

# Corporate social responsibility reporting in Finnish forest production companies

- An examination of the stakeholders' perception on corporate social responsibility reporting: an emphasis on legitimacy



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## Abstract

Corporate social responsibility (CSR) has become a widely accepted term to describe a process to integrate social, environmental and economic concerns with business operations and as part of business strategy. One of the outputs of the CSR process is CSR reporting. CSR reporting is increasingly understood as a way of seeking legitimacy for operations. The purpose of this study was to examine stakeholders' perceptions of the reports through a set of variables; thoroughness of the reports, agreement of the message, transparency and trust of the communication and finally their contribution to the dependent variable legitimacy.

A qualitative case study approach portraying two of the biggest Finnish forest production companies formed the basis of this research. A content analysis of the CSR reports of the two companies was done to assess the current state of CSR reporting. The content analysis was structured around a framework constructed from the theory portraying six themes to guarantee trustful, transparent and robust reporting. The second set of data was collected in order to investigate the stakeholders' perceptions of the reports in relation to agreement of the message transparency, trust and finally their contribution to legitimacy. Semi structured theme interviews following the same framework as in the content analysis was conducted to nine key stakeholders.

The analysis of the two sets of data concludes CSR reporting to be well established in the case companies and contrary to previous studies stakeholders to be at the heart of CSR reporting. In general stakeholders perceived CSR reporting to be comprehensive, transparent and trustworthy and they granted legitimacy to the corporations, not only because of the reporting but also because of the process involved in it. However some division based on the stakeholder types was evident; NGO's were the most critical towards the reports. There was scepticism due to overly positive communication and the weakness to address social responsibilities, especially from supplier and value chain perspective. This study is among the first to examine CSR reporting from the stakeholder point of view and coupling this with the theory of organizational legitimacy.



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*I can hear the flowers growing  
and the talk of the trees in the wood.  
I think all my old dreams are ripening,  
all the hopes and the wishes I sowed  
-Eino Leino*

Utrecht, November 6<sup>th</sup> 2015  
Lotta Aalto

## List of Abbreviations

- CO<sub>2</sub>: Carbon dioxide
- CSR: Corporate social responsibility
- DJSI: Dow Jones Sustainability Indices
- EC: European commission
- EMAS: Eco-Management and Audit Scheme
- EU: European Union
- FSC: Forest Stewardship Council
- GPBHR: Guiding Principles on Business and Human Rights
- GRI: Global Reporting Initiative
- IFRS: International Financial Reporting Standards
- SA 8000: labour standard
- ISO: International Organization for Standardization
- ISO 14000: Environmental management
- ISO 14001: Environmental management
- ISO 26000: Social responsibility
- ISO 31000: Risk management
- ILO: International Labour Organization
- KPI: Key performance indicators
- NFR: Non-financial reporting
- NGO: Non-governmental organization
- OECD: Organization for Economic Cooperation and Development
- PEFC: Program for the Endorsement of Forest Certification schemes
- PR: public relation
- UN: United Nations
- UNGC: United Nations Global Compact
- WBCSD: World Business Council for Sustainable Development

# 1. Introduction

## 1.1. Background of the study

Corporate Social Responsibility has become an essential part of sustainable development. In today's society a successful business requires more than benefiting the shareholders and providing profit. The rapidly changing business environment requires corporations to adapt to new conditions. Corporations need to stay internationally competitive, and they need to focus on issues such as ecological diversity, climate change, human rights and workers' wellbeing (Elkington, 1997; Freeman, 1984; Li & Toppinen, 2011; Mikkilä & Toppinen, 2008). Corporate social responsibility (hereafter CSR) is a widely accepted term to describe a process to integrate social, environmental and economic concerns with the business operations and as part of business strategy (Mikkilä & Toppinen, 2008). The purpose of the process is not only to minimize and prevent negative impacts but also to develop positive effects on the society and the environment, for instance, through new practices and innovation (European Commission, 2013).

One of the outputs of the CSR process is the CSR report. CSR reporting is a way to communicate the state of social, environmental and economic affairs of the corporation to stakeholders. Stakeholders seem to be at the heart of corporate social responsibility. Researchers place stakeholder interaction at the core of tackling the challenge of sustainability in business (See Miles, 2012; Roome & Wijen, 2006; Sharma & Henriques, 2005). It is said that for CSR, stakeholders need to interact, to make choices and to resolve issues on different perspectives, options and outcomes (Roome & Wijen, 2006) and to engage and empower other actors to join the process (Bansal, 2002; Fraser et al., 2006). Thus one of the key aspects in creating a successful CSR process is stakeholder inclusion.

Stakeholders are recognized as drivers and demand setters in the CSR processes (Onkila et al. 2011). They are seen to raise and highlight issues on the corporate agenda and most of all to oversee the CSR process. Consequently, for this process to function, companies need to ensure that CSR reporting serves as a participatory process and a way of communication. Laine (2009) indicates that reporting is increasingly understood as a way of seeking legitimacy for operation. It is seen as a



channel to ensure transparency for operation and building trust among the actors which should eventually lead to legitimacy (Deegan 2002; Morsing & Schultz 2006; Laine, 2009).

CSR reporting has become an increasingly high profile issue and a common practice in many globalized industries. This is especially the case with environmentally sensitive sectors, like the forest industry. The forest industry is a unique sector not only because of its intensive raw material basis, but because of its strong link to sustainable development and the rapid globalization of the industry. The awareness of environmental and social issues has increased the pressure on the forest industry in their efforts to balance conflicting stakeholder demands, as well as to rethink business strategies. Therefore the forest industry is expected to play a more active role in fostering positive goals and countering the new threats of destructive effects by promoting sustainable forest management and reducing their environmental footprint (Toppinen et al. 2012; Mikkilä & Toppinen, 2008; Vidal & Kozak, 2008).

## **1.2. Problem definition and knowledge gap**

CSR is a broad concept and there is little consensus on precise criteria or meaning which define what the concept actually is (Dahlsrud 2008; Perrini 2008). The lack of a commonly accepted definition of CSR weakens trust towards the concept, therefore affecting negatively its credibility and efficiency (Waddock, 2004). This has caused uncertainty and most of all confusion among the stakeholders (Dahlsrud, 2008; Mikkilä & Toppinen, 2008; Jonker & Marberg 2007; Waddock, 2004). CSR reporting shares the same fate. There are no strict guidelines as to how reporting should be conducted, nor how the communication process to establish the reports should be structured (Onkila et al. 2011). This has led to a variety of reporting practices, and ambiguity.

CSR reporting is increasingly criticized that it does not serve stakeholder dialogue (Adams, 2002; Onkila et al. 2011). In the current practices, the content of the reports is defined by corporations which are themselves based on corporate values and business principles. Even though stakeholder dialogue is stressed, the reports often present one-way, subjective, managerial level communication from the company to the stakeholders. Thus the channel used is safe, non-innovative and resembles the traditional annual reports (Lotila, 2004). Additionally the reporting does not seem to be based on stakeholders' information needs but rather on companies' need to legitimize the business. Consequently this raises the question whether such

legitimacy actually exists or whether companies present false positives with their CSR practices.

Having said this, little is known about the perception of the stakeholder of CSR reports (Onkila et al., 2011). Extensive literature has been conducted to examine different CSR processes and their functioning. Yet the viewpoint of CSR research is dominated by managerial approaches instead of identifying and responding to stakeholders' environmental demands. Milne et al. (2007) states that there is a lack of information about the *context of reporting*, and the production and *interpretation* of messages contained in these reports. Thus, it is not adequately addressed how this relationship between companies which produce the CSR reports and stakeholders to whom the reports are addressed functions, and most of all, how the message in the reports is perceived by stakeholders. Consequently such research is needed if legitimacy at the corporation level is to be seriously addressed. It is also imperative to fill the void in the literature in order to improve CSR reporting practices.

Thus, the concept of CRS is not used consistently and lacks a clear and unambiguous definition. CSR reporting appears to be a message from the companies' managers to its stakeholders, without much dialogue. Yet the importance of stakeholder involvement is stressed by scholars as being needed in order to reach an optimum CSR process. More importantly, it seems that there is a clear gap in the literature about stakeholders' perception. The scholars have not adequately addressed stakeholders' perception towards the CSR process, and thus it is unknown whether the CSR report actually fulfils its function to increase the legitimacy of a corporation.

### 1.3. Research objectives

The aim of the present study is to examine how the message portrayed in CSR reports is perceived by the stakeholders. To find out stakeholder perceptions towards CSR reporting, this study absorbs a qualitative case study approach where four CSR reports of two of the biggest Finnish forest production corporations will be examined and the stakeholders' perceptions over the reports will be investigated.

"Stakeholders" in this study means "A group or an individual who can affect or will be affected by the achievement of the organization's objectives" (Donaldson & Preston, 1995). The target stakeholder group of this study consists of internal stakeholders, the case companies representatives as well as external stakeholders; NGO's, investors, clients and government representatives. These stakeholders are perceived

to be important opinion leaders that have a significant influence on and power over on the corporations' functioning and their CSR practices. (Future analysis of stakeholder will be provided in 5.1) Additionally it needs to be noted that the geographical scope of this study is Finland and thus limited to Finnish stakeholders only.

Consequently the main objective of this study is to examine the interpretation that stakeholders have towards the CSR reports, whether they see them as a transparent, trustworthy and legitimate way of communication. Moreover, in order to examine the message portrayed by the CSR reports, an assessment of current reporting practices is needed. The objectives of this study are:

- 1) Establish the state of CSR reporting in Finnish forest industries
- 2) Establish stakeholders' interpretation of the messages in the reports
- 3) Establish stakeholder's perceptions towards transparency, trust and the contribution towards legitimacy

Next to the primary objectives, the purpose of this study is to build knowledge of characteristics of CSR and CSR reporting. CSR has become a central issue in many globalised industries as it is directly linked with mitigating and preventing social, economic and environmental issues. In order to improve the CSR process, seeking to understand the stakeholder's perception of CSR reporting is imperative. CSR can foster environmental and socioeconomic benefits by reducing the negative externalities from businesses, and contributing solutions to crosscutting societal and environmental problems on different scales. Hence it is evident that the topic donates to the study of sustainable development environmental governance and policy.

#### 1.4. Research question

Considering the research background, the knowledge gap and the objective of this research, the main research question can be defined as follows:

***How and to what extent does CSR reporting in the Finnish forest industry contribute to perceived organizational legitimacy among stakeholders?***

The main research question is guided by four sub questions

- 1) How can the current state of CSR reporting the Finnish forest industry be characterized?
- 2) To what extent do stakeholders agree with the content of CSR reporting in the Finnish forest industry?
- 3) To what extent do stakeholders find CSR reporting in the Finnish forest industry transparent and trustworthy?
- 4) To what extent does the thoroughness of the CSR reports, transparency, trust and agreement of the CSR reports as perceived by the stakeholders contribute to the organizational legitimacy?

The aim of the first sub question is to establish the state of CSR reporting in Finnish forest industries. Thus this question is set up to address the thoroughness of the case companies CSR reporting. This will be evaluated from the case companies' CSR reports with a set of assessment criteria derived from theory (KPMG, 2013 & GRI, 2014). The second question is set out to examine stakeholders' interpretation of the messages in the reports. In other words, to investigate whether stakeholders agree with the message portrayed in the reports. The third question similarly seeks to establish stakeholder perception, but based on transparency and trust. The two variable are seen to be interlinked and inherent part of perception (Du et al., 2010) The final research question is set up to investigate the perceived legitimacy and thus it is inherently links the sub questions with the main question. Empirical evidence for the last sub questions will be approached with theme interviews. The underlying principle behind this research is that legitimacy is based on the following variables; thoroughness of the reports, agreement on the reports and transparency and trust towards the reports. Hence together these sub questions will lead to the answer to the main research question.

## 1.5. Structure of the thesis

The present study is divided into six chapters. The present chapter introduces the research topic by giving background information as well as presenting the problem definition and knowledge gap. Next to this the aim of this research is presented in the form of research objectives and research questions.

The second chapter is concerned with the theoretical framework of this study. It is divided in four sections; CSR, CSR communication, stakeholder theory and organisational legitimacy. Each section discusses previous studies conducted in the area of CSR and thus contributing to the knowledge of this present study. Data and methods, the third chapter, starts with an illustration of the analytical framework of this study. The framework is drafted based on the theory and it forms the basis of the analysis. The third chapter also gives a detailed description how the study was conducted and describes methods utilised.

The fourth chapter provides context for this research, briefly discussing the forest industries' position in Finland. Additionally it relates CSR to the forest industry in Finland and presents background information of the two case companies, UPM and Stora Enso.

The fifth chapter presents the results of the empirical analysis. This chapter is structured around the analytical framework, thus organised around six themes that were utilised in two of the data sets used in this study, each part ending in sub-conclusions. Conclusions and discussions, the sixth and final chapter of this study, will provide reflection based on the research question and the theoretical framework of this study. Finalizing, with a discussion of limitation and suggestions for future research.

## 2. Theoretical framework

### 2.1. Corporate social responsibility

There is no single definition for corporate social responsibility. CSR is an umbrella term that is difficult to define, the term includes numerous different concepts such as “corporate sustainability”, “corporate citizenship”, “social responsibility” “social responsible behaviour” and “corporate stewardship” (Sahlin-Anderson, 2006; Sarvaiya & Wu, 2014; Werther & Chandler 2006). Most commonly, the concept is related to a voluntary approach to take responsibility for the wellbeing of the environment and society. Thus sustainable development is an integral part of the concept. In fact, Panwar and Hansen, (2008) and Perrini (2009) argue that in major corporations sustainable reporting is used as a synonym with CSR reporting. Therefore this study views them as the same and uses these concepts as synonyms. Additionally it is the thought behind this research that CSR, similarly to sustainable development, comprises economic, social and environmental responsibility. This view has also been referred to as the triple bottom line (Hubbard, 2009). The triple bottom line works on the assumption that corporations are members of the moral community and this gives certain responsibilities. This theory focuses on sustainability and requires that any company weigh its actions on three independent scales of sustainable development (Perrini, 2003).

Yet defining the content of these responsibilities is not easy. As indicated by the multitude of concepts that are related to it, CSR means different things depending on the framework in which the organization operates in or even who reviews it (Niskala & Tarna 2003, Perrini 2003). Vehkaperä (2000) states that corporations themselves need to individually determine what CSR means. However, many corporations simply use the commonly accepted definition without adjusting it to their own situation (Perrini, 2003). In the most common definition, CSR is seen to refer to the sustainable use of material and environmental protection, well-being of employees, production and consumption safety, cooperation with other corporations and the surrounding community as well as economic prosperity (TT, 2001).

Additionally the European commission has taken a stand on what the content of CSR is while it aims to promote CSR on both European and global level. The European Commission (2001) states:

*“Most definitions of CSR describe it as a concept whereby companies integrate environmental and social concerns in their business operations and in their interaction with their stakeholders on a voluntary basis. Being socially responsible means not only fulfilling legal expectations, but also going beyond compliance and investing ‘more’ into human capital, the environment and the relations with stakeholders.”*

Another important entity that aims to define and promote the concept is the United Nations with its Global Compact Program (UNGCP). It defines the concept of CSR in the following way:

*“CSR is a way to do business in a manner that obeys the law, produces safe and cost effective products and services, creates jobs and wealth, supports training and technology cooperation and reflects international standards and values in areas such as the environment, ethics, labour and human rights. To make every effort to enhance the positive multipliers of our activities and to minimize any negative impacts on people and the environment, everywhere we invest and operate. A key element of this is recognizing that the frameworks we adopt for being a responsible business must move beyond philanthropy and be integrated into core business strategy and practice.”*  
(WEF 2002)

A common denominator in the definitions presented above is the focus on communication with the community in the CSR process. Hence, it seems that stakeholders need to be engaged in the CSR process. Fulfilling stakeholders' needs beyond the legal requirements is part of the process. The other evident feature is that there is no single way to conduct the process; CSR can take many forms, it can deal with many subjects and have numerous of focuses. Therefore defining or modelling it is extremely difficult.

Nevertheless there have been many attempts to illustrate CSR and its content more profoundly. The most commonly used and widely accepted illustration is Carroll's (1989) four component model (Figure 1). This model aims to explain CSR as a process that takes a hierarchical pyramid form. The first step of the model is a stage where a company seeks to establish economic responsibility and viability. The second step is to honour legal responsibilities. Step three extends responsibility beyond normal business by means of ethical responsibilities. The final step is to reach a good corporate citizen stage by absorbing philanthropic responsibilities (Carroll, 1999).



Figure 1 - Four component model of CSR (Carroll, 1991)

Nevertheless, in Carroll's (1989) illustration the content of CSR still remains vague and ambiguous. The hierarchical model appears to be a simplification of the process. Economic viability and responsibility can be regarded an evident part of every business aspiration as well as legal responsibilities, the need to obey the law. As Windsor (2001) indicates, they are stages that firms "do" for themselves to get the licence to practice and ethical responsibility is something that they "do" for the society. Thus, the first two stages can be seen as stages that every business needs to fulfil automatically in order to be able to function. The third and last stages are something that they "do" to gain additional benefits. Yet, this characterization does not take into consideration the fact that there is no vacuum in which businesses operate; society is part of every business operation. Society and more importantly





the stakeholders are the ones that grant the license to operate and the ones that influence the company's economic profitability with their consumption patterns. It can be argued that there cannot be one without the other: all three lower stages need to function simultaneously and the process is in reality more iterative than aligned.

