Do Companies Reduce CSR Disclosures during Recessions?

Sydelle Pinto
The University of Auckland

Charl de Villiers*
The University of Waikato
and University of Pretoria


Abstract
Purpose: We investigate trends in prevalence and volume of CSR disclosure by the top 50 New Zealand listed companies from 2005 to 2010, i.e. from before until after the initial impact of the global financial crisis (GFC).

Design/methodology/approach: We examine the annual reports of each of the companies between the years 2005 and 2010, as well as company websites for standalone CSR reports. We count the number of pages of any social and environmental disclosures in annual reports and in standalone reports for each year and use this data to assess whether overall trends can be discerned. We compare CSR disclosure trends with changes in business confidence.

Findings: Our results reveal a general upward trend in CSR disclosures over the six-year period. The number of companies disclosing in their annual reports and standalone reports increased from 2005 to 2007. However, during the initial drop in business confidence in 2008 (brought on by the GFC), CSR disclosures in annual reports and standalone reports remained consistent overall with 2007. Companies operating within industries more prone to public scrutiny or those industries more sensitive to the social and environmental impacts of corporate operations actually increased their CSR disclosures, whereas other companies decreased their disclosure for an overall constant level. The upward trend resumed in 2009, but when business confidence again suffered in 2010, overall annual report CSR disclosures decreased, whereas overall standalone report disclosure continued the upward trend. In sum, during times of reduced business confidence, companies in non-environmentally-sensitive and non-socially-sensitive industries appear to buck the overall trend towards increased CSR disclosures.

Originality: Many studies conclude that there is an upward trend in CSR disclosures over time. Other studies examine the impact of particular events on disclosure. However, we are not aware of any study that examines the impact of the initial phase of the GFC on the overall upward trend in CSR disclosures, i.e. whether companies subjugate CSR in favour of more pressing business priorities during times of reduced business confidence.

Key words: CSR disclosure, social and environmental disclosure

Type of paper: Research paper

*Corresponding author: cdev@waikato.ac.nz
Introduction

The global financial crisis (GFC) and the associated controversies exposing the unethical and irresponsible behaviour of corporate executives bewildered the global community. With the GFC affecting the lives of millions all over the world through rising unemployment, reduced wage growth and collapsing asset values, this bewilderment turned into anger. As a result, corporate responsibility and the impact of corporate actions on society have come under increased scrutiny.

In recent decades, social and environmental matters have become increasingly important issues for organisations to manage as various stakeholder groups pressurise companies to take responsibility for their actions and its impact on the community and the environment (Deegan, Rankin and Voght, 2000). These stakeholders attempt to force companies to minimise the negative impact of their operations on the environment and society (Matthews, 1993). Companies attempt to maintain their socially responsible image, or legitimacy, in order to ensure continued access to the resources needed for survival (Dowling and Pfeffer 1975). Social and environmental disclosures in annual reports and standalone corporate social responsibility (CSR) reports are means by which organisations maintain their image and respond to various events or crises in an attempt to manage stakeholder perceptions and regain legitimacy (Patten, 1992; Deegan et al., 2000). Organisations typically face pressure from a variety of stakeholders, often with competing information requirements, therefore corporate managers tend to focus on the stakeholders with most (potential) influence over the company and ignore less important stakeholders (Oliver, 1991; Neu et al., 1998).

There has been a general increase in CSR disclosure over the years. Due to the scale of the impact of corporate activities on stakeholders such as employees, suppliers and financial
investors, companies may have more of a need to make CSR disclosures during periods of economic turmoil (Karaibrahimoglu, 2008). Companies may further seek to rebuild confidence amongst their relevant publics for the continued flow of resources and the maintenance of their corporate image by increasing social and environmental disclosure (Branco and Rodrigues, 2006). In particular, organisations operating in industries with high public scrutiny and those that are more sensitive to social and environmental issues are more likely to engage in CSR disclosures as they are more exposed to constant pressure from society to provide strong environmental stewardship (Cho, 2009; Mamun and Mia, 2011; Raja Ahmad and Tower, 2011).

On the other hand, times of financial and economic instability have a major impact on managerial confidence, which may impact their willingness to divert resources towards CSR disclosures. During these tough times, managers are perhaps more focussed on survival through restructuring and downsizing, than on CSR disclosures. Therefore, they are likely to adopt more conservative and defensive approaches to their decision-making in terms of the activities they undertake and the disclosures they make, including those relating to CSR (Cheney and McMillan, 1990; Karaibrahimoglu, 2008). Companies hit hard by the crisis may be less willing to make voluntary disclosures on the impacts the GFC has had on their employees, consumers and society in order to protect themselves from any negative repercussions from governments or environmental lobby groups. These companies may focus on their core activities when business confidence is low. Of course, companies operating in highly visible, socially and environmentally sensitive industries may regard CSR as a very important set of issues that needs careful attention at all times. Hence such companies may be less likely to alter their CSR disclosure stance during a recession. In fact, they may regard CSR as core issues to be focussed on during a recession (Branco and Rodrigues, 2006; Cho, 2009).
In sum, there are both reasons for companies to reduce and reasons to increase CSR disclosures during times of reduced business confidence.

In this paper, we investigate trends in the prevalence and volume of CSR disclosure by the top 50 New Zealand listed companies from 2005 to 2010, i.e. from before until after the initial impact of the global financial crisis (GFC). We base our trend analysis on the number (and percentage) of companies disclosing CSR sections in annual reports and issuing standalone CSR reports, on the number of pages of CSR disclosure in these reports, and on the changes in disclosure by individual companies over the period.

The study contributes to the growing literature on CSR disclosure patterns in New Zealand, being one of the few longitudinal studies and specifically spanning over times of economic growth and recession. Thus, the paper examines an interesting question in a different way. If companies pay less attention to CSR during recessionary times, this contributes to our understanding of corporate motivations and our interpretation of CSR disclosures.

While corporate New Zealand has been ready to accept and indeed profit from the country’s clean, green branding image, the results indicate that although there is a general increase in the prevalence and volume of CSR disclosures, New Zealand still lags behind many other countries. While the concept of sustainability is much talked about, it appears that little has been done in terms of disclosure in New Zealand compared to other countries (KPMG, 2011).

