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Implementing a sustainability balanced scorecard 'dashboard' approach to assess organisational legitimacy

Tairan (Kevin) Huang
University of Wollongong, thuang@uow.edu.au

Matthew P. Pepper
University of Wollongong, pepper@uow.edu.au

Graham D. Bowrey
University of Wollongong, gbowrey@uow.edu.au

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Originality/value: This research contributes to the literature on social and environmental disclosures including the research of Do, Tilt and Tilling (2007) and Baxter, Chua and Strong (2010) which was based on the sustainability management and reporting of Westpac.

Keywords

Implementing, sustainability, balanced, scorecard, dashboard, approach, assess, organisational, legitimacy

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Implementing a Sustainability Balanced Scorecard 'Dashboard' Approach to Assess Organisational Legitimacy.

Kevin Huang, University of Wollongong, Wollongong, New South Wale

Matthew Pepper, University of Wollongong, Wollongong, New South Wale

Graham Bowrey, University of Wollongong, Wollongong, New South Wales
gbowrey@uow.edu.au

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Balanced Scorecard, Legitimacy, Sustainability,

Introduction

This paper considers sustainability management and reporting in the Australian private sector context. It aims to evaluate an Australian publicly listed firm's continuous voluntary sustainability reports and provide discussion on decisive contributory factors shaping a firm's sustainability reporting contents.

Issues concerning sustainability have reached great social awareness, breaking news addressing climate change, corporate social responsibilities and impacts of corporate business activities being broadcast regularly across all media channels. Modern entities are now facing a newly emerging business phenomena which is described as Sustainability Performance Management, which addresses the social, environmental and economic (performance) aspects of corporate management and of corporate sustainability management (Schaltegger and Wagner, 2006).

A stable society is an essential requirement for business to operate profitably in the long term. If business activities break down social harmony or cause significant damage to the ecological system, human life cannot be sustained and economic activities will be eliminated in the long run (Unerman et al, 2007). Therefore, managers of business organisations have a duty to plan and control business activities in ways that account for their social, environmental and economic impacts. Financial accounting techniques, regulations and standards have been developed and applied to communicate the financial objectives and performance of an organisation to its stakeholders (primarily the shareholders). Accounting, regarded as a powerful tool, has the function to discharge accountabilities for business organisations (Buhr, 2007). In order to include the social and environmental impacts of business in addition to the economic performance disclosure of an organisation, broader techniques in sustainability accounting and accountability are required (Unerman et al, 2007).

Sustainability reporting is regarded as an attempt by many business organisations to discharge their accountability for social and environmental impacts. It has become a central organisational theme for business in modern society, and many organisations have started to claim that they recognize the social and environmental impacts resulting from their economic activities (Unerman et al, 2007, p4). Thus, it is important to identify the processes and agenda governing the development of the sustainability of an organisation as these will impact on the approaches and methods that business organisations use to account and disclose sustainability performance. Schaltegger and Wagner (2006) suggest management of sustainability performance requires "a sound management framework which firstly links environmental and social management with the business and competitive strategy and management and, secondly, that integrates environmental and social information with economic business information and sustainability reporting" (p. 6).

Mandatory and Voluntary Reporting

The reporting of social and environmental activities still remains largely voluntary for most businesses and organisations. In the absence of legislation, a number of guidelines and initiatives have been developed and made available for organisations to demonstrate their social and environmental management and performance. Adams and Narayanan (2007) classified the guidelines according to the differences on the extent of the reporting focus, and indicated that none of the guidelines will address all organisations' perceived needs in relation to sustainability reporting. To a large extent, differences in organisations' perceptions of sustainability exist because sustainability enacts in different contexts, as Hopwood (2009,) outlined there are "different approaches to both conceiving and acting upon human and organisational interaction with the environment" (p. 433). This research aims to identify some of the strategies and mechanisms that a firm could use in order to capture the suitable unique setting of sustainability reporting system to meet stakeholder's needs.

Research Motivations

This research is motivated by some recent studies on Australian firm's approaches to sustainability management and reporting. In particular, the Chartered Institute of Management Accountants sponsored research by Baxter, Chua and Strong (2010) which discussed sustainability in practice using a case study on one of the Australia's major banks, the Westpac Group (Westpac).

