy, Public Policy*, Ethics, 7th ed., McGraw Hill, Maidenhead.

Freeman, R.E. (1984), *Strategic management: A stakeholder approach*. Boston: Pitman.

Freeman, R.E., and Liedtka, J. (1991), "Corporate Social responsibility: A critical approach", *Business Horizons*, Vol. 34, No. 4.

Friedman, M. (1970), "The social responsibility of business is to increase its profits", *New York Times Magazine* Vol. 32, (Sept.13th)

Globescan (2007), available at: http://www.globescan.com/rf_csr_ethical_01.htm

Gray, R., Owen, D., Adams, C. (1996), *Accounting and Accountability Changes and Challenges in Corporate Social Environmental Reporting*, Prentice Hall, Englewood Cliffs, NJ.

GRI (2007), available at: (http://www.globalreporting.org/NewsEventsPress/PressResources/PR280808RCA.htm

Halabi, A., Kazi, A., Dang, V. and Samy, M. (2006), "Corporate Social Responsibility", *Monash Business Review* Vol. l2, No. 3, pp. 22-25.

Hawkins, D., E. (2006), *Corporate social responsibility: Balancing tomorrow's sustainability and today's profitability*. Pal Grave Macmillan. Hampshire.

Hazlett, S.A., McAdam, R., Murray, L. (2007), "From quality management to socially responsible organisations: the case for CSR", *International Journal of Quality & Reliability Management*, Vol. 24, No. 7, pp. 669-682.

HBR (2003), *Harvard Business Review on Corporate Social Responsibility*, Harvard Business School. McGraw-Hill. London.

Holmes, S.L (1976), “Executive perceptions of corporate social responsibility”, *Business Horizons*, Vol. 19, pp. 34-40.

IASB (2008), available at: http://www.iasb.org/NR/rdonlyres/31957B55-BE12-4C6B-92EC-2ADC78F018C5/0/IAS33.pdf

Jawahar, I and McLaughlin, (2001), “Towards a descriptive stakeholder theory: An organization life cycle approach”, *Academy of Management Review*, Vol. 26, No. 3, pp. 397-414.

Kotler, P., and Lee, N. (2005), *Corporate social responsibility: Doing the most good for your company and your cause* , Hoboken: Wiley and Sons.

McGuire, J.B., Sundgren, A. and Schneeweis, T. (1988), “Corporate Social Responsibility and Firms Financial Performance”, *Academy of Management Journal*. Vol. 31, pp. 854-72.

McIntosh, M., Lepziger, D., Jones, K., Coleman, G. (1998), *Corporate Citizenship: Successful strategies for responsible companie*s. Financial Times Management. Pitman. London.

McWilliams, A., Siegel, D., S., (2001), "Corporate social responsibility: a theory of the firm perspective", *Academy of Management Review*, Vol. 26 No. 1, pp. 117-27.

McWilliams, A., Siegel, D., S., Wright, P., M. (2006), “Corporate Social Responsibility”, *Journal of Management Studies*. Vol. 43, No. 1.

Mintzberg, H. (1978), “Patterns in Strategy Formation”, *Management Science*, Vol. 24, No. 9, pp. 934-948.

Moir, L. (2001), What do we mean by Corporate Social Responsibility, available at: http://www.emeraldinsight.com/Insight.

O’Rourke, D. (2004), *Opportunities and Obstacles in CSR Reporting in developing countries*, University of California, USA.

Orlitzky, M., Schmidt, F., L., Rynes, S., L. (2003), “Corporate Social and Financial Performance: A Meta Analysis”, *Organization Studies*, Vol. 24, No. 3, pp. 403-441.

Pava M., L., Krauz. J. (1995), *Corporate responsibility and Financial Performance: The paradox of social cost.* Quorum Books. London.

Penman,S.H.(1992), “Return to fundamentals”, *Journal of Accounting, Auditing and Finance*, Fall. 465-484.

Rowley, T. J., and Moldoveanu, M. (2003), “When will stakeholder groups act? An interest- and identity –base model of stakeholder group mobilisation", *Academy of Management Review*, Vol. 28, No. 2, pp. 204-219.

Seglin J, (2003), *The Right Thing: Conscience, Profit and Personal Responsibility in Today's Business*, Spiro Press

Stanwick, P. A., Stanwick, S. D. (1998), "The Relationship between Corporate Social Performance, and Organizational Size, Financial Performance, and Environmental Performance: An Empirical Examination", *Journal of Business Ethics*. Vol. 17, No. 2.

Suchman,M.C (1995), "Managing legitimacy: strategic and institutional approaches, Academy of management Review", Vol.20, pp. 571-610.

SRG, Reporting Guide (2006), available at: http://www.globalreporting.org/NR/rdonlyres/ED9E9B36-AB54-4DE1-BFF2-5F735235CA44/0/G3_GuidelinesENU.pdf

Tesco (2006), available at: *www. Tescocoporate.com*

Tsoutsoura, M. (2004), *Corporate social responsibility and financial performance*, available at: www.haas.berkeley.edu/responsiblebusiness/documents/FinalPaperonCSR_PDFII.pdf

Ullmann, A.A. (1985), "Data in search of a theory: a critical examination of the relationships among social performance, social disclosure, and economic performance of US firms", *Academy of Management Review*, Vol. 10, No. 3, pp. 540-57.

Wartick, S. L., and Cochran, P.L. (1985), "The evolution of the corporate social performance model", *Academy of Management Review*, Vol. 10, No. 4, pp. 758-769.

Watts, R.L and Leftwich, R.W. (1977), "The times series of annual accounting EPS (in research reports)", *Journal of Accounting Research*, Vol. 15, No. 2, pp. 253-271.

Werhane, P. H., and Freeman, R.E. (1999), "Business ethics: The State of Art", *International Journal of Management Reviews*, Vol. 1, No. 1, pp.1-16

Williams, P.A (1995), "The search for a better market expectation of earnings model", *Journal of Accounting Literature*, Vol. 14, No. 1, pp. 140-160.

Wilson, M. (2003), "Corporate Sustainability: What is it and where does it come from", *Ivey Business Journal*, available at: www.iveybusinessjournal.com/view_article.asp?intArticle_ID=405

Wood, D. (1991), “Corporate social performance revisited”, *Academy of Management Review*, Vol. 16, No. 4, pp. 691-718.

(WBCSD) World Business Council for Sustainable Development. (1999), *Corporate Social Responsibility, Meeting changing Expectations*, March, Geneva, Switzerland.