The remainder of this paper proceeds as follows. The next section discusses the theoretical perspectives on legitimacy theory and the disclosure patterns of companies. Then, a discussion on the link between business confidence and the GFC is presented followed by a discussion on the development of expectations of the CSR disclosure patterns of companies.
before and after the initial impact of the GFC. Next, the sample selection and the research method used are presented followed by a discussion of the results. The paper then concludes with an examination of limitations and potential avenues for future research from the findings of this study.

**Theoretical Considerations**

**Legitimacy theory**

Legitimacy theory is based on the concept that organisations continually seek to ensure that they operate within the norms and bounds of their respective societies (Brown and Deegan, 1998). Organisations gain legitimacy by ensuring that they adhere to the terms of the ‘social contract’ formed between them and the community they interact with (Shocker and Sethi, 1974). The terms of these social contracts, whether expressed or implied, comprises society’s expectations of the social performance of the organisation. If society were to identify a discrepancy between the organisation’s values and their own, the organisation would be faced with a potential threat to its legitimacy as they would be viewed as breaching their social contract (Dowling and Pfeffer, 1975; Brown and Deegan, 1998). The legitimacy gap created as a result, may lead to society retracting their side of the bargain. This could manifest in different ways, e.g. consumer boycotts, providers of capital withdrawing support, suppliers withholding goods and services, court action, or governments imposing fines and taxes to align the organisation’s activities with society’s expectations (Deegan and Rankin, 1996). Given the potential costs and influence on survival prospects, it is important for organisations to manage perceptions, particularly of those groups it perceives as being critical to its survival prospects (Oliver, 1991; Lindblom, 1993). The activities undertaken by corporate management to adhere to their ‘social contract’ include the adoption of
communication strategies aimed at convincing the relevant publics that the organisation is socially and environmentally responsible and therefore legitimate (O’Donovan, 1999).

The dynamic nature of society, resulting in shifts in the relevant public’s expectations of organisational activities provides an added challenge to organisations maintaining legitimacy. These shifts in public interests and expectations for organisational behaviour can be caused by external events such as changes in the economic environment or times of crisis or when information about certain organisational activities are released that may be contrary to their legitimate activities (Sethi, 1977). Such times are likely to evoke a negative reaction from the organisation’s relevant publics which in turn, causes organisations to undertake actions to regain legitimacy (Suchman, 1995).

Organisations commonly use disclosures in annual reports as a means of managing the perceptions of relevant publics in order to maintain and/or regain legitimacy as being a major public document, stakeholders such as investors, creditors, regulators and environmental groups rely on the financial and non financial information disclosed in the annual reports (Epstein and Freedman, 1994; Hutchins, 1994; De Villiers, 1999; O’Donovan, 2002). However, there has been a recent surge in development of separate CSR reports in a bid to provide more comprehensive information about the company’s social and environmental activities to the companies’ multiple stakeholders (Simnett et al., 2009; Jones et al., 2007; De Villiers and Van Staden, 2011). Although organisations utilise a variety of communication media in an attempt to sustain and regain legitimacy, the annual report and stand-alone CSR report appears to be the preferred methods of communication particularly with the organisation’s relevant public (Grey et al., 1995; Deegan et al., 2002; Simnett et al., 2009; De Villiers and Van Staden, 2012). By increasing social and environmental disclosures within these reports, organisations attempt to reduce the legitimacy gap as their relevant publics can only make judgements on the organisation’s legitimacy based on the information available to
them (Cormier and Gordon, 2001). Thus, companies in New Zealand are likely to increase their disclosures over time in all disclosure media, as additional company-generated information puts a positive ‘spin’ on corporate social and environmental issues and could influence relevant publics.

**Communication strategies for legitimacy seeking organisations**

Although it has been argued that increasing annual report disclosures is the most effective way for organisations to manage the perceptions of their relevant publics (Deegan, 2002), organisations engage in different types of communication strategies depending, to some extent, on the different aims or purposes of the organisations’ response (Oliver, 1990; Lindblom, 1993). The distinction in communication strategies helps us identify the organisation’s motivations for disclosing social and environmental information after they are impacted by a legitimacy-threatening event (O’Donovan, 2002).

Dowling and Pfeffer (1975), Lindblom (1993) and O’Donovan (2002) proposed some overlapping communication strategies for legitimacy-seeking organisations, which can be synthesised into four main communication strategies organisations can adopt. An organisation may 1) choose to alter the relevant publics’ definition of social values, 2) conform to the values of the relevant public, 3) deflect attention away from the issue of concern to other related issues by associating itself with symbols having high legitimacy, or 4) simply stay away from any debate about social or environmental matters. The type of communication strategies chosen will differ depending on whether the organisation is trying to gain legitimacy, maintain legitimacy, or repair its lost legitimacy (O’Donovan, 2002). Organisations may implement these strategies individually or in combination depending on the issue at hand through the use of public disclosure in media such as annual reports and CSR reports (Cho, 2009).
Proactive and reactive legitimacy strategies

The organisation’s decision to undertake any legitimation strategy may be proactive or reactive in nature (Lindblom, 1993). A proactive legitimacy strategy is aimed at preventing a legitimacy gap as opposed to attempting to narrow the gap (Lindblom, 1993). Organisations are required to continually assess the environment in order to determine their relevant publics, examine their norms and values and then, determine a relevant legitimising strategy (Lindblom, 1993, O’Donovan, 2002). Reactive strategies however, are adopted by organisations after they are faced with demands or criticisms from their relevant publics as a result of a shift in their interests and perceptions. The aim is therefore to reduce the legitimacy gap thus created (Lindblom, 1993). Organisations adopt reactive strategies in an attempt to repair and regain their lost legitimacy (O’Donovan, 2002).

O’Donovan (2002), in his investigation of the different communication strategies organisations adopt when they are trying to gain, maintain or repair their legitimacy, found that when repairing legitimacy, organisations are most likely to use increased amounts of symbolic disclosures that conform to social values, and alter the perceptions of their relevant publics, rather than using disclosures that avoid the event as the relevant public groups would not allow the organisation to completely ignore the situation. Therefore, he concluded that it is more difficult to repair and regain lost legitimacy in the eyes of the organisation’s relevant publics rather than maintaining the current level of legitimacy.