Westpac is one of the leading specialist financial service managers and distributors in Australia. In 2002, the organisation started to issue a stand-alone report on its sustainability related activities. Since then, Westpac has continued to expand its sustainability practices and now includes sustainability reporting as part of its performance reporting. The effort was recognized by the Dow Jones Sustainability Index who ranked Westpac as the most environmentally sustainable bank for the period 2002-2007[1].

[1] Shared with ANZ in 2007.

Sustainability Reporting

Buhr (2007) suggested that while social, environmental and sustainability reporting is linked with modern corporations some elements of this reporting, such as employee and community issues, has been used by corporations for decades. For example, Guthrie and Parker (1989) conducted research on 100 years of BHP's annual reports which started as early as 1885. These were considered the first generation of sustainability reporting even though only limited focus presented in those early reports.

In the late 1990's, the emerging environmental reports replaced the trend towards social responsibility reports, especially when Elkinton (1994) introduced the term "Triple Bottom Line", which represented the system of reporting that linked environmental and social aspects with the economic performance of corporations.

Over recent years there are a number of widely accepted reporting frameworks developed and adopted. For example the Global Reporting Initiative (GRI)'s Sustainability Reporting Guidelines. These frameworks aim to provide benefits for both reporting organisations and report users by promoting a standardized approach that potentially minimizes ambiguity and rhetoric messages. Westpac is one of the Australian representatives in the international multi-stakeholder group of GRI that developed the supplements for the financial service sector.

Even though the reporting content and length of sustainability report has changed during the stages of development over the decades, the function has remained the same – to discharge the accountability (Buhr, 2007; Gray and Bebbington, 2000). Hence, research conducted on a firm's sustainability reporting will focus on the motivation and deemed purpose of the firm.

Social and Environmental Accounting Theories

Social and Environmental Accounting (SEA) research has rapidly developed since the 1990's. Wide selections of theories have been made available for researchers to embrace their studies, and different theories could be used to study the same social phenomena and reach alternative results. In Thomson's (2007) summarization of sustainability accounting literatures, it is observed that some frequently used theoretical frameworks include legitimacy theory, stakeholder theory and institutional theory. These theories are based on the assumptions that an organisation lives within a "open system" containing great numbers of different entities that the firm may influence or be influenced.

Legitimacy theory, one of the more popular SEA theories, asserts that in order to operate in a society, the firm's activities must be regarded as legitimate (Lindbolm, 1994; Deegan 2002). This theory does not recognize any particular stakeholder group of an organisation as essential but rather considers the entire system as a whole source of legitimacy. The majority of studies using legitimacy theory have been conducted in the manufacturing industry (see Hogner, 1982; Guthrie and Parker, 1989; Deegan, 2002), and the most commonly applied method has been to match organisation's disclosure on social and environmental performance to negative social exposures. The mismatch between an organisation's value system and the societal value system is known as the legitimacy gap and the reporting on sustainability performances are strategies to gain, repair or maintain its legitimacy (Deegan, 2007).

Legitimacy theory has become one of the more embraced theories in the literature of social and environmental reporting (Tilling, 2004; Thomson, 2007). It is generally accepted as a positive, system-oriented theory as it explains why an organisation's management conduct certain activities (in this case sustainability reporting) and does not provide normative prescriptions on what should be done (Deegan, 2007). The significant theoretical contribution of legitimacy theory on research in social and environmental accounting and reporting has been recognized not long after its early establishment as a theoretical framework (for example, Dowling and Pfeffer, 1975), as the "most pervasive augmentation theory" according to Parker (2005, p846). This research attempts to identify legitimization tactics used by Westpac to garner social acceptance and support at both the organisational and institutional level, and their managerial approach to link organisational legitimacy with sustainability development.

The introduction of organisational legitimacy goes back to Dowling and Pfeffer (1975), with the central argument that legitimacy is a key resource for survival. Essentially such a key resource is achieved by establishing the congruence between societal expectations, norms and values with the firm's activities (including direct, associated or implied). The fact that the study was based on research regarding organisational behavior indicated there is a primarily profound relationship between the perspectives of accounting and management.