However as CSR is a management process which aims towards sustainability, the issues should not so much be what CSR is, but how businesses should address what its limits are (Dahlsrud, 2008; Nippala, 2014). The theory of ideologies can help businesses to define its limits. Siltaoja (2006) categorises these ideologies by the notion in which corporations need to take responsibility towards the society. These CSR ideologies can be categorised as owner oriented, stakeholder oriented and to wide responsibility oriented ideologies (Siltaoja, 2006; Sillanpää 1990; Takala, 2000).

*The owner oriented view* represents the narrowest form of responsibility, where the CSR process is a short term strategy to maximise the profits of the owner. Its background is in individualism, liberalism and free market economy. Based on this view the only responsibility that the company needs to uphold is to take care of any claims ascending from the market. Socially responsible behaviour or other accruing problems are seen to be on the outside of the corporation (Sillanpää, 1990). This ideology has also been referred to as the fundamental view of CSR. It has a strong economical component and indication that the priority of a business is to provide a maximum financial return. This view can be paraphrased with Friedman's (1962) idea that "the business of business is business" and social concerns are burdens of free economy. However this ideology does not seem to answer towards the increasing public awareness nor to the growing stakeholder demands.

*The Stakeholder oriented view*, however, concentrates on the role between the corporations, the stakeholders and the society at large. This ideology stresses a more long term view where corporations are seen as social institutions that have duties towards the society. They need to work within the social boundaries and stay within the moral and ethical codes determined by society. Laws from this perspective are seen as a way to set a minimum level of responsibility. However according to the ideology CSR needs to extend beyond legal requirements (Sillanpää, 1990; Takala 2000). However Vehkaperä (2003) argues that the most dominant reason for the stakeholder oriented ideology is the positive market advantages.

*Wide responsibility oriented view* can be seen as the most extended ideology of CSR. Sillanpää (1990) states that this ideology can be called as the radical form of CSR; responsibility is seen as the ultimate goal. Based on this ideology taking extended responsibility on economy, society and environment is a core value that should be present in all decision making. Money and profit are merely an instrument for promoting the quality of life and societal wellbeing (Takala, 2000). This ideology acknowledges the opportunities that CSR has for creating new business. Thus CSR has become an essential part of a business way to operate.

Yet, as Siltaoja (2006) indicates the cut is not so clear. Corporations rarely follow only one ideology and the line between these views and actions related to them may be uncertain (Siltaoja, 2006). Overall it seems that the concept of CSR is still developing.

As indicated before, CSR is a very case dependent concept. Thus the form that it takes depends on the framework it is applied to and the message that is transferred from that. In other words, CSR and the form that it takes is highly dependent on communication. At the heart of CSR process is CSR communication. This will be discussed in the next section.

## 2.2. Communicating corporate social responsibility

CSR communication can be determined as a sensitive form of corporate communication. It is a message tailored to communicate the corporations' activities to its stakeholders. In other words, as Bhattacharya and Sen (2001) characterize, CSR communication reflects to a corporation's "character" or "soul". With CSR communication, companies should strive for truth rather than marketing speeches or fiction (Du et al 2010; Forehand & Grier, 2003; Halme et al. 2011). Accordingly there might be a backlash if stakeholders identify predominantly self-serving, profit-related motives, rather than a corporation's genuine interest in improving societal welfare (Yoon et al., 2006). In cases like this, scepticism from the public towards corporation's CSR activities and unfavourable reaction from media, NGO's and other stakeholders are likely to appear and damage the corporations' image. Therefore, Halme et al. (2011) claim that corporations should concentrate on a clear message rather than overly positive communication. Additionally scholars stress that it is imperative to communicate truthfully and clearly to gain the trust of the stakeholders that in the end may be translated to legitimacy towards the operation (Dawkins, 2004; Forehand & Grier, 2003; Halme et al. 2011).

Despite its importance, creating a good, successful, CSR communication is extremely challenging process. The process of CSR communication is very sensitive and perceived difficult. It forces corporations to extend their communication to matters that are seen to be outside of their traditional segment of functioning (Du et al. 2019; Forehand & Grier, 2003).

However, Dawkins (2004) argues that some of the challenges can be overcome if companies are aware of their CSR processes and fulfil four of the most essential requirements for efficient CSR communication. Firstly the message portrayed with the CSR process needs to be clear, understandable and the responsibilities that are communicated need to fit with the industry in question. Secondly the communication should be tailored to fit the variety of stakeholder's needs and they need to agree on the content. Thirdly the way in which CSR communication is done needs to reach to a variety of stakeholders. Fourthly stakeholders need to have a chance to influence the decision-making process. These four pillars of communication are also visible in the CSR communication framework by Du et al. (2010)

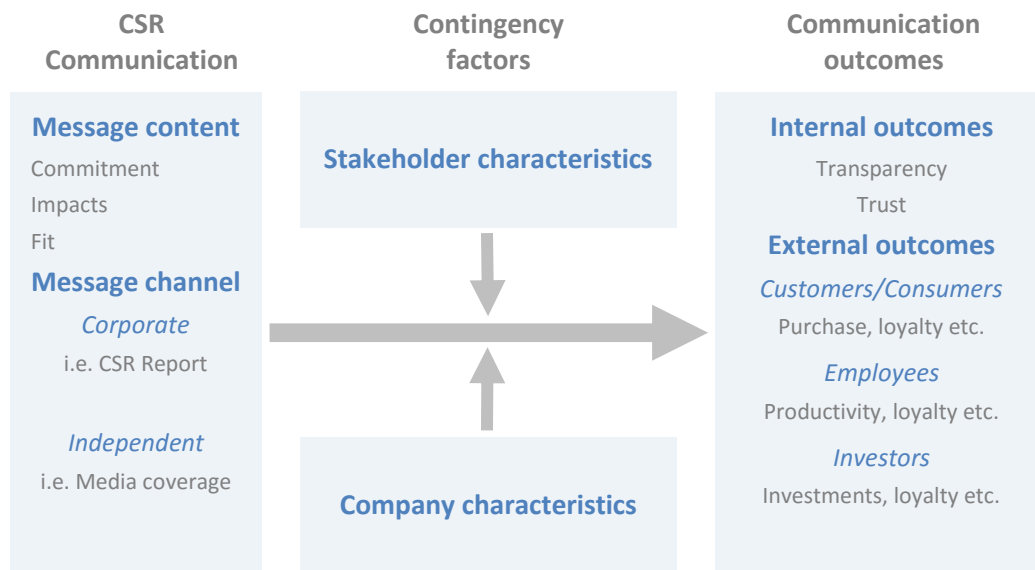


Figure 2 - A framework of CSR communication (Adjusted from Du et al., 2010)

In the framework, Du et al. (2010) similarly to Dawkins (2004) emphasize that the crucial elements for CSR communication are “what” and “where” to communicate as well as “what are the stakeholder- and company specific factors that need to be taken into consideration in regards to the effectiveness of CSR communication.” Thus the framework is divided to three headers to complement these elements;

1. CSR communication that entail the message content and the channel of communication
2. contingency factors that include the characteristics of stakeholders as well as the company
3. communication outcomes that emphasises internal outcomes like transparency and trust additionally to external outcomes (Du et al. 2010).

Next to these McElhaney (2009) adds another element to good CSR communication; consistency. Accordingly it takes time to build up good CSR communication; thus companies need to be consistent with their communication and with time they can achieve positive communication outcomes.

To conclude, it can be argued that without communication CSR would not fulfil its functioning and would cease to exist. Thus CSR communication is at the core of corporate social responsibility. The type of messages transferred from companies defines the stakeholder’s reaction and forms the relationship between the stakeholders and the company. Additionally, scholars argue that it is imperative that

CSR communication is truthful and based on transparent argumentation to avoid scepticism and mistrust. Corporations need to prove that there are no mismatches between the actions and the communication. In fact trust can only be reached through a consistent relationship between the two, which may eventually translate to legitimacy.

The next subsection adds to this discussion three elements that are derived from the CSR communication framework by Du et al. (2010) are discussed more extensively. Firstly this study examines CSR reporting as a main channel of CSR communication and thus it is at the heart of this study. Secondly trust in relation to CSR communication will be elaborated on and thirdly the CSR communication will be examined from a stakeholder perspective.

### **2.2.1. CSR reporting – as a main way of CSR communication**

CSR reporting is one of the main ways of communicating corporate social responsibility. It is a channel to communicate the environmental and social effects of an organization's economic actions to different interest groups within society and to the society at large (Gray et al. 1996). Its aim is to provide information about the corporation's interaction with its social- and physical surroundings, including issues such as the natural environment, human resources, community involvement, product safety, waste management and energy consumption. In other words, it can be seen as an extension of the traditional responsibilities of giving financial accounts to the corporation's shareholders (Caroll, 1999; Gray et al. 1996; Deegan 2002, Tuominen et al. 2008).

CSR reporting dates back to the early days of CSR, when its focus was related to economic activities and securing maximum revenue for the corporation. According to Godelnik (2012) the reporting in the 1970's and 1980's was not linked to actual performance of corporations, they merely stated image factors, resulting in "green-wash" reports. Since then, many steps have been taken to improve the CSR reporting practices. The increasing pressure from stakeholders and consumers' awareness have forced corporations to address CSR and their communication about it more strongly. The last decades have been eras of quality control, third party verification and auditing, certification and introducing other quality measures like the ISO series of standards as part of the CSR process (Godelnik, 2012; Tuominen et al. 2008).

However, CSR reporting can be seen almost as flexibly as the concept of CSR itself. Just as every company can define for itself what CSR means, they can also choose how to communicate their CSR progress in whatever way they find suitable. This freedom entails a lot of downsides. One of them is the fact that companies tend to report on issues they feel comfortable with, rather than addressing the whole story of their level of commitment and progress. Additionally, Goedelnik (2012) points out that some reports are too long and the information addressed in the reports contain partial or even incorrect data. The content has also received criticism that it does not fulfil the stakeholder information demand, but rather the company's need to legitimize their business and to illustrate the company in a more positive light (Lotila, 2011).

Fonseca, A. (2010) goes even further in his research while criticizing mining corporations' CSR reporting credibility. The research states that CSR reporting is a PR-tool that companies use to strengthen their argumentation of responsibility and sustainable development; it is a means to cover their backs. Having said this, Fonseca, A. (2010) emphasizes the need for common reporting practices to increase the credibility of CSR reporting.

From several sustainability reporting guidelines and frameworks, the most widely known and used guideline is the Global Reporting Initiative (GRI). The GRI framework aims to support the evaluation of social and environmental performance of companies. GRI's mission is to make sustainability reporting standard practice for all companies and organizations. Its framework is a reporting system that provides metrics and methods for measuring and reporting sustainability related impacts and performance. It includes reporting guidelines and sector guidance – enabling better accountability and organizational transparency. This can build stakeholders' trust in organizations, and lead to many other benefits (GRI, 2015).

Next to GRI's guidelines there are several other reporting guidelines and frameworks that can be used together with GRI's recommendations; they can be seen as complementary rather than conflicting. These reporting models include Eco-Management and Audit Scheme (EMAS), SA 8000 labour standard by Institute of Social and Ethical Accountability (ISEA), as well as ISO 14 001 for environmental issues and ISO 26 000 for social responsibility reporting (Castka et al. 2004; Reynolds & Yuthas, 2007). Next to management standards, Reynolds & Yuthas (2007) argue that eco-labels and certification of raw materials have received a significant focus in CSR reporting. They are seen to be tools to convince consumers of sustainability

practises and to increase transparency and build trust from stakeholders. Nonetheless, corporate sustainability reporting as well as obeying reporting guidelines are voluntary for corporations. Nevertheless from stakeholder point of view they are considered to be very favourable (Roca & Searcy, 2012). However some requirements and guidelines are developing in the field of CSR reporting.

The European Union has also recognized the importance of CSR and its reporting. In 2014 it introduced the so called NFR-directive (Non-financial reporting directive (2014/95/EU)) that will strengthen the transparency and accountability of corporations. According to the directive 'Public interest entities' with more than 500 employees will have to issue a non-financial report stating the following matters:

- All the elements of CSR need to be reported; economic, environmental and social responsibility
- Special attention needs to be given to social and employee related, human rights, anticorruption and anti-bribery related issues
- The business model needs to be described as well as the outcomes and risks of the policies on above topics and the diversity policy applied for management and supervisory bodies;
- Additionally the directive will encourage relying on recognized frameworks such as GRI's guidelines, the United Nations Global Compact (UNGC), the UN Guiding Principles on Business and Human Rights (GPBHR), OECD Guidelines, International Organization for Standardization (ISO) 26000 and the International Labour Organization (ILO) Tripartite Declaration (GRI,2015)

Consequently, despite this recent development there is a lot of critique from scholars as well and from the business sector towards the content of the CSR reports. As stated, the flexibility of the concept and the lack of strict guidelines have led to a variety of reporting practises and evaluating the content of CSR reporting has proven to be difficult. Thus there seems to be an issue of trust in regards to CSR reporting as a way of CSR communication. Conversely scholars have not been able to develop a framework that would assess the trustworthiness of the content of CSR reports. These issues as well as a brief discussion of the theory of trust will be elaborated in the next subsection.

## 2.2.2. CSR communication and trust

Trust is seen as an internal outcome of good CSR communication (Du et al. 2010). Trust can be defined as a belief about reliability, dependability and comprehension of a matter or a situation (McAllister, 1995). Hosmer (1995) argues that trust is based on the expectation of ethically justifiable behaviour. It is a crucial element when aiming for successful cooperation and even more so when targeting successful communication (McAllister, 1995; Rockmann & Northcraft, 2008). Corporations that manage to build trust as an outcome of their CSR communication are more likely to receive favourable associations from stakeholders (Lichtenstein et al., 2004). This can be illustrated with increased investments towards the company or with increased sales. Thus corporations make significant efforts with their CSR communication to build long-term trust relationships with their stakeholders. Sen & Bhattacharya (2001) argue that this is in order to build a positive corporate image in relation to CSR and to receive legitimacy for corporate functioning. Because of these benefits, researchers have proposed a conceptual model to link between CSR communications with stakeholder relationship that is strengthened through trust (Castaldo, Perrini, Misani, & Tencati, 2008; Cho et al., 2009; Saat & Selamat, 2014).

At the same time, scholars have not adequately addressed the issue of what are these elements that define whether the context of the communication is trustworthy and is more likely to receive legitimacy from its stakeholders. KPMG (2013) addresses these issues with their research to benchmark and track the development of CSR reporting in the world's leading corporations. In their analysis they used six assessment criteria to examine the quality and robustness of publically available CSR reports (See figure 3). The criteria are based on current reporting guidelines, like GRI and KPMG's own investigation of reporting practises (KPMG, 213).

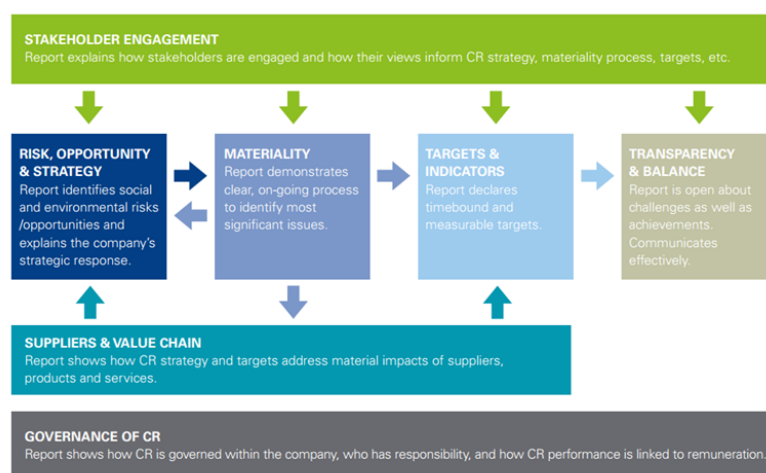


Figure 3 - The assessment criteria (KPMG, 2013)



- 1) Strategy, risk and opportunity emphasizes that CSR risks and opportunities should be explained as well as the actions that are taken as a response to these in the report.
- 2) Materiality; a company needs to identify and prioritize the social and environmental impacts of their activities.
- 3) Targets and indicators make clear that the process needs to be measurable with the right means and indicators and it needs to be reported in an understandable way.
- 4) Supplier and value chain; a company needs to be aware of the impacts of the whole value chain, so from suppliers and customers to the full extent.
- 5) Stakeholder engagement; stakeholders need be identified in their reports.
- 6) Governance of CSR- reports should make clear how CSR is governed in in the company, who is responsible and how it is linked with their remuneration (KPMG, 2013)

In summary, it is evident that with successful CSR communication trust can be built from stakeholders. Creating a trustworthy relationship has many advantages from customer and consumer loyalty to increased investments but above all it is a curtail factor for companies to reach to a legitimate state that is provide by their stakeholders. This study will utilise KPMG's (2013) six assessment criteria to investigate a robust and comprehensiveness of the CSR reporting.

### **2.2.3. CSR communication and stakeholders**

As it has been illustrated in pervious sections, many scholars (Dawkins, 2004; Du et al.2010; Halme et al. 2011) argue that communication is an essential part of CSR and without it, CSR could not exist. Additionally it can be stated that without stakeholders CSR and CSR communication could not exist either. Stakeholders have a significant role in CSR since they are the message receivers. On the other hand they are also the ones that influence CSR communication. In today's global business, stakeholders expect a greater integration with corporation's CSR practices, which at the same time shape companies CSR communication. Nonetheless as previously stated by Du et al. (2010) this relationship does not come without its challenges.

“Stakeholder” refers to those who are affected or will be affected by corporation's decisions and actions (Donaldson & Preston 1995). This includes a very

heterogeneous group, from governmental agencies to the individual consumers. However Du et al, (2010) indicate that there are key stakeholders that should be at the focus of CSR communication. These stakeholders are perceived to be important opinion leaders that have an influence over the corporations' functioning and their CSR practices; these are NGO's, investors, clients and government representatives. These key stakeholders will be elaborated on in paragraph 5.1 Stakeholder mapping.