There have been two main studies that have examined the impact of proactive and reactive strategies on market reaction. Blacconiere and Patten (1994) and Patten and Nance (1998) undertook studies that investigated the relationship between market reaction and environmental disclosures of organisations attempting to repair their lost legitimacy following environmental disasters. Blacconiere and Patten (1994) examined the market reaction of other chemical firms following the Union Carbide disaster in 1984 and found an
overall negative market reactive. However, they found that those firms who engaged in more extensive environmental disclosures prior to the disastrous event experienced a less negative reaction than firms with less extensive disclosures as investors may interpret a lack of social and environmental disclosures as a signal of greater exposure to environmental risk and future regulatory costs (Blacconiere and Patten, 1994). Firms who engaged in proactive measures to protect their legitimacy developed a good reputation for themselves and therefore suffered less of a damaging effect to their legitimacy status during times during potential legitimacy threatening events.

Patten and Nance (1998) similarly examined the market reaction of companies operating in the petroleum industry following the Exxon Valdez catastrophe in 1989. They found that contrary to the findings of Blacconiere and Patten (1994), the portfolio cumulative abnormal returns (CARs) of these organisations following the disaster were positive. However, given this positive market reaction, organisations with less extensive prior environmental disclosures have a smaller positive market reaction (Patten and Nance, 1998). This suggests that organisations adopting proactive measures in terms of increased social and environmental disclosures to protect their legitimacy experienced a benefit in good times compared to those who adopted reactive measures to repair and regain their lost legitimacy after the legitimacy threatening event occurred.

**Development of Expectations – CSR Disclosures and the GFC**

CSR disclosures following legitimacy threatening events have been widely studied among accounting researchers. A number of researchers have found that over time (Haniffa and Cooke (2005): 1996 to 2002; Gray et al. (1995a): 1979 to 1991) CSR activities and its disclosures have been increasing. Although there were recessions during the periods studied, these studies did not examine the influence of recessions on CSR disclosures. In addition, the
GFC that impacted economies worldwide around early 2008, is believed to be worse than previous financial crises (Souto, 2009; Goldin and Vogel, 2010). Souto (2009) argues that the current economic and financial crisis, as agreed by many economic and financial experts, is the worst since the Second World War. Highly successful companies with the most developed institutional governance (e.g. Washington Mutual and Lehman Brothers Holdings Inc) declared bankruptcy in September 2008, as a result of the financial crisis. These and other high profile corporate failures worldwide indicate that the impact of corporate activities not only affects financial stakeholders but also affects employees, customers, suppliers and society as a whole (Smith et al., 2005).

**Reasons for a decrease in CSR disclosure during the GFC**

In periods of financial distress, managers are faced with increased threats of bankruptcy, restructuring or downsizing of their companies. These perceptions of uncertainty brought about by the GFC therefore impact business confidence as companies are forced to restrain further investment plans and extensively cut down on existing costs and assets.

Figure 1 shows the results of a business confidence survey conducted by the Wellington Employers’ Chamber of Commerce up to October 2010. The period associated with the initial phase of the GFC (2008) is associated with a huge decline in business confidence among managers of New Zealand companies which improved around mid-2009. When managers realised that the GFC was worse than initially thought, another drop in confidence is evident starting in mid-2010. During a financial crisis, as corporate managers experience poor business confidence, they tend to become more conservative and defensive in the decisions they make (Cheney and McMillan, 1990; Karaibrahimoglu, 2008). With lower business confidence and a conservative approach, corporate managers may be less willing to make voluntary disclosures on the impacts the GFC has had on their employees, consumers and society in order to protect themselves from any negative repercussions from governments or
environmental lobby groups. Moreover, in times of economic crises, companies who do not operate in social and environment-sensitive industries may find a greater need to satisfy the interests of their financial stakeholders as opposed to other stakeholders in order to ensure continued access to financial resources and thus survival of their business. Therefore, more pressing priorities may detract from the trend of increased CSR disclosures during periods of reduced business confidence.

Reasons for an increase in CSR disclosure during the GFC

As mentioned earlier, during periods of tight economic conditions, the impact of corporate activities not only affects financial stakeholders but also employees, customers, suppliers and society as a whole (Smith et al, 2005). Consequently, companies may experience increased pressure to disclose social and environmental information during periods of bad economic conditions. Legitimacy theory would suggest that companies need to increase CSR disclosure even in periods of poor economic conditions to ensure legitimacy and ultimately survival (Karaibrahimoglu, 2008). Wilson (2008) further suggests that in order to cope with the financial and economic downturn, organisations need to focus on providing for society’s needs. In the interest of the companies, particularly those operating in highly visible or socially and environmentally sensitive industries, managers may seek to rebuild confidence amongst their relevant publics for the continued flow of resources and the upkeep of their corporate image by disclosing more information on social and environmental aspects of their corporate behaviour and hence regain legitimacy in the eyes of their stakeholders (Branco and Rodrigues, 2006; Cho, 2009).

Few academic studies investigate the impact of the GFC on corporate social and environmental disclosures. Among existing studies in this field, Rowe (2010) indicated that
the level of social disclosure did not decrease during the GFC. Mamun and Mia (2011) investigated the impact of the GFC on the CSR disclosures of Australian companies and concluded that while there was no overall significant increase in CSR disclosures during the GFC, firms operating within environmentally sensitive and highly visible industries such as the utilities and financial industries increased the amount of CSR disclosures in their Annual Reports during the GFC. Another study of Australian firms further revealed a slight increase in CSR disclosures despite the GFC but a greater increase in CSR disclosure among high-profile companies (Raja Ahmad and Tower, 2011). These findings are consistent with legitimacy theory as companies operating in high profile and environmentally sensitive industries are exposed to constant ethical and social pressure from society to provide strong environmental stewardship (Cho, 2009).

From the existing literature we can therefore expect New Zealand companies to increase their social and environmental disclosures in their annual reports. Companies are also likely to issue standalone CSR reports in an attempt to provide more comprehensive information on social and environmental aspects to their most important relevant publics (De Villiers and Van Staden, 2011).