The development of legitimacy theory made its significant advancement after the introduction of "Triple-Bottom-Line" in the study of corporate economical, social and environmental performance and the relationship with sustainability management (Elkington, 1999). Although this reporting initiative framework made the rather simplistic assumption that a common ground exists in corporate social and environmental disclosure in regard to industry identity or managerial style, it served as an indication to the growing awareness of those performance indicators, especially the non-financial ones.

In 2002, the Accounting, Auditing and Accountability Journal (AAAJ)(Vol.15, No.3, 2002) published a special themed edition with some major literatures contributing to the advancement of legitimacy theory framework applied in social and environmental reporting studies. These articles in the special edition enhanced the explanative and predictive applicability of legitimacy theory as a system oriented positive theory.

It is essential for organisations to craft and implement varieties of strategies, labeled as "Legitimation tactics", (O'Donovan, 2002, pg.349) to gain, maintain or repair legitimacy if a gap is perceived to exist. Voluntary reporting on social and environmental issues can be considered as such a strategy, from the perspective of legitimacy theory. O'Donovan's study (2002) used a qualitative approached to reinforce previous research using quantitative methods through the use of a questionnaire interview containing fictitious environmental issues and analyzed the response of strategic choice from managers from three Australian public companies. The result indicated that the type of legitimation tactics that managers select is responsive to the designated purpose of response. The applicability was supported by Milne and Patten (2002), as their study on the environmental disclosure of American chemical industry concluded that under some circumstances positive disclosure can repair organisational legitimacy. However a question remains for the creditability for both O'Donovan (2002) and Milne and Patten (2002), as the first study examined the manager's intention of using legitimation tactics, but whether the tactics would work cannot be verified as fictitious events were used in the study; in the second research the outcome appears to be positive, however whether the increasing disclosure was the management's intention to repair legitimacy is not tested. It can only be assumed, by combining the result of both studies, to establish the relationship between perceived legitimacy gap, legitimation tactics in social and environmental reporting and its effectiveness.

Maintaining Legitimacy

Out of the three functions of legitimation tactics: maintain, repair or gain legitimacy, maintaining is argued to be the one that can be achieved with the least effort (Ashforth and Gibbs, 1990; O'Donovan, 2002). The essential task in maintaining legitimacy is the management's ability to observe and anticipate changes in the stakeholder relationship in order to preserve past conferring of social expectations.

In addition, the level of input in relation to maintaining legitimacy is correlated to the current level of legitimacy the firm has (O'Donovan, 2002).A firm which promotes itself as the pioneering organisation in promoting social and environmental responsibilities will be required to use a large amount of resources and effort in maintaining the position and a extremely high level of expectation. Westpac's reputation as the world's most sustainable bank will keep tremendous pressure on the executive management to maintain its legitimacy. At a glance the detail included in each year's social impact report keeps increasing, which could be viewed as a signal of the increasing pressure of maintaining legitimacy.

Repairing Legitimacy

Repairing legitimacy is normally required when the firm is associated (not necessarily directly involved, see Patten, 1994) with an incident which caused a crisis of legitimacy such as loss of human life, catastrophic economic consequences or significant damage to the environment (for example, BP's oil leak incident in April 2010). O'Donovan (2002) indicated that to conform to social values is the first preference of strategy options when repairing legitimacy is needed, such as inform stakeholders about recent emergent changes in performance and activities to remedy deficiencies (Samkin and Schneider, 2009). Repairing tactics is largely reactive in nature (Patten, 1994; O'Donovan, 2002), and it is obvious to see when a significant crisis to legitimacy exists, the effect of other legitimation tactics (gain, maintain) will be futile unless it is repaired first, and proactive strategy may need to be implemented after.

Westpac experienced a number of events which could lead to loss of legitimacy, such as the criticisms on closing rural branches, premium mortgage loan rates, and excessive director remuneration as well as declining levels of customer services. It will be difficult to draw a clear line in Westpac's disclosure tactics to distinguish repairing legitimacy from maintaining the high level of legitimacy, as whether those threats are significant enough to cause a crisis for its legitimacy will be hard to determine.

Gaining Legitimacy

Suchman (1995) described gaining legitimacy as winning social acceptance, where techniques used are usually proactive (O'Donovan, 2002). When a firm makes a decision to enter a new area which is unfamiliar to itself and its stakeholders (for example, introduce new technology which may damage environment, used as a fictitious issue in O'Donovan, 2002), the management has the task to gain legitimacy by using informational and communication strategies to convince the stakeholders (Lindbolm, 1994). Businesses operating in established sectors will try to conform to existing models and standards to gain legitimacy, but new activities can still be formalized through new institutions.