Even with this division, stakeholders represent very heterogeneous groups that all have different information needs and requirements. Dawkin (2004) and Panwar et al. (2006) note this by stating that the main concern corporations are facing in their CSR communication is the diverse expectations that stakeholders have and corporations' capacity to respond to these different expectations. In other words, the message portrayed in CSR communication needs to be adjusted to serve variety of the stakeholders. For example investors and governmental representatives usually require numerical and detailed standardized data whereas NGO's and end-consumers require a clear message that appeals more to their emotions (Dawkins, 2004; Halme et al. 2011) Thus, satisfying all the stakeholders' needs with one CSR report is extremely challenging.

Despite this McElhane (2009) advocates that strong stakeholder relationships can be built through CSR communication activities and stakeholder reactions can be influenced by CSR reporting (Morsing & Schultz, 2006). Halme et al. (2011) add to this argumentation by stating the importance of participatory two-way CSR communication. This has fruitful bearings towards the trust, transparency and legitimacy of a corporation. Furthermore, by being good corporate citizens, corporations can reinforce stakeholder loyalty or even turn stakeholders into product endorsers (Du et al., 2010).

In conclusion, it is evident that stakeholders have a significant role in CSR communication. They are the message receivers but also the safeguards of the whole CSR process. However there are great challenges in managing this relation, nonetheless dialogue and participation with the corporations and the stakeholders are best to guarantee a successful CSR communication outcome. Due to the central position that stakeholder have in this research the next section will discuss more about the theory behind stakeholders and their connection with the CSR.

## 2.3. Stakeholder theory

### 2.3.1. The essence of stakeholder theory

“To whom a corporation is primarily responsible?” (Axinn et al., 2004) is central issue in CSR reporting. CRS reports are a way to satisfy stakeholders and so stakeholders should have an imperative role in CSR reporting. In other words, as Smith (2003, p.85) states “CSR is fundamentally about obligations to stakeholders.”

Consequently stakeholders are at the heart of CSR reporting, and to provide an answer to the research question this study employs a stakeholder theory. Stakeholder theory is a managerial theory of business ethics and organizational management that addresses values and morals in managing the organization (Donaldson & Preston, 1995). It is a theory which aims to explain the relationship between business and society (Freeman, 1984, Visser et al., 2007) and its connection with ethics (Visser et al., 2007).

The origin of the theory can be traced back to R.E Freeman and his landmark book *Strategic Management: A Stakeholder Approach* in 1984 (Crane et al., 2008). In his work Freeman (1984) addresses what really counts in creating business profits for a company. At the core of the theory is business value creation by the means of satisfying the stakeholders (Freeman, 1984). The implementation of stakeholder theory emphasizes finding new solutions to keep different interests aligned as opposed to just targeting for the short term profits that might be possible at the expense of one specific stakeholder (Nippala, 2014).

Since its origins, numerous scholars have contributed to the development of stakeholder theory. This has led to three directions of stakeholder theory: descriptive, normative and instrumental. The descriptive theory is used to explain the characteristics of a corporation and more specifically its behaviour (Donaldson & Preston, 1995) (See, for example, Brenner & Cochran, 1991; Donaldson & Preston, 1995). The normative stakeholder theory offers a framework to identify the ethical guidelines from the corporate guidelines. Based on this approach businesses are morally required to respond to the interest of all the stakeholders (Wang, 2011). This approach has been advanced and applied by scholars like Donaldson & Preston (1995) and Phillips (1997).

Third, the instrumental approach explains the connection or lack of connection between the management of stakeholders and achievement of corporate performance goals (Donaldson & Preston, 1995). This approach has been widely advanced by Jones (1995) with the aspiration to synthesise ethics and economics.

Nevertheless the three schools of thought share the same idea, within stakeholder thinking the functioning of corporations and their operations are seen through the concept of stakeholders and its compositions. Näsi (1995) expands this argumentation by stating that the thought behind the theory is that the “holders” who have “stakes” interact with the corporation and hence enable its operations. Carroll (1989) supports this argumentation by identifying three stakes; ownership stake, interest stake and finally legal and moral stake. However, defining the “holders” is not so straightforward.

As Wang (2011) indicates there are many questions in relation to the stakeholder which are not fully embodied. These questions are related to the groups (holders): What are the groups? How many groups must be served? What are the interests of these groups that need to be served? And finally, how can the interests of different groups be balanced? (Jones, 1980)

To advance the theory and to help answer some of these questions Mitchell et al.(1997) have categorized the stakeholder definition into a broad and narrow view. The broad view emphasizes power employed by stakeholders which impact the corporation’s aspirations to achieve their objectives (Dunfee, 2008). An example of this view is Freeman’s (1984, 46) stakeholder definition: *“any group or individual who can affect or be affected by the achievement of the firm’s objective.”* With this definition Freeman (1984) includes owners, workers, customers, suppliers, media, governments and local community as stakeholders of the firms. This school of thought is also supported by Gray et al. (1996) that adds non-human life and next generations to the list of stakeholders. The list for the narrow view is much less extensive. The narrow view focuses on the legitimacy of stakeholders. An example of this view is Freeman & Evan’s (1990) description that stakeholders are no more than contract holders.

In addition to these categories, scholars have developed many other divisions based on the attributes of the stakeholders that help in a firm’s aspirations in stakeholder management (see Brenner, 1993; Freeman,1994; Näsi, 1995).

One of the most significant stakeholder definitions was provided by Eden and Ackermann (1998), who proposed that a stakeholder can be categorized with power and interest. Power is the stakeholder's ability to influence the corporation (Parent & Deephouse, 2007), whereas interest is defined by the amount of 'stake' the stakeholder has in the corporation. By assigning the attributes power and influence one can place the stakeholders on a grid and visualize the importance of a stakeholder (see Figure 4).

Power	High	Watch	Keep satisfied	Actively manage
	Medium	Keep on your side	Keep on your side	Keep on your side
	Low	General communication	Keep informed	Keep informed
		Low	Medium	High
		Interest		

Figure 4 - Power vs interest grid (Adjusted from Eden & Ackermann, 1998)

The extensiveness of the stakeholder theory has caused confusion about the aims and assumptions of the theory. Deegan (2000) argues that it should be considered only as an umbrella term bearing in mind that its development is not fully matured. Vehkaperä (2003) adds to this by indicating that identifying the stakeholders is always circumstantial and influenced by many factors. Next to this, globalization has made stakeholder identification and management even more difficult as corporations are subjected to monitoring an increased range of stakeholder groups (Thompson 2005). Yet at the same time this has made it even more imperative as illustrated in the next section.



### 2.3.2. Stakeholder theory and CSR

The stakeholder theory and CSR are closely linked with one another. They are seen as complementary and supporting rather than conflicting concepts. As Wang (2011) indicates, in CSR it is not enough to focus on determining what corporations are responsible for, but also to whom their responsibility is directed. CSR is the formalization of social obligations and thus follows the objectives and values of society (Bowen, 1953). Clarkson (1995) specifies this statement by indicating that responsibility is limited to the stakeholder groups rather than society as a whole.

In many cases, stakeholder theory and the CSR process has been integrated (Ullman, 1985). Kaler (2006) supports this view by stating that stakeholder theory is a way of making capitalism more equitable in serving the stakeholder interest as well as a way of understanding CSR. Freeman et al. (2002) emphasizes this connection in their research to examine stakeholder theory as part of corporations' functioning. They suggest a new approach to CSR- "company stakeholder responsibility". This approach looks at societies and a corporation's functioning as intertwined and promotes a pragmatic focus on managing the relation with all stakeholders as an essential task for success (Freeman et al., 2002).

Consequently in numerous cases the CSR process has utilized stakeholder theory to maximize the CSR outcome. This however requires a detailed understanding to whom the corporation is responsible for as well as knowledge of attributes of the stakeholders (Wang, 2011).

## 2.4. Organizational legitimacy

### 2.4.1. The essence of legitimacy theory

Legitimacy originates from politics, however in an organizational context it relates to the kind of authority and position that an organization or a member of an organization holds (Warren, 2003). Legitimacy theory postulates that organizations attempt to ensure that their operation is seen legitimate by outside parties (Deegan, 2000). According to the theory only an organization that has a legitimate position in a society can sustain and be profitable. Gray et al.(1996) add to this by stating that an organization can only continue to exist if it is congruent with the value systems that it operates in. Therefore, legitimacy itself can be described as a *“generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions”* (Suchman, 1995, p. 574). The dynamics of its composition is determined not only by material and technological imperatives but also cultural norms and belief systems (Suchman, 1995).

The legitimacy theory is divided into two levels of theory. At the first level, the institutional legitimacy theory seeks to reach extended societal approval; it is considered to be a more stable culturally related concept. At the second level which this study also employs, the organizational legitimacy theory refers to a process of legitimation in which an organization seeks approval from its stakeholders (Kaplan & Ruland, 1991). Schuman (1995) describes this level of legitimacy as an operational resource that corporations extract from their environment and that they use in pursuit of their aims. Organizational legitimacy is seen as a resource like money. It is a necessary resource that corporations need to possess in order to exist (Tilling, 2001). Similarly to money, legitimacy is controllable, where certain actions increase it and others decrease it. Consequently, Tilling (2001) states that low legitimacy can ultimately lead to forfeiture of the corporation license to operate.

However even though organisational legitimacy is seen as a resource and companies can be seen enjoying a certain “amount” of legitimacy, measuring it is very difficult and highly subjective. As an alternative, Tilling (2001) suggest that it can be measured based on the state that the legitimacy has. Hybels (1995) adds to this by stating that the focus should be on investigating the flow of resources from organizational constituencies and the content of communication.

Constituting to this, the organizational legitimacy theory suggest that corporations may be in different levels regarding to their legitimacy. Figure 5 illustrates the four different levels. The first phase is to establish legitimacy, which is related to the very early stages of a company. This state is closely connected to especially the financial competence of a company (Hearit, 1995). The second level is maintaining legitimacy; this is where the majority of the organizations fall into. This phase is equally about the on-going role that includes the assurance that all is good as well as the prevention of potential challenges in legitimacy (Tilling, 2001). The third phase is extending legitimacy which is related to extension of a territory. The fourth and final phase is defending legitimacy. Many corporations fall into this phase temporarily when making dramatic changes like downsizing or experiencing an external shock. At this phase the “Legitimation activities tend to be intense and reactive as management attempts to counter the threat” (Ashford & Gibbs, 1990, p. 183).

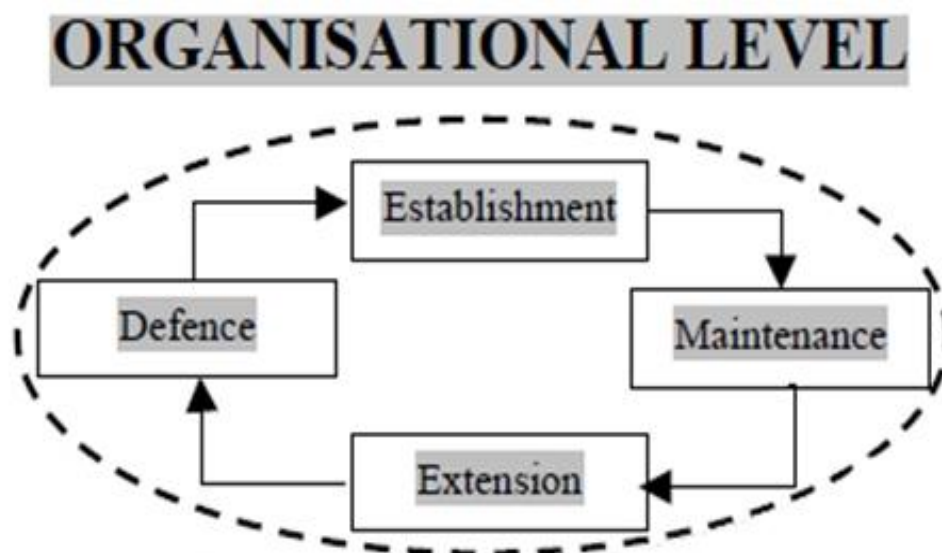


Figure 5 - Organizational legitimacy and its four phases (Adjusted from Tilling, 2001)

The concept of legitimacy is very complex in nature. It is seen as something that an organisation must have in order to function (organisational legitimacy), but at the same time it can be seen as a medium between the stakeholders and the company. To add to this complexity, scholars have not been able to define a way of measuring the state of legitimacy. Consequently the theory around organisational legitimacy is not fully developed. Nonetheless organisational legitimacy is the very essence of CSR communication and thus CSR reporting, gaining it is seen as the desired end product of CSR reporting. Thus the next section will deal with how CSR and organisational



legitimacy have been utilised in passed research but also some succession derived from theory are given how to overcome the difficulty of measuring is given.

#### **2.4.2. Organizational legitimacy and CSR**

Organizational legitimacy theory has become a commonly used theory within the environmental and social accounting area and it has been applied, yet not so extensively, to CSR to get a better understanding of its underlying process (Tilling, 2001). As O'Donovan (2002) argues legitimacy theory helps to understand the mechanism that enable a corporation to create a favourable environment for their business. It helps to examine the "societal contract" that stakeholders grant for businesses that enable them to continue with their practises. As Deegan et al. (2000) indicate, this is the very essence of CSR. Consequently, legitimacy theory offers an influential mechanism for understanding CSR reporting conducted by corporations and a valuable means to understand the message contained in the reports. This study sees it as an imperative theory for building up a research framework. However as indicated in the last section, legitimacy theory is not fully matured and there are some inherent gaps how it can be applied and most of all how it can be measured. Therefore the relation between legitimacy theory and CSR is not without complications.

In most cases organisational legitimacy theory has been used from a managerial viewpoint to improve the CSR process. The perspective is utilized so that it focuses on various strategies that managers may choose to use to remain legitimate (see Deegan et al. 2000; Patten, 1992). However as indicated by Tilling (2001) in the previous chapter, legitimacy does not have a static state, once a company has been granted legitimacy it can as easily lose its position in society. Thus, O'Donovan (2002) argues that legitimacy should be assessed throughout the CSR process to minimize risks and secure stakeholder favourability.

Additionally, legitimacy theory and CSR have been related in terms of CSR communication. Scholars like O'Donovan (2002) Lindblom (1994) and Unerman (2000) see CSR reporting as a legitimation tactic so as a means to reach to organisational legitimacy. It has been argued that managers have used reporting as a way to send specific and tailored information and even to some extent persuaded stakeholders to accept management's views of society (Deegan et al 2000). However the organisational legitimacy has never been examined from the stakeholder viewpoint. Thus it has not been examined whether or not the message from the

managers actually grants the legitimacy that it is intended to reach. As legitimacy is all about doing the right things it becomes a highly subjective concept to measure. Thus, legitimacy is all about the perception of the viewer; in this case the stakeholders view whether or not the CSR reports contain the right things. As Suchman (1995) argues the definition of legitimacy relies on three variables; desirable, proper, or appropriate, from which you can deduce that legitimacy is all about agreement on the content of the message.

Tilling (2001) states that information technology has altered stakeholders' perceptions of the process that lead to legitimacy. Communication from the corporations to the stakeholders is not enough to build a legitimate relationship, the process requires more. Receivers of the messages contained in the CSR reports need to, besides agreeing with the content, also trust that the content is the truth, in other words trust the message. Being transparent in your communication and involving your stakeholders in the process of shaping the report helps them to agree with as well as trust the content

To summarize, organizational legitimacy is a very useful theory to get a better understanding of CSR practises. However it has been applied limitedly and very one sided to illustrate management strategies and not so much whether a message sent by an organisation actually legitimises the business. Hence the stakeholder perspective has been left without attention. Due to the difficulty and immaturity of the theory, applying organizational legitimacy to CSR reporting can only be done by using the basic three variables of the definition which translate to agreement of the content of the reports.

## 3. Data and methods

### 3.1. Analytical framework for the assessment of this research

The nature of this study is explanatory, as little is known about stakeholders' perception in regards to CSR reporting and whether or not it actually fulfils its requirement of providing legitimacy to the corporations (See O'Donovan, 2002; Lindblom, 1994 and Unerman, 2000). The study will employ a qualitative case study that consists of two of the biggest Finnish forest production companies' CSR reports. A single case study method is seen as a way to reach an in-depth knowledge of an area that has not yet been researched to the full extent. As Hirsijärvi et al. (1997) indicate, a case study can be used as a way to build on existing knowledge and develop new information on issues that are less known. Consequently the aspiration of this research project is to view CSR reporting from stakeholders' point of view. This is done by exploring the current state of CSR reporting in the Finnish forest industries as well as by examining the interpretation of the messages contained in these reports and whether this leads to legitimacy.

The analytical framework for this study is constructed based on ideas presented in the theory; CSR, CSR communication, Stakeholder analysis and organisational legitimacy. Earlier studies that have influenced the formation of the framework are; Du et al. (2010), KPMG (2013) and GRI (2014) with their assessment criteria, Suchman (1995) and Tilling (2001) as they address the CSR reporting as a means to communicate.

Figure 6 presents the analytical framework that forms the basis of this research. The framework emphasizes the perception of the stakeholder as it is the central theme in the research objective and research question of this study. The framework consist of two main parts; CSR reporting and stakeholder perception. The two parts are interconnected. The figure illustrates a process where legitimacy is seen as the dependent variable, which is formed by the stakeholder perception of the messages portrayed in the CSR reports.