Drawing from the literature on the types of communication strategies companies may adopt for legitimation, these disclosures may reflect the legitimising activities undertaken by the organisation or may also be symbolic in nature with an aim to change the perceptions of the relevant publics without having to engage in expensive social and environmental activities (Patten, 1992; Deegan et al., 2000). Also, such practices can be used by corporate managers in an attempt to divert attention away from poor financial performance and the lack of managerial confidence towards an image of ethical responsibility in the eyes of their relevant publics. Alternatively or at the same time, these disclosures may be reactive attempts by corporate managers to convince and assure financial stakeholders that environmental
investments that were made despite lower profitability will yield future competitive advantage and future profits (Neu et al., 1998).

**Summary of Expectations**

While we can expect an increase in CSR disclosures before the GFC, in light of the arguments presented above, we are uncertain as to whether corporate managers are likely to increase or decrease their voluntary CSR disclosures during the GFC (2007-2008). On one hand, we can expect an increase in CSR disclosures particularly in firms that operate in socially and environmentally sensitive industries or those that are subject to public scrutiny. Managers of such companies may be motivated to provide additional CSR disclosures in order to regain their relevant publics’ trust in the company as unstable conditions often bring about feelings of insecurity and distrust amongst financial stakeholders, employees and governments about companies. On the other hand, due to lower levels of business confidence, corporate managers may be more conservative and defensive in their approach which may be reflected in them reducing their CSR disclosures.

Drawing from the literature on proactive and reactive legitimacy strategies discussed in the previous section, as business confidence begins to recover in the 2009 financial year, we can expect firms with proactive strategies to maintain the volume of their CSR disclosures in an attempt to protect themselves from future legitimacy threatening events. Those adopting reactive strategies may not engage in voluntary CSR disclosures as they are more likely to make such disclosures only in response to legitimacy-threatening events. Therefore, different disclosure patterns may be due to different managerial motives and hence, we cannot make a definitive expectation of the direction in CSR disclosure patterns post-GFC.
Sample Selection and Data Collection

The sample for this study comprises the companies listed in the NZX 50 Index – the 50 largest and most liquid companies listed on the New Zealand Stock Exchange, as at September 2011. We use the largest companies for two major reasons. Firstly, prior literature provides a general consensus that large companies are more likely to be good reporters of sustainability issues (Patten, 1992; Kolk, 2003; Vuontisjarvi, 2006, Owen, 2007; KPMG, 2008). Secondly, large companies are faced with greater pressure from prominent stakeholders such as investors and governments to be legitimate than are small companies, due to the resources they require and profits they generate. The companies in the sample cover various industries including primary, energy, retail, property, services, investments and telecommunications.

We used the NZX Company Research database to gather the annual reports between the years 2005 and 2010. Furthermore, the company websites of each of these companies were investigated to identify any standalone CSR reports issued during the course of the six-year period. There is evidence to suggest that companies use annual reports primarily to communicate with financial stakeholders and standalone reports primarily to communicate with other stakeholders (De Villiers and Van Staden, 2011). By examining both these types of CSR disclosures, we are able to form a more complete picture of companies’ CSR communications.

Researchers have often taken a pragmatic view that annual reports are acceptable as an appropriate (albeit not complete) picture of companies’ attitudes towards social and environmental reporting and can be viewed as the most important document in terms of organisations’ communicating their legitimacy efforts (Grey et al., 1995, Vuontisjarvi, 2006). Annual reports are seen as the primary source of financial and non financial information for
institutional investors (Hutchins, 1994), individual investors (Epstein and Freedman, 1994, De Villiers and Van Staden, 2012), environmental groups and governmental regulators (Patten, 1992; Gamble et al., 1995). Social and environmental disclosure in annual reports provide an effective means of managing the perceptions of their relevant publics, enabling companies to repair, gain or maintain their legitimate state (O'Donovan, 2002), especially in terms of managing the perceptions of financial stakeholders (De Villiers and Van Staden, 2011). Moreover, the annual report possesses a high degree of credibility as there is substantial regulation surrounding the preparation of these reports. According to Section 720 of the ISA (NZ), auditors are required to read all the information in the annual report to identify any material inconsistencies with the audited financial statements. This ensures the uniformity of the annual reports across all New Zealand companies thereby making comparisons more reliable and credible.

**Research Method**

The examination of the prevalence and volume of social and environmental disclosure patterns in New Zealand companies before, during and after the initial impact of the GFC was conducted using a volume count approach of the companies’ annual and CSR reports. The annual reports of each of the companies between the years 2005 and 2010 were examined to identify any sections disclosing social and environmental information and the number of pages covering these disclosures was recorded. Content analysis by way of volume counts remains a key research tool in determining the presence of certain words or concepts within texts or a set of texts, and has been widely used in CSR disclosure research (Patten, 2002; Dhaliwal, Li and Tsang, 2011; De Villiers and Van Staden, 2011). Furthermore, Hooks and Van Staden (2011) show that the two methods of content analysis typically used, namely volume counts and quality scores, yield highly correlated scores. Therefore, we consider a
volume count to be sufficient for our purpose of examining trends in the prevalence and volume of CSR disclosure.

In determining the pages to be included in this analysis, sections dedicated to social and environmental issues were identified based on four dimensions namely, employee relations, community involvement, product and environment.

We record the volume of social and environmental disclosures each company makes in their annual report and stand-alone CSR reports for each of the six years. We then summarise the information based on changes in the types of communication media used and the volumes of disclosure. We base these changes on categories of disclosure volume, namely high, medium, and low disclosures. The timing of the companies' decision to switch to another form of disclosure media (e.g. switching from annual report disclosures to stand-alone CSR reports) may indicate a link to the GFC. Appendix 1 provides a spreadsheet of the data collection process.