The finance sector is a heavily regulated, well established industry sector, where Westpac not only must comply with pre-existing standards and regulations to gain initiative legitimacy, but also be actively involved in other activities to extend the level of legitimacy.

Ultimately, in order to maintain, repair or gain legitimacy, a combination of proactive and reactive legitimation tactics could be used within the framework of legitimacy theory. A close examination on management's intention with the actual results is needed to verify the predicted relationship suggested by the theory.

Organisational Legitimacy and Accountability

Since organisational legitimacy is crucial for organisation survival, and voluntary reporting is considered a necessary strategy to meet social expectation to gain legitimacy, it appears that accountability can be enhanced without legislation or regulation, but this is not fact. Suchman (1975) outlined the key issue that organisation legitimacy is not bound by the actual conduct of the organisation, but through societies' perceptions. Therefore organisations can potentially change or manipulate the public's perceptions without actually altering their activities (Lindblom, 1994). The (voluntary) disclosure of social and environmental issues, can influence the public's perception of the organisation's compliance with social expectations, and hence gain legitimacy. Ashforth and Gibbs (1990, p.178) have labeled such an approach as "symbolic management", opposite to substantive management, which causes real changes in organisational practices.

The Balanced Scorecard

Originally the Balanced Scorecard (BSC) was developed by Kaplan and Norton (1992) as a structured tool to assist performance measurement and management. It evaluates the expectations and demands of relevant stakeholders, and generates possible strategies to meet those demands (Bieker, 2002). It comprises both financial and non-financial objective measurements and provides a framework for performance setting in four categories specifically financial, customer, internal business processes and learning and growth. The main purpose is to overcome the sole reliance on financial performance (Horngren et al, 2010). These four perspectives represent the relevant stakeholders that Kaplan and Norton regarded as crucial to any type of organisation. The methodology itself evolves from a performance management tool into a strategic tool as it is found that the BSC affects and benefits manager's decision making (Birch, 2000; Lipe and Salterio, 2000). In order to utilize the BSC as a strategic reflection and implementation tool, the organisation must ensure that the perspectives are consistent with the organisation's objectives and strategies (Mooraj et al., 1999; Chan, 2004). Substantial research has been performed in the study of adoption, implementation of BSC as well as the cost and benefits studies by both academic and professional accounting bodies. The main tasks involved in implementing BSC in an organisation is ultimately to choose what to measure. BSC does not provide a universal bottom-line target nor specified recommendations.

The core philosophy of the BSC is the cause-and-effect relationship, which functions as a strategic management tool. The objectives of each perspective are linked by this relationship. Kaplan and Norton have defined the cause-and-effect relationship as a chain of logic in transforming intangible assets into tangible value through the threading of lead and lag indicators. With different firms and industrial sectors, the cause-and-effect relationships become significantly complicated, hence it is a necessity that each firm adopts a unique set of BSC and select relevant measurements (Malmi, 2001).

A significant limitation exists in the early generations of the BSC - it fails to address the needs of all crucial stakeholders, which refers to the exclusions of impacts on the environment, HR issues, communities within and suppliers contributions (Smith, 2005). All the exclusions have been approved to be critical to a firm's survival and profitable development (Keating et al, 2008). Under these circumstances, the need for a sustainability incorporated BSC system is warranted.

The Sustainability Balanced Scorecard

The original four perspectives do not cover all stakeholder expectations. However, the newer generation of BSC still lacks measurements in the broader area of sustainability. There have been a number of different approaches to integrate sustainability measurement into the traditional BSC approach. For example, sustainability can be added to the original four perspectives of BSC as a standalone perspective; or, the social and environmental aspects can be integrated into the original four perspective, and further, it is possible to develop a specific new scorecard system (Figge et al., 2002).

The new term Sustainability Balanced Scorecard (SBSC) has been introduced by researchers (Bieker, 2002, Hahn and Wagner, 2001) based on the traditional balanced scorecard, with the addition of a fifth perspective (social or environmental) to address the strategic orientation of the organisation with sustainability management (that could or should include the reporting on sustainability management).