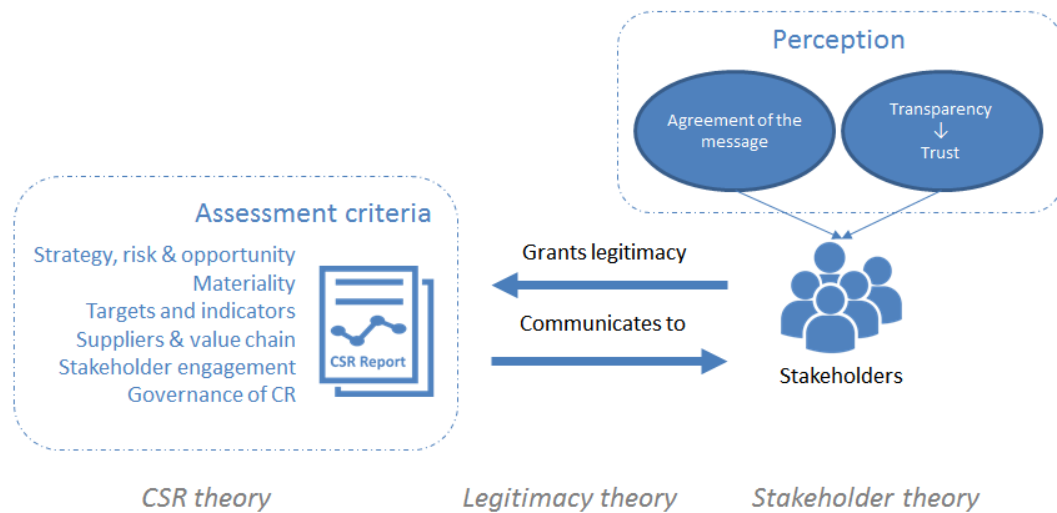


Figure 6 - Analytical framework

As seen from the framework above, with CSR reports a message is communicated to stakeholders. This message will be analysed with the help of six themes (KPMG 2013; GRI 2014). These six themes are used as assessment criteria and seen as independent variables in this study. The aspiration is to examine the robustness of the report content and to draw conclusions of the state of the organisational legitimacy present in the case companies (**sub question 1**). The message is then communicated in the form of CSR reports to the stakeholders who perceive it and value it. The stakeholders will give their opinion if they deem the reports desirable, appropriate or proper, in other words, do they agree with the actions the corporation claims to have done (**sub question 2**). This is in line with Suchman's (1995) argumentation that legitimacy can be defined based on the three variables; desirable, proper, or appropriate. Thus legitimacy is all about agreement on the content of the message. After the stakeholders' agreement of the CSR reports is established, they will indicate how transparent and trustworthy they find the messages (**sub question 3**). Combining sub questions 1 to 3 will find to what extent there is a contribution to the perceived legitimacy from the stakeholders (**sub question 4**) which will then lead to an answer of **the main research question**; as it is established in the analytical framework, stakeholders' perception on legitimacy is dependent on four variables, the content of the reports, the agreements of the message and trust as well as transparency. The analytical framework will be operationalized in paragraph 3.4.

### 3.2. Population of the study

The multivariate data set used in this study was collected in two parts. The first set of data was collected *from CSR reports published by the case companies* Stora Enso and UPM. This study used two CSR reports from both case companies, from 2013 to 2014. The limitation of four reports was made due to the limited time frame of this study and availability of the reports. The limited time frame of the reports is not enough to study the development and trends that are possibly illustrated by reports of many years, though this is seen as something outside the scope of the study. Despite this, some similarities between the case companies' reporting was evident. Both case companies published only one report that combines yearly financial data and all the elements of CSR. The reporting also followed the guidelines of GRI and was audited by a third party. However there were minor differences in reporting. Stora Enso still categorized the different segments of the reporting, having financial reporting in one section and the global responsibility in another. UPM's report follows a more fused model where different segments are not titled.

The second set of data was collected *via stakeholder interviews*. The interviews were conducted in order to expand the information gathered from the reports and to collect first hand data to examine the perceptions of stakeholders in regards to the CSR reporting. Different types of stakeholders were interviewed. The types were chosen based on a stakeholder analysis conducted in the early phase of the research. The types of stakeholders were mapped based on their attribution. (See 5.1 background information)

The first set of interviewees was selected based on desk research, thus nonprobability sampling. They were contacted and asked for an interview. The second set of interviewees was contacted based on the recommendation gathered in the first round, thus snowball sampling (Steinke, 2004). Additionally the selection was purposive; the goal was to get as extensive representation of different stakeholders as possible. Altogether 9 interviews were conducted between May and June 2015. Table 1 provides more detail about the organizational background and the characteristics of the stakeholders who volunteered in the in-depth interviews.

Among the interviews conducted, two interviewees were seen as internal stakeholders representing the case companies. The others were seen to be external stakeholders representing customers, NGO's and investors that oversee or are affected by the CSR process of the case companies. The end users of wood-based

products were left outside of the sampling. A majority of consumers are not knowledgeable enough on CSR reporting to answer questions related to it and they are not actually direct customers of the forest companies.

In addition to the type of stakeholders, also the position and titles of the interviewees varied significantly. Four held the position of a director, two were forest experts and one environmental expert and one environmental communicator. See future details in Table 1.

Role	Type of stakeholder	Type of organization they represent
Forest expert	NGO	Environmental organization that focuses global as well as local environmental issues
Forest expert	NGO	Environmental organisation focus local environmental issues
Director of operation	NGO	International network of social and environmental organization, focus on human- and land rights
Director of operation	NGO	Organisation focused on global corporate responsibility. Seeks to promote ecologically, socially and economically responsibility
Environmental expert	customer	global publishing house, newspapers magazines and books
Environmental communicator	customer	packing manufacturer, market global
Director of Responsible Investments and Governance	Investor	Pension fund
Environmental and CSR director	Forest company's representative (internal stakeholder)	Case company
CSR communicator	Forest company's representative (internal stakeholder)	Case company

Table 1 - List of stakeholders interviewed

### 3.3. Data collection

To carry out the empirical part of the study, two sets of data were collected. Firstly, the CSR reports of the two case companies were downloaded from the webpages of the corporations. The CSR reports are public information and published yearly in the companies' webpages. Two CSR reports from each company were chosen to form the basis of the data. Reports from 2012 to 2014 were selected due to the availability and accuracy of data. The data collected in the CSR reporting aimed to assess the context of the CSR reporting and give an indication of the CSR reporting process.

The second data set was collected using a semi-structured theme interview. The list can be viewed at the end of this study (appendix 1) The aim was to collect the insights that the stakeholders have on the reports; what are their thoughts about transparency, do they feel the information is trustworthy and would they feel the reports grant legitimacy to the company creating it. Altogether 9 interviews were conducted between the 15th of May to the 18th of June 2015. Semi -structured theme interviews were chosen to be the data collection method (see for example Eskola & Suoranta, 1998) because it was perceived to be important to allow the stakeholders to talk freely as well as justify their answers and opinions. However due to the differences between the background and position of the interviewees some structure was seen to be necessary to arrange the flow of the interview and to guarantee the accuracy and reliability of the interviews. During the interviews the themes were discussed freely and without a certain order. In spite of this all the themes were covered. The depth of the themes discussed varied on the interviewee.

Six of the interviews were done face- to- face and three conducted via Skype. Most of the face-to-face interviews took place in the premises of the entity that the stakeholder represented and one interview was done in a café. The Skype interviews were arranged due to scheduling and logistical difficulties. One of the stakeholders asked to see the questions beforehand and had prepared written material for the interview. The interviews lasted from 25 minutes to 1 hour and 40 minutes. All the interviews were conducted in Finnish and later on translated to English by the author.



### 3.4. Operationalization of variables

To reach to the empirical findings of this study the data from the analysis need to be operationalized. Operationalization is the process of defining variables into measurable factors (Eskola & Suoranta, 1998). This is done to guarantee the repeatability of the study, to allow other researchers to follow exactly the same methodology. The operationalization of this study was designed for the multivariate data; the case companies' CSR reports and the semi structured theme interviews. Furthermore it was designed around the three elements from the analytical framework; the six assessment criteria, agreement of the message and transparency and trust.

The first set of data, collected from the CSR reports, was structured around the six assessment criteria. Each of the six variables was operationalized with three components that enable the information to be broken down into more manageable data. Each of these components presented a yes or no statement, building up to 18 statements (Table 2). This was done to establish the current state of CSR reporting in Finnish forest industry (**sub-question 1**). More questions answered with 'yes' means better coverage of the themes in the reports, which provides a good basis for stakeholders to grant legitimacy towards the corporations.

The second set of data, collected with the semi-structure interviews was operationalized similarly using the analytical framework. Firstly the information was broken down into the six themes and three components. The same question which was answered for the CSR reports was answered by the interviewees. This resulted in a view on the agreement of the message by the stakeholders on the CSR reports. (**sub question 2**). It enabled to cross-reference the data provided by the reports to the data provided by the interviewees.

Secondly, the concepts of transparency, and trust were added. For every component the interviewee was asked if they thought the information was transparent and if they trusted the content (**sub question 3**). The answers of three sub questions combined leads to an answer to the contribution of the perceived legitimacy (**sub question 4**). When combining the answers to the four sub questions you can provide an answer to the main question: are CSR reports a way to gain legitimacy? (**main research question**).



Theme	Component 1			Component 2			Component 3		
<b>1. Governance of CR</b>	1.1 Appointed a responsible person that reports to the highest level			1.2 Has a function that manages sustainability on a day-to-day basis			1.3 Links sustainability to remuneration (money/benefits)		
	Agree	Transparency	Trust	Agree	Transparency	Trust	Agree	Transparency	Trust
<b>2. Stakeholder engagement</b>	2.1 Has a process to identify and engage stakeholders			2.2 Responds to stakeholder feedback			2.3 Actively involves stakeholders in the reporting process		
<b>3. Suppliers and the value chain</b>	3.1 Has identified social and environmental impacts of suppliers			3.2 Has requirements for the supply chain and audits this regularly			3.3 Works together with suppliers to help them improve on sustainability		
<b>4. Targets and indicators</b>	4.1 Sets clear time bound targets			4.2 Has a process to measure the targets			4.3 Clearly communicates the progress towards the targets		
<b>5. Materiality</b>	5.1 Identifies material issues			5.2 Has a process to assess the impact of material issues			5.3 Involves stakeholders in assessing material issues		
<b>6. Strategy, risk and opportunity</b>	6.1 How do megatrend impact the business			6.2 Quantified risks and opportunities regarding sustainability			6.3 A strategy for these risks and opportunities		

Table 2 - Operationalization of the assessment criteria

### 3.5. Data analysis process

To analyse the data retrieved from the CSR reports and semi structured interviews, content analysis and coding is used. As a first stage of analysis the CSR reports were read through to get an idea of the structure and the content in the reports, as well as to make a note of the reporting consistencies between the two case companies. As Hsieh & Shannon (2005) argue content analysis is a good means to interpret meanings from text data and to help gain better understanding of the issue or an area under study. The aim of the content analysis was to break the vast information represented in the reports into manageable structures and to be able to focus on information that is relevant in regards to the focus of this study.

The data analysis was executed using six pre developed themes retrieved from the theory. These six themes formed the basis of the assessment criteria and they are illustrated in the analytical framework as well as in the operationalization of variables. These themes enabled to break the information in the reports into manageable structures. Moreover the content of the reports was then coded with a set of deductive and inductive components.

The second set of data, the in-depth theme interviews, was analysed using similar methods. As a first stage the records made from the interviews where transcribed in Finnish then translated to English. In the following stage the transcripts were read through and organized around the six pre developed themes. Thereafter the transcripts were re-read while at the same time making notes and grouping them under new components. During this process notes where made with unclear statement that might fit under several component. The data analysing process utilised the Atlas.ti programme.

### 3.6. Reliability and validity

A research study should always address concerns regarding the reliability and validity of the study (Crittenden & Hill 1971; Hirsijärvi et al. 1997). Reliability can be defined as “the degree to which a measure of a concept is stable” (Bryman & Bell, 2007, p. 731), and validity as “whether an indicator devised to gauge a concept really measures that concept” (Bryman & Bell, 2007, p. 765). Thus in this study, issues such as suitability of methods and accuracy of the data in regards to the research question need to be examined.

This analysis is vital in a qualitative research, since as Hirsijärvi et al. (1997) argues objectivity in its original sense is nearly impossible to reach due to the nature of the research method. Thus to improve the reliability and the reproducibility of this study the research process was reported as detailed as possible in the previous sections. A pragmatic approach was chosen for the content analysis by limiting the set of criteria. The qualitative content analysis is highly subjective to the interpretation of the conductor. Additional challenges are created with the central position of a language; all the interviews were conducted in Finnish and later on translated to English. The process of translating might have some implications in the results of the analysis. In order to minimize this risk, the recordings were listened to carefully and the translated versions were compared with the Finnish records. Additionally one of the interviewees wanted the transcripts for the accuracy of the statements and provided additional feedback.

In regards to validity of the data, there are numerous issues that need to be examined. The stakeholder that were interviewed all had different positions and knowledge level on the topic of CSR and thus this might influence their answers. Additionally this might have affected how the themes and questions were understood. It is also notable that this study addressed highly subjective concepts, like trust. Answers to questions with subjective concepts will naturally yield subjective answers. The interviewees were asked to answer the question from the entity they represented, e.g. the company, but might have been influenced by their personal opinion and for example their worldviews. To minimize these issues a pilot interview was conducted, interviewees were offered questions beforehand and the interviews were standardized in a way that all the themes were covered with each interview. Additionally the interview situation was made as comfortable as possible with a “warm-up” question and background information about the topic.

Confidentiality was also stressed in order for the stakeholder to freely discuss the addressed question.

The sample size of the study stayed relatively small due to the time and research limitations of this study. Another methodology like a survey would have enabled a bigger sample size. However it would not have given such in-depth information. Moreover it needs to be noted that some of the elements in the study are case specific therefore generalization should be done with precaution. In a different context for instance interviewing stakeholders from different cultural backgrounds might give different answers. Thus safeguarding the research process with all possible biases was proven to be extremely challenging.

Rothbauer (2008) argues that biases and research weaknesses are greater in single method and single theory studies, thus to overcome these he proposes a more mixed research. Consequently this study followed the argument; multiple methods are used to minimize the effect of some of the shortcomings and bias that possible accrue in a qualitative research. Multiple theories are combined and two different methods, content analysis and in-depth interviews used increase the understanding of the topic and to make the results as reliable and valid as possible.

## 4. Context

### 4.1. The forest industry in Finland

The forest industry in Finland produces pulp, paper, solid wood and lumber. Besides these traditional segments, bioenergy and more importantly biofuels from wood are emerging new business in the sector (Mikkilä & Toppinen, 2008). The forest industry plays a significant role in Finland's economy, 78 percent of the country's surface is covered with forest and the forest industry is one of the biggest employers in Finland (Luke, 2014). The Finnish forest industry (2014) estimates that the sector employs directly and indirectly 170 000 Finns. Additionally the sector not only provides income and dynamism to rural areas but also accounts for a large share of the country's export (Metsäliitto, 2014).

Thus the relative significance of the forest industry sector is greater than in any other country; nearly a quarter of the country's export comes from this industry sector which is the highest in the world (Diesen, 2007). Moreover, in the past decades the Finnish forest companies have become among the biggest forest companies in the world. The three biggest groups Stora Enso, UPM and metsä-liitto group were among the four biggest in the industry sector in Europe and twelve biggest worldwide. (Finnish Forest Industries Federation 2006)

The significance of the Finnish forest industry both in domestic and global scale is clear. However, in the last decade the industry has suffered from low productivity and overcapacity leading to a significant transformation in the industry. The growth in the demand of printing and writing paper is declining in Europe and North America, thus the production and investments have started to shift to new geographical areas, specifically to Asia and South America. As Diesen (2007) states the future of Finland's forest industries' success will be determined by competitiveness and its ability to change as well as absorb sustainable development as a key component in business. Due to the increase in overseas production the Finnish forest industry needs to be more transparent; stakeholders need to be able to trust that the same sustainability standards are upheld in overseas production as elsewhere.

Consequently CSR has become part of business operation and strategy in Finnish forest industry. Therefore it is essential that its quality and ability to satisfy the stakeholders - those whom the CSR is primarily directed - needs to be investigated. In

other words, the main CSR communication channels need to be examined as to their transparency, ability to create trust, and whether this leads to transparency.

#### **4.2. Corporate social responsibility in forest industry**

Forest has a significant role in society; it is part of cultural heritage and a birthplace for national identity, providing services and livelihood to various stakeholders. Therefore people tend to have an emotional connection with forests leading to significant public scrutiny towards the industry (Panwar & Hansen, 2008).

The discussion about forest industries' responsibility to its surroundings started with environmental discourse in the 1970's. The discussion was mainly centred on air and water pollution, but it continued towards recycling and chemical safety. By the 1990's the discussion moved towards forest management and forest certification schemes, e.g FSC and PEFC (Castka et al., 2004; Hahn, 2012; Johansson, 2012). These certification schemes were seen essential to sustainable forest management, prevention of illegal logging and enabling to track down the origin of the wood (Ranängen & Zobel 2014). In the mid 1990's the industry became more familiar with CSR through the increased use of environmental reports (Panwar et al. 2006). Since then, CSR has become a central concept in the forest sector (Vidal & Kozak 2008).

According to Han et al (2013) CSR has become a synonym for sustainable development in the forest industry. The implementation for CSR usually follows the "triple-bottom line" -model with social, economic and environmental dimensions. However, Vidal and Kozak (2008) as well as Panwar et al. (2006) criticizes that in the case of the forest industry the emphasis has been on environmental and economic matters in favour of social responsibility.