We examine the pre-GFC period (2005 to 2007), GFC period (2008) and the post-GFC period (2009 to 2010) separately. We expect companies with reactive legitimacy strategies to increase the volume of social and environmental disclosures as they try to repair and regain their legitimacy (Lindblom, 1993; Deegan and Rankin, 1996; O’Donovan, 2002). We expect companies with a more proactive approach to maintain the volume of disclosures in the post-GFC period in an attempt to protect themselves against any future legitimacy threatening events (Lindblom, 1993; Blacconiere and Patten, 1994). Therefore, a reduced volume of disclosures after 2007 is likely to be motivated by a different set of priorities brought on by the GFC.
Discussion of Results

*Trends in the Prevalence of CSR disclosure: Number (and percentage) of NZ top 50*

<<< Table 1 >>>

<<< Figure 2 >>>

Table 1 and Figure 2 show the number and percentage of companies that made social and environmental disclosures in their annual reports, issued stand-alone CSR reports or made no such disclosures for each of the years between 2005 and 2010. The 2010 figures show that fewer New Zealand companies issue stand-alone CSR reports (15.2%) than those that disclose CSR information in their annual reports (41.3%). Interestingly, the majority of the companies (48%) did not make any such disclosures in their annual reports or in stand-alone CSR reports in 2010. These preliminary statistics show that while there are some large New Zealand companies that have recognised the need to convey information about their social and environmental efforts to their stakeholders, New Zealand’s uptake of CSR has been relatively low compared to the rest of the world, despite New Zealand’s “clean, green” branding image (Cummings, 2010; KPMG, 2008). To further illustrate this point, KPMG (2011) rank New Zealand 32nd out of 34 countries for CSR reporting.

Turning to CSR disclosure trends, the percentage of companies that voluntarily disclosed such information in their annual reports increased steadily between 2005 and 2007 from 43.5% to 46.8%. This percentage however remained constant between 2007 and 2008, the period corresponding to low business confidence. In 2009, as business confidence began to pick up, there was an increase in the adoption rate of annual report disclosures to 48.9%. Interestingly in 2010, the number of companies making such disclosures in their annual
reports decreased to 41.3%. This coincided with a sharp decline in business confidence during 2010.

Table 1 also shows a steady increase in the number of stand-alone CSR reports during the entire six year period. The percentage of companies issuing standalone CSR reports increased from 8.7% in 2005 to 12.8% in 2007. Similar to the annual report disclosures, the rate of the issuance of standalone CSR reports remained constant during the period associated with poor business confidence in 2008. However unlike annual report disclosures, there is a steady increase in standalone CSR reports after the initial phase of the GFC, i.e. 14.9% (2008-9) and 15.22% (2009-10).

Given this upward trend in CSR reports, we are interested in the factors that influence companies to issue more comprehensive, standalone CSR reports as opposed to making voluntary disclosures in their annual reports. Upon further examination and consistent with prior research (e.g. De Villiers & Lubbe, 2001; Doppegieter & De Villiers, 1996), there appears to be a strong link between the type of industry a company operates in and the likelihood of them producing a standalone CSR report. Companies such as ANZ Bank, Contact Energy, Goodman Fielder Limited, Sanford Limited, Telstra Corporation and The Warehouse Limited, operate in industries that are either highly visible and prone to public scrutiny such as the banking and telecommunications industry; or those that are highly sensitive to sustainability issues such as the fishing, food manufacturing and energy industries. Given the nature and visibility of these industries, they face greater public pressure and hence feel a greater need to issue more comprehensive standalone CSR reports to manage perceptions that could influence their legitimacy.

The percentage of companies that did not make any CSR disclosures (in either of annual reports or in standalone reports) declined from 2005 (47.8%) to 2007 (40.4%).
Disclosure rates remained constant during the period associated with poor business confidence (2007-2008). The decrease resumed in 2009 (to 38.3%). However, when business confidence took another dip in 2010, more companies did not disclose CSR information in 2010 (48%).

Taken together these findings show a general increase in CSR disclosures made by organisations over the six-year period. More and more companies recognise the need to convey information about their CSR activities to their stakeholders as a result of the growing public concern surrounding the impact of business operations and activities on the environment and society. However, poor business confidence appears to have an impact on the prevalence of CSR disclosures in New Zealand.

The overall numbers (and percentages) of CSR disclosers we discussed so far did not take into account offsetting, i.e. companies starting and stopping CSR disclosing in a particular year. Table 2 provides additional information on the changes in CSR disclosures by New Zealand companies and the timing of these changes. The table shows the number of companies that continued and those that stopped or started annual report CSR disclosures, as well as stand-alone CSR reports during the six year period examined.

The table indicates that sixteen companies had CSR sections in their annual reports throughout the six year period, three companies issued stand-alone CSR reports throughout and twelve companies made no disclosures throughout the six-year period. Three companies started issuing voluntary CSR disclosures in their annual reports during the six year period. They were Argosy Property Trust Limited, Goodman Fielder Limited and Vital Healthcare Property Trust, all starting in their 2008 annual reports when business confidence was low. Argosy Property Trust Limited manages retail, industrial and commercial properties while
Vital Healthcare Property Trust manages healthcare properties. Both these companies are managed by the same company, whose core business is financial services (Argosy Property Trust Limited, 2008; Vital Healthcare Property Limited, 2008). These companies are likely to follow the practices of their parent company who, being in the financial services industry, is a highly visible company and given the nature of their business may be closely scrutinised especially by financial and government stakeholders. In addition, Contact Energy (operating in the energy industry) who previously had CSR sections in their annual reports switched towards issuing a separate more comprehensive CSR reports in 2007 while Goodman Fielder Limited (food manufacturing industry) made the switch in 2008. Corporate managers of highly visible companies, under greater public scrutiny and those whose operations have a larger impact on the environment face a greater need to keep up their corporate image of social and/or environmental responsibility (Cho, 2009). Therefore, as expected, we observe that companies operating in these industries do not decrease their CSR disclosures during periods of poor business confidence but rather increase the amount of their disclosures. Thus, as business confidence declines, these companies resort to voluntarily disclosing CSR information in their annual reports or issuing more comprehensive information in the form of stand-alone CSR reports in order to build trust and minimise concern about organisational performance amongst their stakeholders and improve their corporate image so as to ensure a continued supply of resources (Mamum and Mia, 2011).

OceanaGold Limited (mining), on the other hand, switched to issuing stand-alone CSR reports in 2009 when business confidence started to pick up. OceanaGold’s annual report shows a net loss of $54,735 in 2008, while a net profit of $54,512 is reported in 2009 (OceanaGold Limited, 2009). When businesses are under financial distress, management is under added pressure to ensure cost cutting measures are undertaken and may choose not to
spend more on issuing CSR reports since the benefits may not outweigh the costs and may be adjudged by management to accrue over the long term.