Therefore, it could be useful to examine whether the organisation has implemented sustainability management strategic goals, with relevant indicators and measurement procedures, and whether such management approaches reflect back on other financial and non-financial measurements, (Bieker's 2002). It offers an opportunity to make comparisons with a firm's own reporting system and provide discussion of the analytical work on the reporting framework used in different annual sustainability performance reports to determine whether the firm discloses more reporting content on some selected indicators.

This research used the alternative framework Bieker (2002) outlined by not having the same consideration that sustainability performance is a separate perspective of SBSC. In contrast, the performance measurement of sustainability indictors should be considered as an integrated part of all other four perspectives as illustrated in Figure 1. The rationale for this approach is that it is difficult to distinguish a set of measurements that evaluate social and environmental performance only while not associated with other four perspectives.

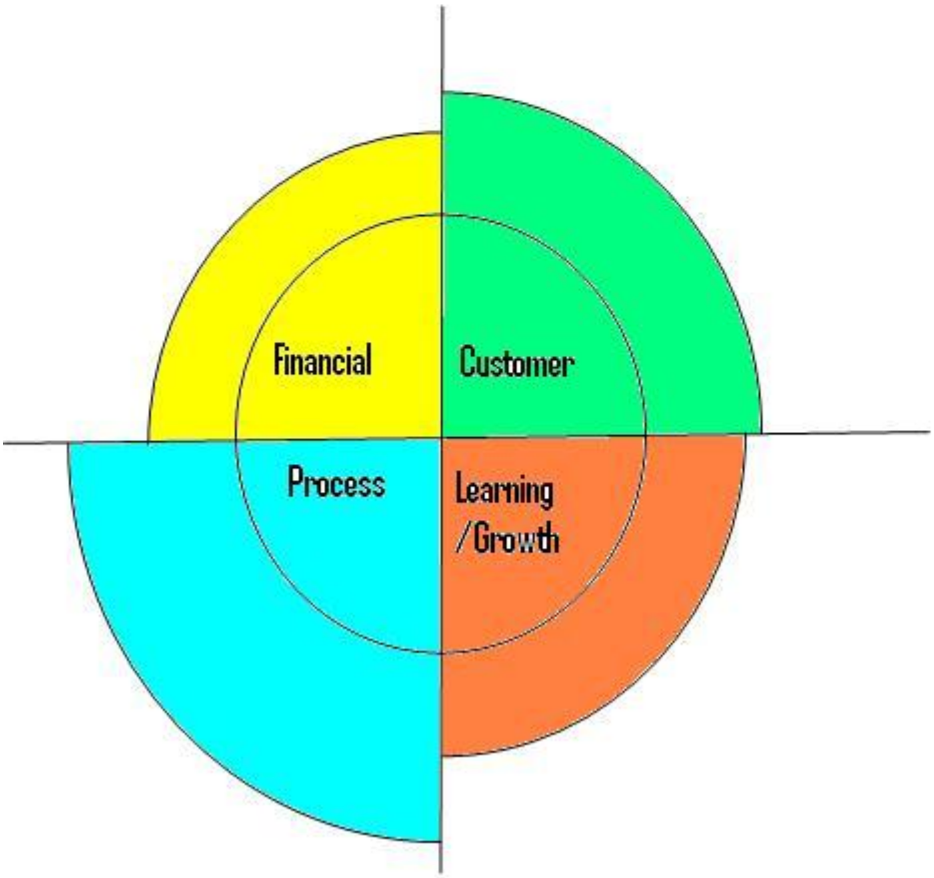
A pediment for the original BSC as indicated by Cheney (2001), is the determining and quantifying the non-financial performance indicators. The SBSC approach would experience increased difficulties as social impacts are even more difficult to measure. The contributions of this thesis focus on how a firm, recognized as a leader in sustainability management, measures and reports their sustainability performance.