### 4.3. Presentation of the case companies

To examine the industry more profoundly and to remain in the timeframe of this study, two forest corporations were chosen to form the basis of this research; Stora Enso and UPM. The two represent the biggest forest corporations in Finland and are among the biggest industry representatives in the world. Both companies are presented below with a brief introduction of the history and of its core functioning. In addition some facts and figures are provided to illustrate a complete picture.

#### **Stora Enso**

*Stora Enso* is a leading manufacturer of wood based products. The corporation has a long history, but in its present form it has existed since 1998 when Swedish Kopparbergs Bergslags AB or Stora AB and the Finnish Enso Oyj merged. The corporation has become a global paper, forest products and packaging company that produce newsprint and book paper, magazine paper, fine paper, consumer board, industrial packaging, renewable building solutions and innovations in biomaterials. (Stora Enso 2014).

Measuring by sales it is the largest industry representative in Finland. The corporation has 27 000 employees in more than 35 countries and is publicly traded in the Helsinki and Stockholm stock market (Stora Enso, 2014). Next to its traditional market areas Europe and Russia it has started to focus its business operations on growth markets like Asia and South- America. Brazil and Uruguay have become strategically important for low-cost pulp from tree plantations and a lot of the production facilities have moved there in the last decade. Asia, especially China is one fastest growing market areas. Stora Enso has several facilities in the country as well as land ownership of eucalyptus plantations. Additionally the company has operations in Laos and Pakistan.

Basic information about Stora Enso is gathered in Table 3.

Indicator	2012	2013	2014
Sales €B	10.8	10.6	10.2
operational profit €M	0.7	0.1	0.4
Nr of employees	28.000	28.000	27.000

Table 3 - Basic information about Stora Enso

Stora Enso published its first environmental report in 1998 which has since then transformed to an all-encompassing CSR report that is published yearly. Moreover CSR has become one of the key business criteria of the corporation. Stora Enso has also qualified for inclusion in RobecoSAM's 2015 Sustainability Yearbook and received the Bronze Class distinction for excellent sustainability performance. In the recent past, it has also been included in the Dow Jones Sustainability Indices, World's Most Ethical Companies and Forest Footprint Disclosure.

## UPM

UPM is the second biggest forest production company in Finland and UPM shares are listed on the NASDAQ OMX and Helsinki stock exchange. The corporation was formed by the merger of Kymmene Corporation, Repola Ltd and its subsidiary United Paper Mills Ltd in 1996. UPM as today consist of six business groups: UPM Biorefining, UPM Energy, UPM Paper Asia, UPM Raflatac, UPM Paper ENA and UPM Plywood. UPM produces the following: paper, energy, biofuels, pulp, timber, label materials, plywood and bio composites. As a global industry it has branched its facilities throughout the world and today it has production plants in 13 countries and it employs 20 000 people in 45 counties across six continents. Its biggest pulp production facilities are located in Finland and Uruguay and it has 20 paper mills mostly located in Europe as well as in China and United States (UPM 2014 ).

Indicator	2012	2013	2014
Sales €M	10.4	10.1	9.9
Operating Profit €B	-1.4	1.2	1.3
Nr of employees	22.000	21.000	20.000

Table 4 - Basic information about UPM



UPM is stated to be a one of the front runners in regards to CSR and promoting sustainable development in business. It has a long history on issues related to CSR. It started publishing CSR reports from 1996, among the first in the industry. In addition UPM got recognition for its work from highly regarded sustainability indexes; the Dow Jones Sustainability Indices (DJSI) and The RobecoSAM sustainability yearbook classified the company as an industry leader in sustainability

## 5. Empirical findings

### 5.1. Stakeholder mapping

It can be argued that CSR communication is to a large extent satisfying the stakeholders' needs. As Axinn et al. (2004) indicate, it is as important to determine to whom the CSR reporting is directed as to determine what corporations are responsible for. Thus to follow the objective of this study and to answer to the main research question, the first step in the analysis is to list the stakeholders and map them according to their attributes: power/influence and interest. (See Eden & Ackermann, 1998)

The stakeholder list is based on preliminary research and brainstorming with forest company representatives, after which the interest they have in forest companies' CSR reporting and the power/influence they possess towards forming the reports was analysed. The power and interest of the stakeholders is based upon information from the theory and from exploring stakeholder's webpages.

		<b>Watch</b>	<b>Keep satisfied</b>	<b>Actively manage</b>
	High	Media	Investors NGO's	Customers Governments
Power	Medium	<b>Keep on your side</b> Consumers Partners & Suppliers	<b>Keep on your side</b> Forest owners	<b>Keep on your side</b> Local communities
	Low	<b>General communication</b> Employees	<b>Keep informed</b>	<b>Keep informed</b>
		Low	Medium	High
		<b>Interest</b>		

Figure 7 - Stakeholders mapped

Figure 7 indicates the results of this analysis. The stakeholders that were seen to have the highest power/influence and interest towards CSR reporting are categorized under “actively managed” and “keep satisfied”. The “actively managed” are those who are seen to possess the most influence in means of affecting the CSR reports and have the highest interest in the CSR reports. The influence and interest is slightly less for the “keep satisfied” category, but still they are seen as important stakeholders for the scope of this study.

The customers and the government are seen to be key stakeholders in relation to CSR reporting. Customers are those who buy the end-products that UPM and Stora Enso produces. They are the ones who influence the economic viability of the company and those who guide the CSR practices based on their requirements and information needs. Among the main customers include packaging, joinery and construction industries as well as printing houses, publishers and paper merchants. The government is also seen as a key stakeholder of CSR reporting. The government is the one that grants the license to operate and dictates the law and regulations in which the corporation has to function. As Gray et al. (1996) argue, an organization can only continue to exist if it is congruent with the systems that it operates in. It needs to be noted here that this study looks only at the Finnish government as a stakeholder; however Stora Enso and UPM have a CSR responsibility in other countries they operate in.

Other key stakeholders are the investors and the NGOs. Investors have a significant role in financing the companies. They are interested in the long term profitability of the corporations whose stocks they purchase. In today’s interconnected world, issues of sustainable development play a major part in a firm’s profitability and thus interests in CSR are increasing. Major investors in Stora Enso and UPM are investment and pension funds.

Last but not least, NGOs are seen to be a significant key stakeholder group. They can be seen as the watchdogs of the CSR operations. NGOs can function as opinion leaders of the public and local communities. They are seen to be an important link between the corporations and the local communities, and thus cooperation with them is essential to retain operational legitimacy. It should be noted that NGOs represent a heterogeneous group in terms of the resources and the area of interest in regards to CSR. This study used non probability sampling to get a representative NGO stakeholder group for the interviews.

Summarizing, there are many stakeholder groups that are seen to have a part in CSR reporting of the forest industries. However, their attributes in regards to the power/influence they possess towards forming the reports vary significantly. Thus a simple stakeholder mapping was done to provide valuable information and scope the stakeholders for the interviews. The most important stakeholders for CSR reporting are customers and government representatives as well as investors and NGOs. Therefore these stakeholder groups were chosen to be interviewed.

## 5.2. Current state of CSR reporting

This chapter is set up to characterise the current state of CSR reporting in the Finnish forest industry. The aim was to assess how thoroughly the six themes derived from the theory were presented in the reports, as well as to draw conclusions on the state of the legitimacy that the industry has (see Tilling, 2001 and Shuman 1995). To structure these empirical findings, the data from the CSR reports was grouped according to the six themes and three components. Each of these eighteen components consists of a yes or no statement, whether the questions were addressed or not. The conclusion of this will be presented at the end of this chapter.

In total 1037 observations were made regarding the six criteria. Figure 8 shows the weight of each theme. ‘Suppliers and value chain’ was the most represented category, followed by ‘materiality’ and ‘targets and indicators’. This is not unexpected due to the nature of the industry. The forest industry is seen as an industry sector with significant impacts in terms of nature and society (Panwar et al. 2006, Vidal and Kozak 2008, Han et al. 2013). The forest industry’s impacts are associated to be either at the beginning or at the end of the value chain, thus it is important to report on these activities to the stakeholder.

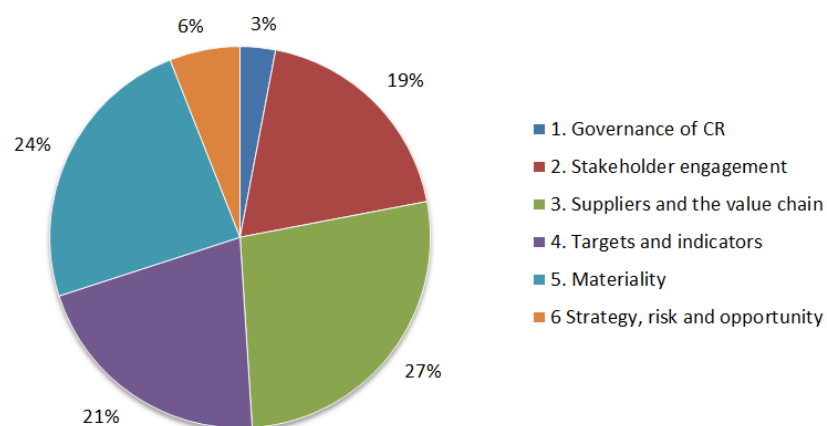


Figure 8 - The distribution of the criterias in the case companies CSR reports

To provide a more detailed description and to establish the current state of the forest industries' CSR reports and its legitimacy each of these six assessment criteria and the findings will be elaborated on in a separate paragraph of this chapter. Special notice is given towards the qualitative data. The chapters start with discussion why each theme is a significant quality criterion and from there the chapters are structured to answer the questions with which to assess the CSR reports.

### 5.2.1. Governance of CSR

To create a trustworthy and reliable communication in regards to CSR practices, corporations need to indicate their investment in and commitment to CSR in the reports. Corporations that take CSR seriously need to specify the governance structure and accountability of CSR related issues. Indicating commitment on a broad level is crucial to assure that CSR is embedded in the organization and to assure that adequate resources and management structures are presented to guarantee that CSR delivers what it is supposed to deliver. Additionally it is important that sustainability related issues are linked with remunerations. This enforces and strengthens the position of CSR in corporation and communicating these activates clearly builds trust from stakeholders (Dawkins, 2004; Forehand & Grier, 2003; Halme et al. 2011) .

This study tries to find if the case corporations' CSR reports specify information about the following statements:

- has appointed a primary person and/or function with ultimate responsibility for CSR at the highest levels of the organization
- has an individual/function that manages sustainability on a day-to-day basis and reports to the company board
- links sustainability performance to remuneration (money/benefits)

Governance of CSR was the least frequently referred to category, yielding only 6 % of the observations. The sub-categories that were referred to in this theme were; governance, executive board, board members, secretariat and finally remunerations.

Both corporations indicate that the ultimate responsibility is held by the CEO and the board members. The day-to-day activities of CSR are in both case companies governed by a separate sustainability unit, which administers CSR related data from different departments and from stakeholders. Both case companies work with

recommendations of the Finnish Corporate Governance Code of 2010, published by the Securities Market Association. Besides this, each corporation has a code-of-conduct that guides their employees with actions related to CSR and towards outside stakeholders. Both case companies recognise and claim to follow the legal requirements relating to their operational activities. However, it did not become clear what are the grounds to compensate employees and it does not become clear in either report to what extent third party incidents or sub-contractors are related to the remunerations.

Overall, the governance of CSR related activities in the case companies are recognised and organised, indicating that responsibilities of CSR related activities are well established. This is in line with Tilling's (2001) argumentation for established organisational legitimacy. Additionally, the authority that holds the responsibility is indicated and the administration of day-to-day activities is recognised. The last criterion related to remunerations is not addressed in the reports.

### 5.2.2. Stakeholder engagement

Stakeholder engagement is perceived to be increasingly important in the digital age. Internet based communication and social media have created a global community of stakeholders that function as watchdogs for the operations. As indicated by Onkila et al. (2011) the expectations of stakeholders towards businesses with regard to transparency are increasing and stakeholders have become more knowledgeable and more demanding in areas related to CSR activities. In other words, today's corporations have to operate in an age of openness and transparency (Deegan 2002; Morsing & Schultz 2006). They need to reach out and involve a wider range of stakeholders. The communication in CSR related activities need to be interactive to guarantee the maximum outcome of CSR activities i.e. it is a means to avoid damages in reputation, risks and conflicts but also because it can function as a source of innovation and a way to examine future opportunities. Additionally Bansal (2002), states that involvement from stakeholders is imperative to create a trust based relationship that is important when seeking longer term fruitful partnerships.

This study tries to find if the case corporations' CSR reports specify information about the following statements:

- Has a process to engage with stakeholders
- Responds to stakeholder feedback

- Actively involve stakeholders in the reporting practises in in the process of CSR

Stakeholder engagement yielded 16% of all observations. The sub-categories for analysis for this theme were; Stakeholders, Stakeholder involvement in sustainability related issues, shared value creation, community involvement, dialogue between parties, partnerships and cooperation.

Both case companies place stakeholders at the core of their CSR practises. The definition of the concept of stakeholder follows the commonly used and rather abstruse definition of Donaldson and Preston (1995), where stakeholders are identified as those who are affected or will be affected by action and operations of the corporations. Neither of the corporations take a wider definition of the concept which extends to those with morals investments or indicated future generations as part of the group (Gray et al. 1996). Additionally the important stakeholders are identified and named. However, it does not become clear what are the attributions of these stakeholders and why are they seen to have such important role in CSR reporting and practises.

Stakeholder engagement and stakeholder involvement were frequently referred to categories. Stora Enso indicate that they have many channels to engage their stakeholders: they list fairs, community events, public hearings and open house events as a way to reach and involve a large variety of different stakeholder groups. Additionally they indicate receiving stakeholder feedback through grievance channels, trade unions and surveys on customer and employee satisfaction levels. Moreover they mention having continuous dialogues with NGOs, both globally and locally. Stora Enso's 2014 report is greatly influenced by stakeholder involvement. At the start of the year a global responsibility online advisory panel was launched and local and global stakeholders were asked to participate and indicate their preference and worries in CSR related topics. This created a materiality matrix which indicates the scope and position of CSR related topics that stakeholders wish that the company would address in their CSR reports. Consequently the 2014 report's content follows these themes. UPM's stakeholder engagement is represented in their reports more limitedly. They indicate the importance of partnerships with NGOs and customers. The recognised channels for this are round table discussions and surveys as well as open house events and seminars.

The last theme to evaluate in the reports in this section is the response of the case companies towards stakeholder feedback. Stora Enso had a separate paragraph for major stakeholders concerns in both reports. The paragraph dealt with the themes that stakeholders had raised as an issue, and the corporation indicated their actions taken to mitigate these concerns. Additionally the company gives examples of cases in its regional focus areas South America and Asia, in which they indicate the progress that has taken place in these areas. Similarly UPM addresses the stakeholder feedback, but no future details are given about where the concerns are originating from and there is no mention of previous years' concerns other than the thematic case examples.

Overall it seems that stakeholders are well recognised in both case companies' reports and they are given a central position in CSR related activities. The channels of stakeholder engagement and involvement are versatile. However it is evident that both case companies put customers as one of the main stakeholders to manage. New ways of cooperation with NGOs, in the form of partnerships and shared value creation, was also indicated in the reports. Thus to follow the line of Tilling's (2001) argumentation of extended organizational legitimacy, corporations are clearly trying to expand their legitimacy with new ways of working and creating strong alliances with customers as well as establishing new ways of working with NGOs. However responding to the stakeholder feedback about challenging issues is a clear opportunity for improvement. The reports would benefit adding a stakeholder voice to create transparency and generate trust.

### **5.2.3. Suppliers and the value chain**

A significant impact of the forest industry on sustainability can be found outside of its main operation, namely in its value chain. The impacts of the upstream value chain contain social and environmental impacts of the suppliers, and the downstream value chain contains the product end of life activities; the use and disposal yields can have bigger impacts than production itself. Thus the value chain needs to be kept to the same standards than production itself. Olkila et al. (2011) argue that stakeholders have become more knowledgeable on issues related to supplier and the value chain and therefore they have started to require transparency and openness in the information related to these issues.

This study tries to find if the case corporations' CSR reports specify information about the following statements:



- has identified the social and environmental impacts of suppliers and works together with suppliers to help them improve on sustainability
- has requirements for the supply chain and audits this regularly
- has identified the impacts associated with the use and disposal of its products and services

The supplier and value chain was the most frequently referred to category, yielding 27% of all observations. The sub categories that referred to this theme were environmental impacts of suppliers, social impacts of suppliers, use and disposal of the product.

### *Supplier code of conduct*

The CSR reports of both case companies have established a code of conduct for their suppliers. Their codes of conduct cover environmental and social topics. It is indicated in each report that corporations regularly audit their suppliers to find out if they live up to this code. When suppliers do not fulfil the criteria they will be supported with their issues or, after repeated problems, contracts will be terminated. As an illustration, in 2014 Stora Enso was reported to have terminated contracts with seven suppliers due to violations of their supplier code of conduct. Additionally the companies enforce and encourage suppliers to use quality standards (i.e. ISO- series EMS ILO among others were mentioned) as well as certification schemes (wood certifications systems FSC and PEFC). For the social topics the code of conduct requires suppliers to follow the human and labour rights. Yet the discussion over these issues is not elaborated in full detail. Both case companies argue in line with the code of conduct without going to the actual context of the issue. This is especially lacking with social impacts, the reports merely state that they have imposed quality standards and auditing systems towards the suppliers.