There were four companies that stopped making annual report CSR disclosures during the six-year period. Two of these companies (OceanaGold Limited and Goodman Fielder Limited) switched to issuing CSR reports as previously mentioned. The remaining two companies were Skycity Entertainment Limited (in 2007) and Air New Zealand Limited (in 2010).

In terms of standalone CSR reports, Westpac Banking Corporation stopped issuing these reports in 2009. The decision by Skycity Entertainment and Air New Zealand to stop CSR disclosures may be explained as being consistent with the expectation that poor business confidence cause corporate management to be more conservative and defensive in terms of what they disclose. However, Westpac stopped both annual reports CSR disclosures and standalone CSR reports in 2009, when business confidence was high. Having stopped disclosure in print form, Westpac reverted to disclosing more regular and comprehensive CSR information through other sources of media such as television commercials, emails and dedicated pages on their corporate websites. Westpac Banking Corporation specifically stated on their website that the reason for the discontinuation of their standalone CSR reports was that their stakeholders preferred more direct and regular communication on CSR issues. Other types of media such as corporate websites and emails would therefore be better suited for this purpose. Since we are unable to observe changes in the disclosures made on corporate websites in prior years, we do not present evidence here. However, this explanation should be taken into account in the design of future research studies, i.e. changes in web disclosure over time should be considered.
Lastly there were four companies that made one-off voluntary CSR disclosures in their annual reports. AMP NZ Office Limited, Cavalier Corporation, Methven Limited and New Zealand Oil and Gas Limited made CSR disclosures between 2007 and 2008, the period associated with poor business confidence. Having not made such disclosures during periods of relatively high business confidence, this trend may suggest that these companies use CSR disclosures in an attempt to build trust and confidence amongst their stakeholders and improve their corporate image by diverting attention away from poor financial performance and towards sustainability practices and achievements. This would be consistent with legitimacy theory (Lindblom, 1993).

In summary, we observe a general upward trend in the number of New Zealand companies making voluntary disclosures in their annual reports and those issuing stand-alone CSR reports over the six-year period. However, poor business confidence brought about by the GFC impacts this trend. Consistent with our expectations, corporate managers appear to adopt two different strategies in times of poor business confidence. Some companies, particularly those operating in environmentally sensitive and/or highly visible industries, adopted strategies to increase their CSR disclosures. A possible explanation for this is that these companies have multiple stakeholders and given that their operations have a direct impact on the environment or society, they face greater pressure to make such disclosures. Moreover, some companies who did not voluntarily disclose their CSR information prior to the GFC, issued one-off disclosures in their annual reports during periods of poor business confidence, suggesting that some firms use CSR disclosures as a tool to improve their corporate image during periods of poor business confidence, to build trust amongst their stakeholders, to ensure a continued flow of resources. On the other hand, some companies made fewer CSR disclosures which may have been motivated by a change in business
priorities focusing more on reducing costs, and a more conservative approach to their
decision-making as a result of lower business confidence.

*Trends in the Volume of CSR disclosure: Number of pages disclosed*

<<< Table 3 >>>

<<< Figure 3 >>>

The GFC could not only have an impact on corporate decisions regarding whether or
not to voluntarily disclose CSR information but also the volume of these disclosures. Table 3
and figure 3 present the changes in the volume of social and environmental disclosures made
in the annual reports and standalone CSR reports for each of the six years based on categories
of disclosure volume, namely low (1-5 pages), medium (6-15 pages) and high (16 pages and
over) disclosures.

Preliminary observations suggest that among those New Zealand companies that
voluntarily disclose social and environmental information, most produce low volumes of
disclosure. However, more companies are disclosing higher volumes of CSR information and
fewer companies are disclosing lower volumes. This is indicative that more New Zealand
companies are recognising the need to disclose more comprehensive information regarding
their social and environmental aspects as public pressure for such information increases.

While there is a general upward trend in the volume of social and environmental
disclosures, similar to the previous section, two distinct patterns emerge. Firstly, the volume
of disclosures between 2007 and 2008 across all the disclosure groups appears to have
remained constant. Secondly, the number of companies engaging in low and medium
volumes of disclosures in their annual reports or standalone CSR reports as well as those who
made no such disclosures decreased between 2009 and 2010. The number of companies engaging in high volumes of disclosures appears to have increased slightly.

<<< Table 4 >>>

Table 4 shows changes in the volume of CSR disclosures by category. The table indicates the number of companies that sustained their disclosure levels, increased/decreased the volume of disclosures, and stopped disclosing during the six-year period.

Four companies produced high levels of disclosures throughout the six-year period while a further four companies switched from providing lower level disclosures to high levels of disclosure during the six-year period. The companies that generally issued more extensive (high) volumes of CSR disclosure or switched towards issuing high volumes of disclosure were those that were highly visible and prone to public scrutiny (The Warehouse) and companies operating in the banking and telecommunications industries (ANZ Bank New Zealand, Telstra Corporation and Westpac Banking Corporation). These are all retail companies and household name-brands in New Zealand. Also consistent with what we would expect, companies in socially and environmentally sensitive industries, such as the energy (Contact Energy), food manufacturing (Goodman Fielder Limited), fishing (Sanford Limited) and oil industries (The New Zealand Refining Company), generally made more extensive disclosures throughout the six-year period. Given the nature of the industries they operate in, these companies face additional pressure to ensure that they operate in a sustainable manner, causing less damage to society and the environment (Cho, 2009). Therefore, corporate management of these companies tend to disclose more CSR information in their annual reports and in CSR reports.

The overall stagnation in the volume of disclosure between 2007 and 2008, which corresponds to the period of poor business confidence, can be attributed to some companies
that increased the volume of disclosure while others decreased disclosures. Contact Energy and Vector Limited issued more extensive disclosures in 2007, at a time when business confidence started to decline. Seeing that they operate in the energy sector, there is a greater need for them to keep up their corporate image of being sustainable especially during tough economic conditions so as to ensure continued stakeholder confidence and support in the company. Another possible reason could be that in times of low business confidence, managers might make additional disclosures to defend their sustainability investments and reassure their financial stakeholders that these investments made despite poor economic conditions may provide a competitive edge and profitability in the future (Neu et al., 1998).