The evaluation of social and environmental performance using the BSC approach has had its applications tested as in Dias-Sadinha and Reijnder's (2005) study of 13 Portugal firms. The selection of firms in Dias-Sadinha and Reijnder's (2005) study focused on those industries which had significant environmental impact and the management of sustainability strongly emphasized pollution-prevention and eco-efficiency. Similar application of BSC (or SBSC) was found in Moller and Schalteggar (2005) and Sidiropoulos et al (2004), where the environmental perspective was added to the BSC. Those applications are still not as comprehensive as a sustainability performance evaluation system needed to be as eco-efficiency counts only a narrow segment of the broader sustainability issues which it is suggested that SBSC should connect all pillars of sustainability (Moller and Schalteggar, 2005).

Research Design

The sustainability reports of Westpac from 2002 to 2008 will be analysed using two sets of discussions. Firstly the performance indicators will be categorized into perspectives of BSC (financial; customer; internal business process; and learning and growth), the reporting/disclosure in each perspective is then quantified by the numbers of indicators used. The purpose of this measurement is to identify whether changes exist in the perspectives which Westpac emphasises its sustainability reporting. Secondly the disclosure on management of sensitive issues will be analysed to identify legitimization tactics from Westpac. By identifying those disclosures as methods to gain, maintain or repair legitimacy. By providing a summary of legitimization disclosures identified in each year's report, this research aims to evaluate the change of strategies that Westpac's management use to fulfil organisational legitimacy.

In order to allocate the disclosures of stakeholder impact indicators used in Westpac's report into perspectives of a balanced scorecard system, each of the perspectives needs to be expanded to cover the domains of sustainability reporting. This re-classification of indicators allows examination of selection of indicators away from traditional Triple-Bottom-Line approach which is suggested in the categories used in Westpac's report (Social, Environment and Economic). The rationale of the new method is that Westpac does not operate in an industry sector where environmental impact is the major concern of sustainability, their reporting on environmental issues certainly has a different focus compare to those heavy manufacturing industries. Within the social regime of sustainability reporting, Westpac has an extremely high contact frequency with large group of different types of customers; hence their social impacts are much more direct with the general public. Following the Triple-Bottom-Line approach, it is clear that Westpac's emphasis is on social impact. However the categorization is also ambiguous, where for example in its 2002 report, Westpac categorised its policy for institutional banking as a social indictor where the total lending amount as an environmental indicator. The new scorecard approach attempts to clarify such ambiguity by re-allocating those indicators into balance scorecard perspectives, and further more determine which perspective has attracted the most weight of sustainability reporting. By doing so, it potentially allows the case study to translate Westpac's Sustainability Management strategy into set of measurements.



Financial

FIGURE 1: ILLUSTRATION OF SCORECARD

Perspectives: originally the financial perspective evaluates profitability of the strategy. Even though there is no available accredited evidence that a direct relationship between sustainability management and financial profitability exists, results related to financial performance can still be observed in cost reduction, both direct (energy/material consumption) or indirect (compliance cost or penalties). The expanded financial perspective also includes the asset management and investments/contributions made in relation to sustainability management. In light of sustainability management this perspective should not only include the sole purpose of enhancing tangible shareholder value.

Customer Perspective: identifies customer groups and segments, firm's share of market and evaluates its strengths and weaknesses in those segments. In this case study, it is expanded from customer focus into external supply chain wide, such as disclosures on sustainability management of suppliers and logistics.

Internal Business Process Perspective: initially it measures internal operations on value creation, such as innovation, services and efficiency. By expanding the measurement into sustainability indicators, it would also include the settlement and development of operational policies in both traditional management and sustainability management regime.

Learning and Growth Perspective: this perspective relates to capabilities that lead to superior process efficiency, most importantly the preservation and enhancement of both employee's capabilities and morale. The sustainability side of view is not much different where disclosures of employee profile, workloads, rewards and empowerments are all included in this perspective.

Identifying Legitimization Tactics

Traditionally applied in many researches in the framework of legitimacy theory, the entire section of sustainability reporting contents were analysed in order to identify legitimization tactics used by the management. Methods used including matching negative media exposures to the growing of disclosure content in relations to such criticism. Since the source documents used in previous researches are largely annual reports, identifying such causal relationship requires more subjective interpretations on the management's intentions.