### *Use and disposal of products*

Circular economy is mentioned as business strategy in all the reports. Stora Enso as well as UPM recognises the end of life streams as a resource and aims to optimise the side streams with business innovations. Next to giving value to the waste material and seeing its utilization as a business strategy, the reports highlight the renewability and recyclability of their products. Additionally both Stora Enso and UPM indicate a safe use phase of their product as a market advantage compared to competitors with similar products. They also assure that their products do not contain any hazardous chemicals that would influence the use or the recyclability of the products. Both companies mention successes in regards to recycling of paper

fibre abundantly, however any difficulties are omitted from the reports. Using recycled fibres has become a central issue in both case companies. The companies acknowledge that maximising the reuse of fibres ensures the efficient use of raw materials, thus saving natural and financial resources. Stora Enso indicates working closely with municipalities and local authorities to secure the old paper. In Poland the company owns over 30 depots and in Spain active lobbying is done to increase recycling activities. The European activities are illustrated as a triumph and a total of 72% of all paper is recycled there. However Asia and areas like China with vast paper consumption are omitted and activities related to the improvement of this situation is not reported.

Overall the supply chain is covered with the code of conduct that deals with social and environmental issues. However it is evident that the environmental issues are covered more extensively than the social issues. The suppliers are audit regularly and are held accountable in regards to the code of conduct. Additionally the recycling activities paint a very one sided picture where only the success stories are reported.

#### **5.2.4. Targets and indicators**

Reporting clear targets and indicators is critical in order to improve CSR performance over time, but also to strengthen the communication with the stakeholders in a way that they can follow the progress of CSR performance. Consequently targets with clear time boundaries and robust indicators also improve the quality of the communication. This way they indicate that the message given is transparent and easily understandable and stakeholders can follow it without going into specifics of the reporting (Goedelnik, 2012).

This study tries to find out if the case corporations' CSR reports specify information about the following statements:

- Sets clear time bound targets
- Has a process to measure the set targets
- Clearly communicates the progress towards the targets

Targets and indicators was the third most frequently referred to category with 21 % of all the observations. The subcategories of this theme were; economic indicators, local environmental indicators, global environmental indicators and social indicators.



Both case companies report several key performance indicators (KPI) that form the basis of the corporation's targets and indicators. In relation to the KPI's the corporations have set clear time bounds for the targets as well as indicated the performance improvement from previous years. Additionally Stora Enso, in their 2014 report, indicates the progress it makes towards reaching each target. Both companies categorise these KPI's according to the triple bottom line (see Perrini, 2003). They include targets related to economic, environmental and social responsibilities. However the environmental indicators have clearly the main focus in the reports.

Both corporations' CSR reports give an indication of the process how the targets are measured and why the specific indicators were chosen to have the focus. Reporting environment management systems like ISO 14 001 as well certification and labelling held a central position. An example of this is the use rate of certified wood in the corporation's processes. Certification is seen as a credible way to indicate sustainable forest management practises, additionally companies emphasis in their communication that with the certified raw materials also the social, environmental and economic aspects are taken into account. The central position of certification systems and labelling is in line with previous research conducted by Reynolds & Yuthas (2007). The use of labelling and certification was seen as a way of convincing stakeholders of sustainable practises and increate added value in terms of trust and loyalty towards the brand.

Another example as a process of measurement is the use of their code of conduct. The code of conduct sets the minimum sustainability requirement for the suppliers and thus responsible sourcing is included in both corporations' KPI. UPM's KPI is to qualify 80% of suppliers based on the UPM Supplier Code by the end of 2015 and to have continuous supplier auditing in place based on systematic risk assessment practices. In 2014, 67% UPM's of supplier spend was qualified against the supplier code. Next to the supplier code of conduct Stora Enso has developed a new indicator to concentrate more thoroughly to human rights issues. This indicator was introduced in the 2014 report. Consequently as indicated before, the social indicators and the targets related to it are in the minority compared to environmental targets. However there is a clear transition happening and social issues are getting more attention.

What comes to the clarity of communication, both corporations summarize their targets and KPI's in the form of a table and with illustrations (e.g. Figure 9). Additionally Stora Enso has a separate paragraph relating to each theme of responsibility. However neither report contains criticism of the achievement of the targets. The reporting related to the targets and indicators is reported in a very positive tone.

Overall both case companies fulfil the criteria of targets and indicators. Both corporations have clear targets in their CSR reports and they are time bound as well as the progress from previous years is indicated. The KPIs are robust and well explained. As a word of critique, no voice of concern is given in relation to these themes. The majority of the KPIs are of quantifiable issues, like CO2 emissions; social indicators which do not translate easily into numbers get a lot less attention.

### 5.2.5. Materiality

The forest industry utilises a significant amount of raw material as a basis for its production. Due to the intensive raw material basis it is essential to look at materiality in relation to CSR reporting. As KPMG (2013) indicates, social and environmental impacts of companies are various and many. Thus it is imperative to identify and prioritise these issues to make CSR communication clear and understandable. As Du et al. (2010) argue it is difficult to create a CSR message that fulfils all the stakeholders and their diversity of information needs. However it is imperative to make a clear understandable message about the material used and produced from the production process, so stakeholders can make comparisons and follow the progress. Materiality is understood as a raw material and other materials (water, chemicals, fuels, and external biomass) used in the production as well as the intermediate stages, e.g. transportation. Additionally in order to create a transparent message it is imperative to indicate why these materiality issues are given such a priority.

This study tries to find if the case corporations' CSR reports specify information about the following statements:

- Identifies material issues
- Has a process to address the impacts of material issues
- Involves stakeholders in assessing material issues.

Materiality got 24 % of all the observations. This high percentage is not unexpected due to the intensive raw material basis of the industry. The subcategories used to refer to the issues were material efficiency and reduction of waste loads, water efficiency and management, energy efficiency and management, chemical safety and management and finally material sustainability and stakeholder involvement.

Both case companies recognise materiality issues as a significant theme in their CSR reports. Stora Enso illustrates all the material used in 2014 in a process picture (see Figure 9). This illustration indicates all the materiality and their volume used in production during the year 2014. UPM has a similar process illustration however this does not include volumes of the different streams. Many of the materiality impacts are covered with KPI's and some of the issues were discussed already (See Targets and indicators). One example of a materiality issue is the total volume of landfilled materials. Additionally Stora Enso is creating a materiality index that will be launched in the 2015 report. The materiality index is created to get an overview of all the material issues. Neither company indicates any cumulative effects that appear due to material issues. Additionally the process description and the impacts are illustrated with figures; no qualitative approaches like case examples are included to strengthen their argumentation. Next to this the carbon emissions reported do not include transportation effects only process emissions are considered.

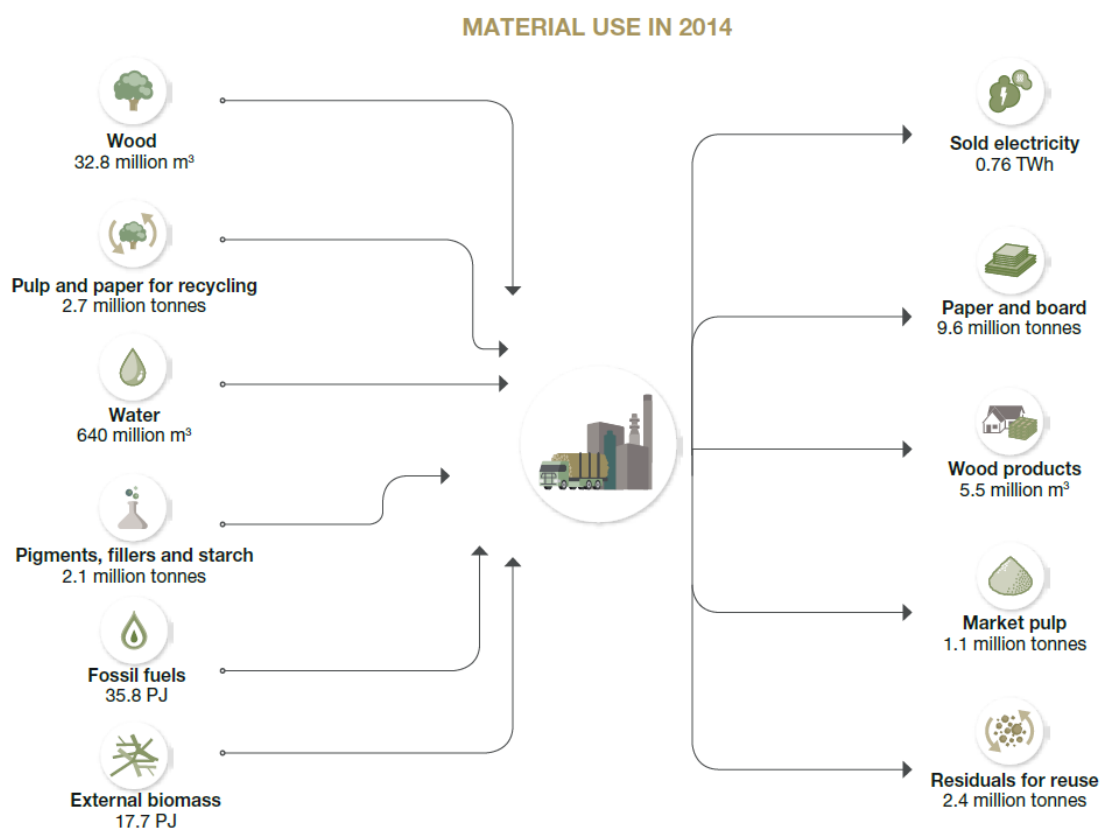


Figure 9 - Material use in 2014 in Stora Enso

Materiality in relation to stakeholders is covered well. Both companies indicate that the coverage of materiality issues are based on stakeholder's concerns and their feedback. The possibilities for stakeholders to get involved are customer satisfaction surveys, round-table conversations and through partnerships with NGOs. Both Stora Enso and UPM name several NGOs and research centres that they cooperate with in developing their KPIs.

Overall materiality is a fundamental issue in the corporations' CSR reporting. Both corporations identify material streams and give KPIs to track and monitor their development. The corporations are actively working on decreasing the impacts of material issues. The analysis however, revealed that in order to monitor materiality related issues a lot of quantitative measures were used. To strengthen the argumentation and the quality of the materiality monitoring some qualitative measures could provide a more thorough way of communicating. Finally the stakeholders seem to be well involved with materiality related issues. Many stakeholders are identified as key collaborators and a variety of channels are indicated.

#### **5.2.6. Strategy, risk and opportunity**

The forest industry has an intensive raw material basis and through its functioning it has an effect on social and environmental issues as well as an impact on the economy. However the business operation does not function in vacuum. Changes affect the business; guide future strategies, lead to new opportunities but at the same time pose great risks towards the whole operation. KPMG (2013) indicates that businesses are faced with a changing world, a world increasingly shaped by environmental and social megatrends. These include; the material resource scarcity, water scarcity, ecosystems decline, food security, changes in wealth patterns, populating growth, urbanization and climate change. Additionally many of these mega forces are interlinked in complex systems. Consequently it is important to report on future issues to show stakeholders that the corporation is prepared for future challenges.

This study tries to find if the case corporations' CSR reports specify information about the following statements:

- Is aware of mega forces and their impact on the corporation
- Quantifies the opportunities and risks related to business
- Has strategy in place for these risks and opportunities

Strategy, risk and opportunity got 6 % of the total observations. The subcategories that were used in the analysis were economical megatrends, social megatrend and environmental megatrends, strategies and ways to minimise megatrends.

Stora Enso and UPM are aware of mega forces or megatrends as they are called in the CSR reports. Megatrends that are named are biodiversity losses, water scarcity, raw material scarcity, energy scarcity, climate change, demographic changes and changes in the economic powers. The focus of megatrend communication is on environmental threats. The most referred category in relation to environmental megatrends is climate change. The effects of climate change from physical impacts such as floods, storms, sea-level rise and water scarcity are focussed on damages to assets and supply chain. Social effects of climate change are not mentioned in the reports at all. Other impacts that are well presented in the reports are economical megatrends those affecting the competitiveness of the corporation; impacts of fast changing market dynamics, uncertainty and fluctuations of supply and price volatility for raw materials. As mentioned, social issues are very limitedly mentioned in the reports; issues like food shortage and poverty are not mentioned in the reports at all.

In relation to risk management and seeing the opportunities related to risks, both corporations concentrate on communicating issues related to climate change and the opportunities that this may create. Due to the nature of their business operation, the paper industry has a significant energy demand. The corporations acknowledge especially the carbon emissions related to their paper mill operations. Thus CO<sub>2</sub> emissions from the mills are one of the KPI's that is used to measure and benchmark the progress. Additionally both companies monitor their carbon footprint and this similarly is used as a KPI. Despite the centrality of climate change, issues like indirect carbon emission due to the land use change are not mentioned and transportation's influence on the total carbon footprint is not clearly communicated. Other risks that the reports devote a lot of attention are water scarcity and biodiversity losses. Both are quantified and measured with KPI's. Stora Enso additionally state that none of its papers mills are located in water scarce areas therefore the effect for the business operations is seemed small. However no aggregate figure is given to indicate the megatrends total impact on the business.

The strategy placed to minimise the risk for megatrends are closely related to the KPI's and the set targets. Additionally companies promote their products as renewable and their processes as carbon storing. Wood based products are seen as an answer to material scarcity. UPM calls this 'the Biofore strategy'. The cornerstones of its idea are the versatile use of renewable and recyclable wood biomass combined with innovation, efficiency and sustainability. This has received a lot of recognition and UPM received the highest score for its climate change disclosure in the Nordic Carbon Disclosure Leadership Index and UPM was named 'Most Innovative Company' by Ethical Corporation Awards in 2012. Additionally UPM was listed as the only forestry and Paper Company worldwide in the Dow Jones Sustainability Indexes (DJSI). In particular, UPM was given recognition for its high environmental performance, as well as its strong focus on the increased transparency of its corporate responsibility reporting. This high recognition from many authorities suggest a high quality and thorough CSR reporting which translates to an extended level of organizational legitimacy (Tilling, 2001).

Overall the risk, strategies and opportunities are communicated in a very one-sided way. The main megatrend that is named is climate change. The communication is mainly focused on quantifying and following CO<sub>2</sub> emissions. The interconnectedness between climate change and other megatrends is not mentioned, neither are its social aspects. When it comes to other megatrends, they are minimally represented in the reports. The message for this theme remains hollow, and no real solution or impacts were discovered beyond climate change. There is a clear need to address social issues and other megatrends more extensively.



### 5.2.7. Sub conclusion

This chapter was set up to characterize the current state of CSR reporting in the Finnish forest industry (**sub-question 1**). Six themes were used as assessment criteria which were drawn from KPMG's (2013) framework which utilizes GRI's guidelines. Table 5 summarises the findings of the assessment. The symbols present the coverage of each theme in the CSR reports; green symbolises that the answer to the question is well covered; orange indicates that there is some information lacking and finally red indicates that no answer can be given to the proposed question, because the information cannot be found.

Based on the findings the case companies CSR reports are very thorough, giving in-depth knowledge and addressing robustly on responsibilities of sustainable development. The reports address almost all the criteria of the framework. The only information missing is the connection between sustainability and remuneration. The content analysis of the reports revealed that suppliers and value chain as well as materiality, targets and indicators were the most referred categories. This can be seen from Table 5. However the main impacts identified by the suppliers were environmental impacts. The social impacts were addressed very limitedly and the reports fail to mention the interconnectedness of many environmental and social issues.

Additionally the content analysis revealed that illustrating the environmental responsibilities, labelling, certification and environmental managements systems (e.g FSC, PEFC and ISO 14 001) got lot of attention. On the other hand management systems to illustrate social responsibilities did not get a lot of attention. For instance ISO 26 000 for social responsibility was not mentioned in any of the reports, even though ISO 14001, covering environmental responsibility was mentioned multiple times. At the current state both companies address social responsibilities with a company specific code of conduct. The code of conduct outlines the sustainability standards of the company illustrating the framework of norms and values of the corporation. It is used as a baseline for auditing and entails references to labor and human rights. Other than that, indicators directly addressing social responsibilities seem scarce. However some development is noticed, for example Stora Enso has put human rights into one of its indicators in their 2014 report.

The dominance of communicating environmental responsibilities is also evident when it comes to the theme of strategy, risks and opportunity. The communication

centred on climate change and the focus was on the environmental effects, like sea level rise. However the reports fail to mention other effect of climate change, e.g. poverty.

	Component 1	Component 2	Component 3
<b>1. Governance of CR</b>	1.1 Responsible person ✓	1.2 Sustainability function ✓	1.3 Links remuneration -
<b>2. Stakeholder engagement</b>	2.1 Has a process ✓	2.2 Responds to feedback -	2.3 Actively involves ✓
<b>3. Suppliers and the value chain</b>	3.1 Identified impacts -	3.2 Requirements & audits ✓	3.3 Works with suppliers -
<b>4. targets and indicators</b>	4.1 Time bound ✓	4.2 Measuring process ✓	4.3 Communicates progress ✓
<b>5. Materiality</b>	5.1 Material issues ✓	5.2 Impact assessment ✓	5.3 Involve stakeholders ✓
<b>6 Strategy, risk and opportunity</b>	6.1 Megaforces -	6.2 Quantified risks -	6.3 strategy -

Table 5 - Results of the assessment of the CSR reports

In general the reports concentrate on positive messages. Emphasising what can be seen as a success and not so much on the improvement areas or addressing responsibilities what the corporations are struggling against. Even though the stakeholders seem to be well addressed and a multitude of feedback channels are provided, critical stakeholder voices are not presented in the reports. Thus giving a place to address the critical concerns of stakeholders would be a good addition to increase transparency and trustworthiness.