On the other hand, some companies adopted strategies to lower the volume of their CSR disclosures in 2007 and 2008, the period corresponding to low business confidence. Westpac Limited and ANZ Banking Limited, both operating in the banking sectors, dropped their level of disclosure only in 2007. Moreover, Skellerup Holdings, Restaurant brands, Infratil Limited switched towards issuing no CSR disclosures during the period corresponding to the decline in business confidence. These firms are largely overseas owned and their disclosure strategies might largely reflect those of their overseas parent companies. Companies in countries such as Australia and the USA faced a greater decline in business confidence as they were directly impacted by the GFC compared to New Zealand. Poor business confidence might have resulted in a shift in corporate priorities. Specifically, in times of poor business confidence, as corporate managers are fighting for survival of their business, priorities shift from social and environmental reporting towards keeping their business afloat. In times of economic crises, companies’ may find a greater need to satisfy the interests of their financial stakeholders as opposed to other stakeholders in order to ensure continued investment in terms of capital and other resources essential for the survival of their business.
Similar to the finding in the previous section, 2010 shows a decline in the general upward trend in the volume of CSR disclosures during a period of reduced business confidence. Companies such as Air New Zealand, Trustpower, Restaurant Brands, Nuplex and Fisher and Paykel switched to issuing lower levels of disclosures in their annual reports or stopped such disclosures altogether. A caveat for this finding is that while the volume of CSR disclosure in annual and stand-alone CSR reports may have declined, there is a possibility that they adopted other media of communicating CSR information to stakeholders. Most of the large public companies examined in this study dedicated entire sections of their corporate websites towards the disclosure of current sustainability efforts and issues. As evidenced by Westpac Banking Corporation, more and more companies are switching towards other media of social and environmental disclosures such as corporate websites and emails to stakeholders. Since we cannot access websites retrospectively, such an examination is beyond the scope of this study but could explain the increasing number of large companies not disclosing CSR information in their annual report or stand-alone CSR reports during this period.

In summary, there is an overall upward trend in the volume of CSR disclosures made by New Zealand companies over the six-year period. However, managerial confidence appears to play a role in decisions regarding the volume of CSR disclosures. Companies operating in environment-sensitive industries are likely to increase the volume of their CSR disclosures while those largely owned by overseas firms may adopt a more conservative approach. As business confidence began to increase since 2009 and corporate managers became more optimistic about the financial environment, there was an overall increase in their volume of CSR disclosures. However in 2010, there was a decrease in this trend coinciding with decreased business confidence.
Discussion of Major Changes in CSR disclosures

From the above analyses, we observe a variety of CSR disclosure patterns between 2005 and 2010. Some companies increased disclosures around the period associated with poor business confidence while some decreased their disclosures. This contributed to the overall constant trend in CSR disclosures between 2007 and 2008. While some changes in the trends were minor, there were some dramatic changes in social and environmental disclosure patterns of New Zealand companies during this time period. Focusing on the extreme changes in CSR disclosures of some New Zealand companies will reduce noise and help build an understanding of the causal relationships that may be prevalent (McClelland, 1998).

Four companies, namely Argosy Property Trust Limited, Contact Energy Limited, Goodman Fielder and Vital Healthcare Property Trust Limited increased their social and environmental disclosures significantly since the GFC. Specifically, Argosy Property Trust Limited, Goodman Fielder, OceanaGold Corporation Limited and Vital Healthcare Limited made no social and environmental disclosures prior to 2008 while Contact Energy engaged in low volumes of disclosure in their annual reports prior to 2008. The decline in business confidence brought about by the GFC led to an increase in CSR disclosures. Argosy Property Trust Limited, Goodman Fielder and Vital Healthcare Property Trust Limited started to voluntarily disclose social and environmental information in their annual reports since 2008. Contact Energy having already switched over to issuing standalone CSR reports in 2007 and OceanaGold Corporation engaging in voluntary social and environmental disclosures in their annual reports since 2006 appear to have significantly increased their volume of disclosures in their standalone CSR reports since 2008. Since then, despite the increase in business confidence since 2009, these companies have continued engaging in voluntary social and environmental disclosures. Furthermore, Goodman Fielder switched to issuing standalone CSR reports since 2009. As shown by Blacconiere and Patten (1996), in an overall negative
market condition, firms that had made disclosures prior to the legitimacy threatening event experienced less of a negative effect as they had taken measures to protect their corporate image in the past. Considering that these companies operate within industries that are prone to public scrutiny and sensitive to social and environmental issues, from this trend we can deduce the proactive strategies adopted by these companies to engage in social and environmental disclosures as a means to protect themselves from future legitimacy-threatening events.

On the other end of the spectrum, some companies completely stopped issuing CSR disclosures. Skycity Entertainment Limited and Fisher and Paykel Appliances Limited who previously engaged in social and environmental disclosures in their annual reports, stopped doing so with the decrease in business confidence. Neither of these companies has made any such disclosures in their annual reports or issued standalone CSR reports since. The decline in business confidence appears to have brought about a change in business priorities for these firms, shifting their focus away from CSR disclosures. They appear to adopt a more reactive strategy, i.e. waiting for a crisis before reacting with CSR disclosures.

Some companies such as Nuplex Industries, Fletcher Buildings Limited and Infratil Limited, significantly decreased the volume of such disclosures since the decline in business confidence in 2008. Even with the increase in business confidence since 2009, the overall volume of their CSR disclosures have not increased but have rather decreased relative to the volume of the disclosures made prior to the collapse in business confidence towards the end of 2007 and during 2008. A possible reason for the observation of this trend could be that these companies have subsidiaries that could issue their own CSR disclosures. Therefore, these companies do not find the need in adopting proactive disclosure strategies and hence adopt reactive strategies such that they are likely to voluntarily disclose social and
environmental information to manage the perceptions of their relevant publics and regain their legitimacy after a legitimacy threatening event has occurred.

Restaurant Brands is a unique case in that it stopped issuing CSR disclosures in their annual reports between 2007 and 2008. However, as business confidence began to pick up in 2009, they re-issued their social and environmental disclosures and increased it substantially compared to disclosures before. However they made no such disclosures in 2010. On the other hand, Cavalier Corporation, having made no such disclosures in the past, voluntarily disclosed information regarding their social and environmental practices only when business confidence was relatively higher. These two cases again show that during periods of lower business confidence, some companies do not disclose CSR information as they probably shift their focus towards coping financially in times of economic instability and CSR drops off the agenda. The fact that they increase their disclosures immediately after business confidence returns provides further evidence in support. It also shows that in some companies, CSR only appears to be on the agenda during periods of relatively high business confidence, when the company is able to absorb any negative repercussions such disclosures might bring.