However in standard alone sustainability reports such as Westpac's, management of sensitive issues are deliberately reported and highlighted. Although it is categorised as an individual indictor under social performance in the indicator index, it in fact contains the disclosures of a number of issues affecting many different stakeholders. Examining those issues which the management of Westpac considered sensitive will assist understanding of their sustainability management principle, and identify changes in focus areas of those sensitive issues by conducting horizontal analysis. The purposes of those tactics are defined as:

Gain Legitimacy: it has been pointed out by previous researches that the Westpac's sustainability reporting came a long way before 2002 and it did not start with pioneering and proactive motive rather it was a reactive response to the late 1990's legitimacy gap (Baxter, Chua and Strong, 2010), therefore in order to distinguish gaining legitimacy from maintaining legitimacy this case study considers the starting of publishing a stakeholder impact report as a new starting point for Westpac's management of organisational legitimacy. Where preserving customers and market share, compliance to various regulations and standards will be considered as maintaining legitimacy, gaining legitimacy will consist of those development and improvements such as new framework or policies, initiative programs or projects.

Maintain Legitimacy: as above mentioned, continuously preserving the efforts/contributions with none or little improvement towards sustainability management will be considered as tactics to maintain legitimacy.

Repairing Legitimacy: those disclosures made in response to criticisms and negative exposures will be categorised as tactics to repair legitimacy. In these circumstances a crisis of legitimacy is perceived to exist, and management deliberately implement strategies to minimizing the legitimacy gap.

The sensitive issues will be summarized, interpreted as one of the three tactics, and the focus audience discussed for reviewing and understanding of Westpac's dealing with organisational legitimacy in relation to sustainability management.

Results

This section presents the results of the content analysis conducted on Westpac's sustainability reports (2002-2008).

The first standard alone Stakeholder Impact Report from Westpac in 2002 has its significance recognized as the starting era of Westpac's sustainability strategy, or "Squashed Tomato Strategy" (Baxter, Chua and Strong, 2010) where it got its name from the cover feature picture of a smashed tomato illustrating the fresh perspective of its stakeholder impact reporting.

Applying the BSC approach discussed in previous section on the list of indicators used in 2002 Social Impact Report, it was observed that out of the 65 indicators, 23 of them can be categorised into customer (or external) perspective, 18 into financial perspective, 14 into internal process perspective and 10 into learning and growth perspective.

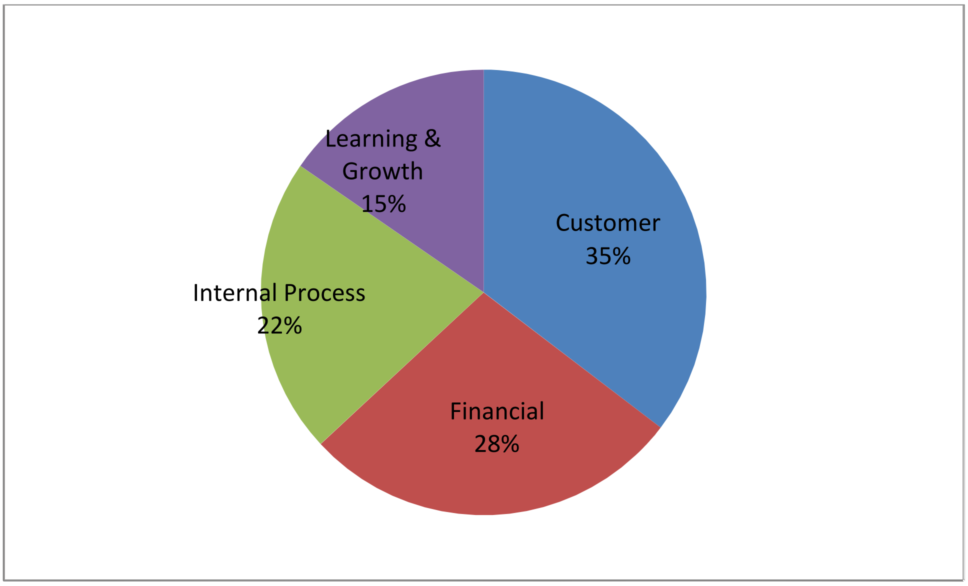


CHART 1 2002 INDICATORS SCORE

In 2002's Social Impact Report, the management of Westpac made disclosures in relations to five issues which they considered as sensitive: Dealing with Government & Political Donations Responsible Lending Banking Business; Indigenous Partnership and; Financial Auditor Independence.