In conclusion, it is evident that CSR reporting is well established in the case companies. The findings indicate that the multitude of themes looked at are addressed very robustly and comprehensively. Stakeholders are seen to be at the heart of CSR communication; however the critical voices seem to be overshadowed with the positive style of reporting. Consequently we can deduct from the reports that that the case companies' CSR activities reach the extension level of organisational legitimacy and are beyond Tilling's (2001) levels of establishment and maintenance.

### 5.3. Stakeholders' perceptions

This chapter presents how the stakeholders perceive the CSR reports and to what extent the CSR reports are transparent and build trust from the stakeholders. The aim is to find out with the help of six themes and three components if the stakeholders agree with the message presented by the forest companies' reports and if they think the communication is transparent and trustworthy and the contribution it has to the organisational legitimacy (**Sub question 2, 3 and 4**). Table 2 illustrates the basis of this analysis. It is in line with the operationalization of the variables. As mentioned in an earlier chapter, this study will measure legitimacy based on stakeholder's agreement on the message as well as whether they feel that the report is transparent and trustworthy.

As described in the methodology section, nine interviews with varied stakeholder groups were conducted between May and June 2015. Altogether leading to 368 minutes of interview data that which were transcribed and analysed. The content analysis of the stakeholder interviews provided 283 individual observations that were related to the six CSR assessment criteria. The observations were categorized according to these themes. The stakeholder's interviews were first analysed and categorized accordingly and then grouped into relevant subcategories. Attention was given to double counting, observations that would have fit in several categories were noted and kept in record. Additionally as mentioned in the methodology section, the interviews were conducted in Finnish and later on translated into English. Therefore special attention was given to the accuracy of the translation to minimize its effect on the result.

In order to provide examples of perceptions presented under each of the six assessment criteria, applicable quotations are provided as well as more thorough analysis in relation to the theoretical framework. Each of the six themes will be discussed separately followed by a sub-conclusion that summarises the findings.

### 5.3.1. Governance of CSR

The interviews started with addressing responsibility of CSR related issues and how this is exemplified in the CSR reports. It was acknowledged that corporations follow and work within the social boundaries and stay within the moral and ethical codes determined by society. The companies were recognised to follow laws and regulations very extensively (Tilling, 2001). However in the discussion it became evident that CSR responsibility for the case companies reach beyond this and sustainable development has become a central issue in both of their business operations.

*“We have implemented sustainable standards that go above and beyond what is the regulatory practice in the operation countries. We understand that being in compliance with the law is not enough, we want to be the market leaders in sustainable development and this requires an extended CSR practices.” (F11)*

The whole corporation was seen to bear the responsibility for CSR activities. The stakeholders mentioned that ultimately CSR is measured with public acceptability and its value is scaled against the market’s appreciation. Moreover, the highest level of responsibility was named towards the board of directors and the CEO. This was reported clearly in the case companies’ reports. Three interviewees gave special notice to the year review of UPM’s CEO in which CSR is acknowledged as the very essence of the company’s business strategy.

Additionally when talking about governance of CSR all the interviewees established that the case companies have mechanisms, processes and codes of conduct that enable the integration of CSR considerations into the day-to-day basis. They gave notice that the case companies have a long history with CSR reporting and thus argued that it must be quite an established process in Stora Enso’s and UPM’S operations. However one of the interviewees criticized the central governance of CSR. The management and administration of CSR is done centrally. The interviewees argued that a local voice would improve the quality of the reporting.

*“Sustainability, which CSR reporting is all about, looks quite different from the head office compared to the plantation in Uruguay or China.... It would be a great step forward if local workers would be included in writing the CSR reports” (NGO2)*

The final question was related to sustainable development and its connection with remunerations. This question was perceived to be difficult. The forest companies' representatives' refer to the code of conduct that guides their CSR process. NGO's and investors did not recognise such a connection being made in the CSR reports.

After this the discussion directed to the interviewees' perception on transparency and trust towards the addressed issues. There was a common agreement that the reports stated that the responsibility within the corporations was transparently specified in the reports. There was little doubt about its authenticity and thus they clearly trusted the message in the reports. Good governance of CSR and reporting it transparently was also seen as something beneficial for the company. However the trustworthiness towards the CEO to bear the ultimate responsibility stirred some discussion. CSR reporting and its day to day management was seen to deal with risks and managing risks so that incidents related to CSR would not occur. Creating a culture of openness where stakeholders are involved with the CSR process was seen to be in everyone's best interest thus the interviewees did not see a reason to doubt the trustworthiness of the governance of CSR in the case companies.

Ultimately good governance of CSR related issues are directly linked with the legitimacy that corporations can receive. Without good governance of CSR related activities, stakeholders would be very inclined to believe that the actions exemplified in the reports would actually take place. The investment in governance of CSR demonstrates that a corporation is willing to advance resources and give centrality towards CSR related activities. The interviewees indicated that there is no reason not to believe in the governance of the case companies CSR activities.

### **5.3.2. Stakeholder engagement**

Stakeholder engagement raised a lot of discussion among the interviewees. The stakeholders' role in the CSR process is seen as imperative and the CSR reports were seen to reflect this importance. All the interviewees recognised that the centrality of stakeholder engagement in CSR reports had developed in the last few years. Additionally new channels and ways of cooperation had formed between the case companies and the stakeholders.

*“Stakeholders and their involvement is the very essence of our CSR reporting” (F12)*



*“Today we have a critical partnership between the forest companies in question, we meet up and have an open dialogue.... we say what needs to be said and address issues what we think needs more focus. The forest companies also ask our opinion. This used to be very different.” (NGO1)*

The CSR process of the case companies is seen to be very engaging and the atmosphere for cooperation was open, which is reflected in the CRS reports. Several channels of involvement were recognised. Most frequently mentioned were yearly surveys, the customers satisfaction survey, open house events, workshops and events around CSR related issues. Additionally more unofficial encounters were mentioned. These comments emphasised the fact that in Finland the circles are small; people working with CSR are bound to bump into each other in every CSR related venue.

*“In Finland these circles are in the end so small, everybody knows each other. Therefore it is very easy to ask questions and give comments [regarding corporation CSR reports] After working a few years in this field you start knowing people and cooperation comes very natural” (Customer2)*

Next to these more traditional ways of engagement were stated, five stakeholders mentioned webpage portals as a good and efficient way of involvement. Stora Enso’s material matrix was referred to by five interviewees. In this matrix stakeholders are asked to give their opinion on Stora Enso’s CSR report. The material matrix examines the stakeholders’ opinion on the centrality of topics in the CSR reports. This practise was seen as a good innovation way to gather up stakeholder’s opinions. It was also seen as a good resource to examine the variety of stakeholder demands and to answer to these demands in a way that was seen appropriate by the stakeholder. Answering to the variety of stakeholder demands in a single CSR report is often perceived as the primary challenge of businesses (Dawkins, 2004; Du et al., 2010). However, a good stakeholder relationship and the open atmosphere for cooperation were seen to be the key to overcome this and to get the voices of different stakeholders presented in the reports. Moreover cooperation was also seen as a good way to promote the common alignments on sustainable forestry and on forest certifications schemes. Thus, CSR reporting and partnerships were seen to be mutually beneficial for NGO’s and for the case companies. The importance of transparent reporting that they can trust was given as a condition for starting a close cooperation by the NGO’s.



*“It is in all of your interest to promote sustainable forestry and certification schemes like FSC and PEFC, whatever your motivation may be. By joining our forces we can reach to bigger audiences.” (NGO1)*

*“Today’s consumers are more aware of sustainability related issues, thus it is important for us to buy our paper from reliable resources, we see it as essential to work together with our paper providers and oversee that environmental issues and social issues are respected and that certification is promoted” (Customer1)*

Nevertheless the opinions varied when it came to the extent in which the reports respond to stakeholder feedback. Some, mainly the customers, felt that the reports addressed the stakeholders’ concerns accurately and already at such early stages that real issues would not occur. The forest companies were seen to join forces with local and global NGO’s to find ways to tackle the challenging issues. However four of the interviewees, mainly those who presented the NGO’s had a very different opinion. Reporting was seen to mainly address the positive issues, which were the outcomes from close cooperation with the NGO’s. More complex issues corresponding to social responsibilities, like land rights and poverty, were felt to be overshadowed with positive communication. The comments were all concerned the forest companies’ rapid expansion to the global south and the plantations’ influence to local surroundings.

*“I question if the reporters portray the whole picture. Where there is interaction with different entities there is always friction and varied opinions, I feel that the worries we communicate are overshadowed with the positive message” (NGO3)*

To paraphrase the information towards stakeholder engagement was seen to be in generally transparent and trustworthy. However the issues perceived to be challenging and complex from the case companies stand point and divided the opinions of the interviewees. NGO’S felt there to be a clear lack of transparency in regard to reporting negative issues that stakeholders have addressed and thus they only partly trust the message in the reports. In other words they trust the positive findings, but they do not trust the lack of negative findings. Among the interviewees there was scepticism if the full picture is presented in the report regarding stakeholder engagement since the difficulties and problems were not clearly communicated. Scepticism was also given towards the equal change and weight in

which different stakeholder voices were addressed in the reports. This has bearings to the perceived legitimacy. As Halme et al. (2011) argue, stakeholders need to have a chance to interact and communicate through the CSR process for it to be perceived transparent and ultimately leading to legitimacy. Thus for these conditions to be materialised, communication needs both good and bad messages.

### 5.3.1. Supplier and value chain

The supplier and value chain theme inspired conversation covering multiple themes. It was recognised that the impacts of activities are often found either at the supplier's side or in the value chain. There was a common agreement among the interviewees that both issues were addressed in the reports; however the perception on transparency towards the issues changed significantly based on the position of the stakeholder.

*“Being aware of supplier’s activities is like an insurance policy for the forest companies. It’s one of the weakest links in the business and it can have significant consequences towards the company’s reputation... I think the corporations have learned from the past and report these issue microscopically clear and as detailed as possible” (customer1)*

*“There are so many issues in relation to the suppliers environmental and social impacts so the forest companies CSR reports are only reporting small fraction of these... it seems like new issues come to their agenda as soon as media and NGO’s pick up on them... as we saw with StoraEnso’s human rights and child labour issues in 2012” (NGO1)*

In relation to this topic, interviewees mentioned the importance of demanding certification, quality- and standard systems from their suppliers. Among the mentioned certification systems were wood certification systems like FSC, PEFC and the ISO 14001 environmental certification standards. The presence of these standards and their promotion to the supplier was seen as a clear requirement for good CSR practice. The reports also got praise from two of the interviewees that the figures of certified suppliers were presented clearly and that they were improving. Moreover three of the interviewees mentioned the code of conduct as a way of keeping supplier standards to the required level and this to be the point of reference that suppliers are audited with. When asked to specify how this was exemplified in the CSR reports, interviewees other than those who worked within the companies



could not specify an answer to this question. Cooperation with the suppliers was also a difficult theme for the interviewees to address. Five of the interviewees recognised that there are procedures to work with suppliers, however the rest did not remember the reporting to address these issues.

Lastly the production was discussed. This triggered conversation around materiality and subcategories that refers to energy use and eco labels, but mainly the discussion directed to recycling.

*“Recycled materials have become something that our customers [the end consumers] have started to pay more attention to, thus there is a clear demand for packaging that has been manufactured from recycled materials. We have been very satisfied with the recycled based materials that the companies have provided us” (customer2)*

Consequently the issue of supplier and value chain was seen to be controversial. To a large extent there was an agreement towards the message and interviewees recognised the themes to be addressed in the reports. However some of the questions seem to be better represented in the reports than others. Similarly trust and transparency divided the opinions based on the position that the interviewees had. The NGO's were the most doubtful; there was criticism that reports presented a complex difficult matter in a too simple way and hence they did not trust the content to the full extent. Holding suppliers up to the same sustainability standards in a global business was perceived to be a challenge that the case companies should be addressing more transparently and reporting their discrepancies.

Five of the interviewees mentioned past failures that have come up in the media in the last few years. E.g. concerns were raised towards labour rights and human rights in China and child labour in Pakistan. These discrepancies clearly still have bearings to the trust of the current reports. Three of the interviewees criticised the case companies for cherry picking the good suppliers as case examples to be portrayed in the report. They did not believe the full picture was given and hence the transparency and trust towards the reports was weak. On the other hand three of the interviewees thought that past mistakes had taught something and these issues were reported transparently and they trusted the message. The interviewees indicated that in this theme of suppliers and value chain, CSR reporting needs to defend its legitimacy. The reporting at the current state was felt inadequate and relying too much on the positive communication. To avoid scepticisms the case

companies need to prove that there is no mismatch between the actions and the communication (Forehand. & Grier,2003; Halme et al 2011; ). The interviews also indicates that an image loss and bad publicity have long terms bearings not only to the specific company, but to a whole industry sector.

### 5.3.2. Targets and indicators

The theme of targets and indicators was recognised as an important means to communicate progress and benchmark development. The interviewees agreed that the issue of targets and indicators was presented in the reports. However there were some controversies between the interviewees in terms of transparency and whether they felt that the information was trustworthy and they wondered if the indicators measured the set targets robustly. The interviewees that presented the customers voice had the most positive perceptions towards the targets and indicators. They addressed the added value of certified raw materials and material efficiency.

*“It is my understanding that FSC next to its environmental aspects entails a lot social elements that need to be taken into notice before the certification is granted so I think it is a good indicator for lot of things and that there is well established organization behind it” (customer1)*

The criticism towards the targets and indicators came from the NGO’s side. They felt that the indicators were not suitable, only quantitative measures were taken which were regarded to be inadequate to measure biodiversity and social responsibility like human and land rights.

*“What I would like to see is some honesty how difficult it is to measure for instance biodiversity, there is no one set of figure that tells you all” (NGO1)*

*“I think that the reports are crafted very engineer-like with full of figures, however the story behind the figures is not reported. Human and land right are very complex interlinked issues” (NGO2)*

Consequently there appeared to be a disagreement among the interviewees regarding targets and indicators and their perceived trust and transparency. The use of wood certification as an indicator for sustainable forest management received most positive reactions in this section. There was a strong agreement among the interviewees that for instance FSC is a well-established organisation that has a clear

procedure in place. Thus the use of the certification as an indicator was perceived to add trust, which in the end is very likely to have bearing towards the legitimacy that the stakeholders grant towards the corporations.

However some critics were given towards the transparency of indicators that try to measure complex issues like biodiversity and social responsibilities, like human rights. To increase the transparency of reporting these issues, a more qualitative approach was required. However this message came from the NGO's side and it correlates with Dawkins (2004) and Halme et al. (2011) findings that CSR communication needs to be tailored to fit to all stakeholder demands. Therefore there is a clear room to improve the targets and indicators section to fit with the variety of stakeholder demands and add for instance case examples where the process is measured with a more qualitative approach. In terms of legitimacy it can be stated that the investors and customers are more likely to perceive the message trustworthy and more likely to grant legitimacy based on the report findings since the message is better tailored to their demands.

### 5.3.3. Materiality

All the interviewees recognised the volume and intensity of materiality related issues in regards to the forest industry. Additionally there was common understanding that materiality was discussed in the reports and there was a procedure in place for the stakeholder's involvement.

*"Being aware of your material flows and their impact is very central to our CSR reporting. By recognising our material flows we have reached to new innovative products. We believe that yesterday's waste is today's raw materials." (F1)*

*"In my opinion material flow related issues are well represented in the reports, of course there is always a room for improvement but in my view this is an issue that both corporations are rigorously working" (customer2)*

One of the interviewees (NGO2) was highly doubtful of the way in which the materiality issues were addressed in the reports. This interviewee argued that the message was more of an advertising speech than anything else. This interviewee saw that with their reporting, the case companies are trying to paint the picture that the

forest industry is the solution to material scarcity rather than an instigator of the problem and the intensity of the impacts of the industry was disregarded.

*“I think that the reports are giving a very one sided story about materiality related issues, the forest companies just advert that their production is based on renewable resource and it can be recycled. Everything else that should be related to this issue is pushed aside due to this”(NGO2)*

The majority of the interviewees recognised that their view has been investigated in relation to material issues. The channels that were named were Stora Enso’s material matrix surveys and customer’s surveys.

Transparency and trust for reporting materiality issues was seen rather positive. The only critical voice towards the issue came from one interviewee (NGO2). The reporting was merely seen to represent the positive messages and offering a marketing speech rather than a description of the reality. Thus NGO2 did not trust the reporting in this perceptive. Other Interviewees did not have such a critical view on the reporting in relation to the topic. The interviewees gave a lot positive comments towards certified wood procurements like (FCS and PEC) and their extensive use. Well established third party verified certification schemes clearly add trust towards the reporting. Additionally, materiality was seen to be something that is in the best interest of the business to manage well.

*“An efficient management of materials enables the company to anticipate risks and by reporting these issues the companies can assure investors of a good return and fewer unpleasant surprises... Thus staying on top of these things and reporting them transparently is good business” (investor1)*

#### **5.3.4. The strategy, risk and opportunity**

The strategy, risk and opportunity theme led to a conversation about future global challenges and their impact towards the forest industry. There was a common understanding among the interviewees that the reports addressed megatrends. The most frequently mentioned megatrend was climate change (8 from 9 of the interviewees refer to it). However, similarly as with the previous themes the opinion varied significantly between the different stakeholder groups that were interviewed. Yet again there was a significant difference between the NGO’s and other groups which were interviewed.

*“I think the Forest industry has something to contribute here; we make low carbon products that are naturally carbon storing.” (F1)*

*“Thinking forward is smart business and they have most certainly done that, we see that now, when the commercial car biofuels are starting to make a profit” (investor1)*

The critical opinions from the NGO’s side stemmed from the fact that reporting was seen very one sided; climate change was the only megatrend addressed extensively in the reports. Additionally the interviewees (NGO1 and NGO3) felt that interconnectedness of the global threats was not addressed and reports did not give a truthful picture of how difficult it is to prepare and develop management strategies for global threats.