As mentioned in the previous sections, there were a significant number of companies who, upon the decrease in business confidence in 2010, decreased or stopped voluntarily disclosing social and environmental information in their annual reports or issuing standalone CSR reports. Westpac Banking Corporation specifically stated that the reason for the discontinuation of their standalone CSR reports was that their stakeholders preferred more direct and regular communication on CSR issues and that other type of media such as corporate websites and emails were more appropriate for this purpose. This could well be the case for the other companies causing this decreasing trend. However, due to our inability to examine historical website disclosures, drawing conclusions regarding website disclosures in beyond the scope of this study.
Conclusion

Companies manage their stakeholder perceptions to ensure legitimacy, among other ways, by way of CSR disclosures in their annual reports and in standalone reports.

In this study, we examine the corporate social and environmental disclosure trends in New Zealand and investigate whether business confidence has an impact on the prevalence and volume of CSR reporting practices in New Zealand. The sample consisted of firms listed in the NZX 50 Index as these large, publicly listed companies are more likely to be good CSR reporters. To investigate the trends in CSR disclosure practices, we counted the number of pages disclosed in CSR sections in the annual reports and in stand-alone CSR reports of these companies between the years 2005 and 2010, i.e. from before until after the initial impact of the GFC. We base our trend analysis on number (and percentage) of companies reporting, on number of pages of CSR disclosure, and on changes in disclosure by individual companies.

During periods of economic downturn, business confidence is low. When managers experience a decline in business confidence, they may become more conservative and defensive in their decision-making process (Cheney and McMillan, 1990; Karaibrahimoglu, 2008) which includes their decisions to voluntarily disclose information on the impacts the GFC on their employees, consumers and society in order to protect themselves from any negative repercussions from their stakeholders. On the other hand, managers may have more of a moral requirement to consider societal needs, due to the adverse impact of the GFC on their employees, financial investors and other stakeholders (Smith et al., 2005). Particularly in highly visible and environment-sensitive industries (Cho, 2009), managers may seek to rebuild confidence amongst their relevant publics for the continual flow of resources and the maintenance of their corporate image by disclosing more CSR information, when business confidence is low (Branco and Rodrigues, 2006). These high-impact industry companies may
also regard CSR and CSR disclosure as a core business activity that needs to be carefully
managed during times of reduced business confidence. Therefore, it is uncertain *ex ante*
whether poor business confidence as a result of the GFC is likely to motivate managers to
increase or decrease their CSR disclosures.

The study reveals a general upward trend in the number of companies disclosing and in
the number of pages of corporate social and environmental disclosures over the years,
consistent with prior studies in this area (Rowe, 2011, KPMG, 2008). However, during the
period of poor business confidence in 2008, overall CSR disclosures stagnated. This was due
to an offsetting effect between companies that decreased their voluntary disclosures during
this period and those that increased their disclosures. Consistent with prior literature, we find
that companies that operate in environmentally sensitive and/or highly visible industries
increased their CSR disclosures, even in 2008. Possible explanations are that these companies
have a direct impact on the environment or society and thus face greater pressure to make
such voluntary disclosures (Cho, 2009), and/or that these companies regard CSR issues as
core to their operations and they are simply re-affirming this commitment during tough times.
On the other hand, companies in the non-environmentally-sensitive and/or highly visible
industries made fewer CSR disclosures during this period of reduced business confidence,
which may have been motivated by a change in business priorities and a more conservative
approach to their decision-making. We also observe similar trends in the volume of the CSR
disclosures made during the six-year period. Companies operating in environment-sensitive
industries generally tend to increase the volume of their CSR disclosures while those largely
owned by overseas companies adopt a more conservative approach. As business confidence
began to increase during 2009 and corporate managers became more optimistic about the
financial environment, there was an overall increase in the volume of CSR disclosures (from
2008 to 2009). In 2010, again coinciding with a reduction in business confidence, the number
of companies that disclose CSR sections in their annual reports, as well as the volume of these disclosures declined. The number of separate CSR reports continued to increase.

To summarise, between 2005 and 2010, there is an overall trend of more companies disclosing CSR sections in their annual reports and more companies disclosing standalone CSR reports. Bucking this overall trend, companies in non-environmentally-sensitive and/or non-socially-sensitive industries appear to reduce CSR disclosures in annual report sections during times of reduced business confidence.

While this study provides useful insights, the results have to be interpreted while taking into account some limitations. First, we only consider the largest listed companies. A focus on smaller companies may have led to different conclusions. Second, content analysis by way of volume counts (pages in this case) can always be criticised for not taking into account the actual content of the disclosures. However, we were merely interested in overall trends and still regard this method the most suitable for this purpose. Third, we only investigate CSR disclosure patterns in annual reports and standalone CSR reports and although prior research shows these are the most important disclosure media, companies may use different CSR media. Still, we believe we covered the most important media and that trends in these media can be informative. Finally, our method only allow us to infer reasons for trends in disclosure, but in-depth interviews would allow for a more direct examination of manager motivations.
References


### Table 1: Number of NZ top 50 companies engaging in CSR disclosures - 2005 to 2010

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<td>38.30%</td>
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### Table 2: Changes in NZ top 50 companies’ CSR disclosures - 2005 to 2010

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### Table 3: Volume of NZ top 50 companies’ CSR disclosures - 2005 to 2010

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Table 4: Changes in NZ top 50 companies’ CSR disclosure volumes - 2005 to 2010

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<td>2 (2009)</td>
<td>1 (2009)</td>
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<td>0</td>
<td>1 (2009)</td>
<td>4 (2007-2008)</td>
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</table>

Figure 1: Trends in business confidence between 2005 and 2010
(Wellington Chamber of Commerce, 2010)
Figure 2: Trends in CSR disclosures - % of NZ top 50 companies disclosing

Figure 3: Trends in the volume of disclosure - % of NZ top 50 companies disclosing