*“I think there is a ‘pig headedness’ visible in the reports. The case companies try to paint a picture that innovations will fix it all without really addressing the problem as whole. For instance climate change affects to the global south and will increase other threats like urbanization, poverty and food security, though the effects are not really mentione.” (NGO2)*

All four NGO’s interviewed thought there to be room for improvement in regards to how transparent the reporting was towards megatrends. Reporting was perceived to be one sided and lacking the big picture. There was a clear critique from the NGO’s on the way climate change had been converted into a business strategy. At the current state they felt that the reports concentrated on marketing wood based products as a solution to the problem and thus overshadowing the companies’ effect to climate change. Additionally critique stemmed from the way in which the reporting addressed plantations in the global south and their progressive reforestation programmes to convert old agriculture lands into eucalyptus plantations.

*“I see it being a double-edged sword... it is extremely difficult to weigh the plantations’ effects to climate change and the local populations and reporting this in a transparent way” (NGO1)*

Thus defining the level of trust towards the reporting in relation to megatrends was perceived difficult for the interviewees. Similarly the message coming from the customers indicate there to be so many complexities and a lack of knowledge in relation to these issues. Reporting was understood to be difficult and to some extent incomplete and untrustworthy.

### 5.3.5. Sub conclusion

The stakeholder interviews were done in order to investigate the perception towards the content of the CSR reports; in terms of agreement on the message (**sub question 2**) and whether the reports were seen as transparent and trustworthy (**sub question 3**). In the course of the analysis the same framework with six assessment criteria's was used. Only now three elements, agreement on the message, transparency and trustworthiness were added. Thus, each of the stakeholders interviewed was asked their agreement on the message based on each theme and if they perceived the communication to be transparent and trustworthy. The conclusion of this can be viewed in Table 6. The numbers indicate the stakeholders' answers, therefore 9 is the highest number possible for each element. Table 6 presents the result by each theme and component. The findings of the interviews indicate that there are differences between the themes; how the message is agreed upon and whether or not the reporting was perceived to be transparent and trustworthy.

#### *Agreement of the message*

The perception in regards to the agreement of the message was to a large extent positive. The stakeholders recognised that the themes were addressed in the case companies' CSR reports. However some controversies were discovered. A major contributor to this was the differences and varied opinions between the stakeholder groups. Customers were the most satisfied with the reports, they felt that each theme was covered well and the right things were reported. NGO's on the other hand presented the most critical voices. Naturally this reflects the role of the stakeholder (see section 5.1) as NGO's are perceived to be the watchdogs of the operations. However some bearing might have to do with the with the fact that customers were perceived to be the most significant stakeholder group of the reports and thus perceived a special status in relation to cooperation.

The governance of CSR got the highest score from the assessment criteria, even though most of the interviewees' could not answer the question to link remunerations to CSR. Indicating that stakeholders perceive CSR to be institutionalised in the case companies. It is agreed that CSR reporting is kept with

professional standards and this is demonstrated in the reports (Deegan et al., 2002; Hearit, 1995). Additionally, the majority of the interviewees agreed that there is a clear procedure on stakeholder involvement. This is contrary to the argument by Adams (2002), Onkola et al. (2011) and Lotila (2004) that stated reporting to be just a one way process that resembles traditional annual reporting. Nevertheless there was disagreement among the interviewees how the critical voices were presented in the reports.

Additionally some interviewees, mainly those representing the NGO's stated that social issues were not presented very robustly and some issues were omitted from the reporting (e.g land rights). The lack of demonstrating social responsibilities was evident in the part about suppliers and value chain, where the worries were related to functioning of the corporations in the global south. Furthermore the KPI's were not felt to be adequate to demonstrate the complexity of issues like human rights. The issue of demonstrating the risks, strategies and opportunities was proven to be controversial. Several stakeholders felt that innovation in the forest industry is the solution to future megatrends which the reports show. Others, mainly those representing the NGO's, felt that the issue was addressed very one sided, concentrating on climate change, while omitting other megatrends and interconnectedness of issues.

### *Transparency and trust*

The perception of the interviewees in regard to transparency and trust varied accordingly to the agreement of the message. However more controversies were discovered than in the previous section. Similarly than in the last section the NGO's presented the most critical voices, however some division was evident between other stakeholders, especially concerning the lack of negative communication.

Correspondingly, reporting the governance of CSR related activities received the highest amount of trust from the interviewees. There was no reason to suspect the authenticity of the message in the reports. Good governance of CSR related activities and communicating them accurately was seen to be in the best interest of the company. Following the same line of thought, stakeholder engagement was perceived to be to a large extent transparent and trustworthily reported. Many channels that stakeholder thought to be appropriate and functioning were named. However, there was lack of trust in relation to the absence of negative communication. Questions were raised of equal opportunities for different stakeholders to get the worries demonstrated in the reports.

Equally, the overly positive way of communicating created friction in relation to trust in themes of suppliers and value chain as well as strategy, risk and opportunities that dealt with megatrends. The reporting was seen to represent only the good examples (e.g. cherry picking) and thus was seen not to relate to reality. Additionally scepticism was given towards some aspects of reporting social issues. For instance, human rights and their materialising in the global south was seen to be challenging and thus evoking mistrust towards the simplistic way these had been addressed in the reports. As Halme et al. (2011) and Du et al. (2010) argued, it is imperative to have truthful communication, where the difficulties and challenges that the company faces are reported. As it seems honesty and transparency are the best policies to overcome scepticism and mistrust from stakeholders.

### *Bearings on the perceived legitimacy*

It can be stated that transparency, trust and coverage of the reporting have bearing on the perceived legitimacy. As Table 6 indicates, the themes that were perceived well and robustly communicated, also build trust from stakeholders and according the conceptual model contribute to the perceived legitimacy. This was especially evident with the governance of CSR and Stakeholder engagement since they scored high on all counts. Thus there is clear evidence that there is an established level of organisational legitimacy (Tilling, 2001), though there are also areas where the companies are defending their legitimacy. The sections about suppliers and value chain and strategy, risks and opportunities are weak areas which receive little legitimacy from stakeholders. 'Cherry picking' by the case companies is a reoccurring aspect which is a major cause of this. The section in the CSR reports about materiality is dominated by certification. Certification is seen as clear legitimizing factor by the stakeholders. It has to be noted that there are differences between the stakeholder groups in granting legitimacy. Customers and investors are in general more agreeing and trusting than NGO's and hence will legitimize the business more.

All together it looks like the CSR reports in the case companies contributed positively to the perceived legitimacy. Even stakeholders, like NGO's, who's role is to be critical of companies legitimize the case companies as they agree on the content, which they deem trustworthy and transparent.



	Component 1			Component 2			Component 3		
<b>1. Governance of CR</b>	1.1 Responsible person			1.2 Sustainability function			1.3 Links remuneration		
	Agree 9	Trans. 8	Trust 8	Agree 9	Trans. 8	Trust 8	Agree 2	Trans. 2	Trust 2
<b>2. Stakeholder engagement</b>	2.1 Has a process			2.2 Responds to feedback			2.3 Actively involves		
	9	9	9	6	6	6	8	8	8
<b>3. Suppliers and the value chain</b>	3.1 Identified impacts			3.2 Requirements and audits			3.3 Works with suppliers		
	6	6	6	5	5	5	5	4	4
<b>4. targets and indicators</b>	4.1 Time bound			4.2 Measuring process			4.3 Communicates progress		
	7	6	6	7	5	5	6	6	6
<b>5. Materiality</b>	5.1 Material issues			5.2 Impact assessment			5.3 Involve stakeholders		
	8	8	7	7	7	7	6	5	5
<b>6 Strategy, risk and opportunity</b>	6.1 Megatrends			6.2 Quantified risks			6.3 Strategy		
	8	6	6	6	6	6	8	6	6

Table 6 - Results of empirical findings

## 6. Conclusions and discussions

### 6.1. Reflection on the main research question

**The main research question: *How and to what extent does CSR reporting in the Finnish forest industry contribute to perceived organizational legitimacy among stakeholders?***

The aim of this study was explanatory; to examine how stakeholder perceive the CSR reports. A qualitative case study approach was used to examine four CSR reports from two of the biggest Finnish forest production companies and to investigate the key stakeholders' perceptions. Consequently, the primary objective of this study was to examine stakeholders' perceptions of the reports through a set of variables; thoroughness of the reports, agreement of the message, transparency and trust of the communication and finally examine their perceived contribution to the dependent variable legitimacy. The study provides valuable insight to a novel research area.

The first phase of this research established *how* the current stage of CSR reporting can be characterised. The analysis revealed that the CSR reports are thorough, giving in-depth knowledge and addressing robustly on responsibilities of sustainable development. However the reporting emphasized environmental responsibilities and with this the reporting concentrated on labelling third party verified certification systems like FEFC and FSC. These systems were deemed to be reliable and heavily endorsed by the companies. Reporting on social issues was left without much attention and it completely lacked similar certification and managements systems. For instance the ISO 26 000 for social responsibilities was not mentioned in the reports.

Despite this reporting in the case companies is well established, portraying a CSR process in which responsibilities are extended beyond legal requirements (Sillanpää, 1990; Takala 2000; Vehkaperä, 2003). Additionally the reporting was seen to concentrate on impacts to the society at large. Thus, stressing an ideology of corporations being part of social institutions that have duties towards the society (See Carroll's model, 1999). Stakeholder relations are seen as imperative to this approach. However the reporting concentrated mainly on positive aspects of this relation. Altogether it can be deduced that reports build a strong foundation to the establish extensive level of organisational legitimacy (Tilling, 2001).



The second phase was to investigate to *what extent* CSR reporting contributes to the perceived organizational legitimacy from stakeholder's perspective. As indicated, this was examined with a set of variables; the agreement, transparency, trust and finally their contribution to the dependent variable legitimacy. The analysis revealed that the stakeholders' perceive CSR reporting to be well established and the CSR process to be institutionalised. Thus, the reporting indicated a clear procedure and illustrated corporations' to possess expertise, knowledge, resources and willingness to act according to CSR. The results also show stakeholder involvement to be emphasized by the reporting. These findings are contrary to previous studies claiming reporting to ambiguous and lacking in structure (Mikkilä & Toppinen, 2008; Waddock, 2004) as well as portraying one way message without stakeholder involvement. (Adams, 2002; Lotila, 2004; Onkila et al. 2011).

Next to this an additional three findings can be deduced from the analysis. First, there was a clear division between stakeholders and their perceptions, thus different stakeholder grant different levels of legitimacy. NGO'S had the most critical attitude towards the reporting and customers the most positive. Scepticism was caused by the overly positive style of communicating which was seen to be related to green washing rather than reflecting on reality. This notion was related to many complex issues like indicators, megatrends and the way in which the positive feedback of stakeholders have overshadowed the negative messages. Therefore the cooperation between NGO's and the case companies needs to be strengthened, so that critical voices get a place in the CSR reports.

The second finding relates to the lack of thorough reporting on social responsibilities. This is closely related to suppliers and the value chain, but also evident in other themes like targets and indicators, strategy risk and opportunities which is dealing with megatrends. The inability of CSR reporting to address social issues came with the notion of the reporting's need to defend their rapid expansion in the global south and with the scepticism whether they are able to hold the same standards in their activities there as required in the western countries. At the current state the case companies use the code of conduct as their main tool for exemplifying social responsibilities. This alone is not sufficient for the stakeholders, they expect similar use of labelling and management systems as used for environmental reporting. As a first step the companies could endorse the use of ISO 26000.

Lastly, the result showed an area where the corporations need to defend their legitimacy (See Tilling, 2001). Suppliers and value chain was seen to be the weakest

part of the reporting. This was due to past discrepancies between the actions and the communication and reporting's failure to repair these damages. An interesting finding was that scepticism towards this was not only directed to the corporations in question but rather to the whole industry sector. Therefore, companies' CSR reporting needs to address weaknesses and failures of their competitors and prove them to be managed in their own CSR processes.

The analysis of the two phases concludes CSR reporting to be well established in the case companies. In general stakeholders perceived CSR reporting to be comprehensive, transparent and trustworthy and they granted legitimacy to the corporations. This was not only because of the reporting, but also because of the process involved in it. To exemplify this we could turn the question around, would there be less legitimacy if companies would not write CSR reports? The answer would undoubtedly be yes.

## **6.2. Reflections on the theoretical framework**

The theoretical framework of this study was constructed from four sets of theory; CSR, CSR communication, stakeholder theory and organisational legitimacy. Which lead to the foundation of the analytical framework (Figure 6). The underlying principle behind the framework was that legitimacy is founded on the following variables; thoroughness of the reports, agreement on the reports and transparency and trust towards the reports. However, the theory on CSR and CSR communication is limited as it is something that has originated from businesses and not from the academic world. The theory of organisational legitimacy is also very limited and even though scholars suggest a strong link between CSR and organisational legitimacy, this study is first of its kind to actually research it. Due to the limited research, the causality suggested in the analytical framework might not be as strong as transcribed in paragraph 3.1. However, as this research is first of its kind it is a very good step in to the direction of measuring legitimacy in CSR reports.

## **6.3. General implications, limitations and suggestions for future research**

CSR has become an important part of business strategy and CSR reporting is an inherent part of corporate communication, particularly for the forest industry since it has an enormous impact on the environment and the surrounding society. Therefore receiving legitimacy for operations is essential for forest companies to function. As the results of this study indicated the CSR reporting has a significant impact on perceived legitimacy towards the companies. CSR reports are a way of reaching to



the variety of stakeholders and responding to their information demands. Reporting can be used as a way of risk management and this can be done with a two-way process together with the stakeholders. Thus this study provided valuable insights to the relation of stakeholders with the companies in regard to CSR reporting. Stakeholder involvement on many fronts can provide companies with new insight and help promote common alignment. Thus based on these examples, other industries, especially those working with other extractive sectors, need to take note of the importance of stakeholder involvement and the positive relations that this can foster in the CSR process.

The study showed that the Finnish forest industry can be described as a front runners in CSR reporting and can showcase a good example for other businesses. Though it needs to be noted that many concepts used in this study were case specific, thus generalization needs to be made with precaution. However, the case companies' have a success in creating reports that largely satisfy the information demands of the multidisciplinary groups of stakeholders and they have successfully created a trustworthy governance for CSR activities. These are aspects that every entity in a business responsible for CSR reporting should target. Subsequently it is clear that these are the foundations for additional benefits that CSR reporting can foster and crucial elements when seeking legitimacy for operations.

However, critical assessment of the outcomes of this study emphasise certain weaknesses regarding reliability and validity. First the sample size of the study; four reports portraying two corporations' CSR reporting and nine stakeholder interviewees is not enough to give conclusive results. The fact that this study was unable to reach government representatives to participate in the interviews also left a void in the results. The government representatives were seen as one of the main stakeholders of the case companies. As a result we can only speculate the perceptions and the perceived influence that for instance the new NFR- directive that was now left without attention would have had.

The second limitation is the number of uncertainties that occur because of the qualitative approach of this study and human subjects of research. As already discussed, the content analysis was prone towards the researcher's biases and the interviews relied on the ability of the stakeholder to provide accurate answers. However, as reflected in relation to the theoretical framework, the third and the most inherent weakness is the difficulties that can be related to measuring legitimacy. Legitimacy is a very ambiguous concept and measuring it is extremely

difficult. Thus, the immaturity of organizational legitimacy theory and its inability to address how to measure the concept forced this research to make some simplifications. Dissecting legitimacy for instance from cultural norms and belief systems in reality is well beyond the scope of this research.

Nevertheless, future research can shed light to these voids. It is especially important to examine the influence of culture and values towards stakeholder perceptions of CSR reporting and its influence on the perceived legitimacy. As indicated, organizational legitimacy applied to the concept of CSR is a novel research area. Thus there is a need for future research for legitimacy on corporate level to be seriously addressed.

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# Appendices

## *Appendix 1 – Questions for the interviews*

### **Introduction**

1. Firstly, I would like to get an idea of your role with the organization?
2. What is your organization's connection with forest companies?

### **Background information to CSR and CSR reporting**

3. What is your perception of CSR
4. What is your perception of CSR reporting and its functioning?
5. What kind of value does CSR reporting of forest companies offer to your organization?

### **Strategy risk and opportunity**

6. Do you think that the CSR report addresses to megatrends in relation to the company and how it copes with these?

Do you agree with the messages portrayed in the report regarding this in other words do you think this is the right thing to do?

Do you think this information is transparent and trustworthy?

### **Targets and indicators**

7. Are there clear KPI's outlined in the CSR report which can track the progress over the years and give an indication of the performance of the companies' CSR processes?

Do you agree with the messages portrayed in the report regarding this in other words do you think this is the right thing to do?

Do you think this information is transparent and trustworthy?

### **Supplier and value chain**

8. Is the sustainability of suppliers and customers revealed and is any action taken based on it?

Do you agree with the messages portrayed in the report regarding this in other words do you think this is the right thing to do?

Do you think this information is transparent and trustworthy?

### **Stakeholder engagement**

9. Are stakeholders identified in the report and are they engaged in the CSR process of the company?

Do you agree with the messages portrayed in the report regarding this in other words do you think this is the right thing to do?

Do you think this information is transparent and trustworthy?

### **Governance of CSR**

10. Are there clear KPI's outlined in the CSR report which can track the progress over the years and give an indication of the performance of the companies' CSR processes?

Do you agree with the messages portrayed in the report regarding this in other words do you think this is the right thing to do?

Do you think this information is transparent and trustworthy?