The length of the 2003 Social Impact Report was significantly longer than 2002 report. Many disclosure areas had gone into more depth and contained enriched quantitative and qualitative measurements. A new category "General Indicator" was introduced to separate issues in relation to CSR management and governance from the previous category of social indicator, which sounded more accurate than in the previous report. The report cover-page featured an iconic theme with a bold message "Who cares about corporate social responsibility" which signalled Westpac's strong emphasis in sustainability management. 2003 was also the year that Westpac was recognized as the world's most sustainable bank by Dow Jones Sustainability Index.

There was a significant increase in word count which was the result of less pictorial material used in the report. Most of the indicators were also used in the previous report. Performance screening of key suppliers was presented three times in the scorecard as general, social and environmental indictors separately; the repetition was not counted towards total number of indicators.

From the 79 valid indicators, the number of indicators used in each category were 27 in Customer, 21 in Internal Process, 20 in Financial and 11 in Learning and Growth.

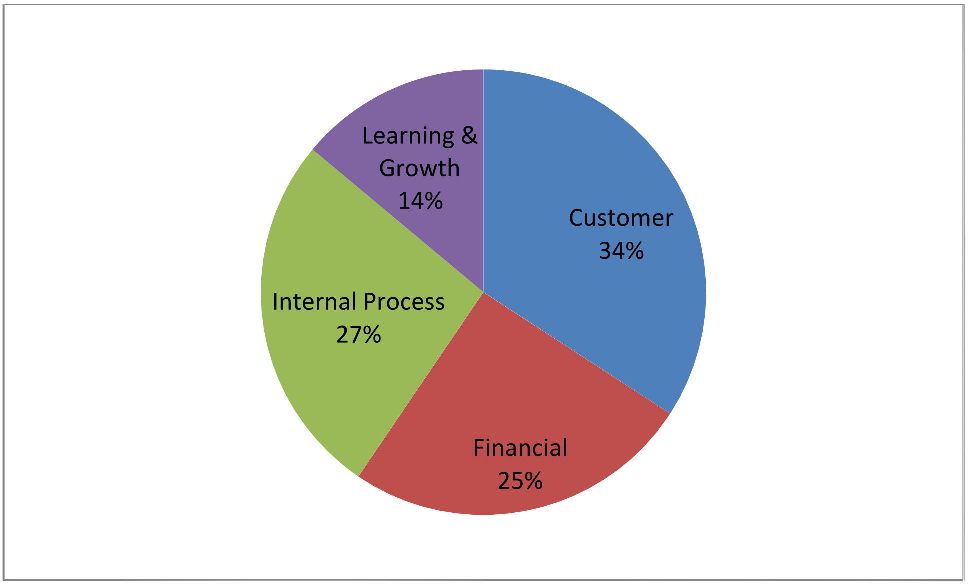


CHART 2 2003 INDICATORS SCORE

The 2003 report showed a consistency in both indictor selection and presentation style with the previous year's report even though the document size increased significantly.

In relation to organisational legitimacy, besides the continued disclosure on management of sensitive issues, Westpac made an announcement on their consultation with stakeholder groups in relation to emerging issues in the 2003 report. Both sections contain information regarding legitimacy concerns and related tactics/strategies which Westpac management had applied.

In 2004, Westpac issued two sustainability performance reports. The first one named Social Impacts Report, with similar contents to the previous two years and the second one named Stakeholder Impact Report, containing some new features. The second report is used for the analytical process:

The same style of presentation was used in 2004 as previous two reports, it had the largest ever pool of selected indicators and most explicit classification of indicators. In addition to the four reporting frameworks (GRI, SPI-Finance 2002, EPI-Finance 2002 and ASC) referenced in previous years, a new framework Global Compact was used to develop a number of new indicators.[2] It was possible the reason that Westpac had introduced a new category of indicators under the social impacts section, namely Human Rights Indicators. Seven indictors concerning human rights were reported this year, addressing issues such as anti-discrimination, use of child labour and forced labour.

[2] The United Nations Global Compact is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labor, environment and anti-corruption.

The front page feature pictorial design illustrated a giant figure business man standing above the rain cloud while others were running from the pouring rain, followed by another page showing the same man watering plant under the sun. The messages under those pictures addressed the concerns as mentioned in report title – "Just who is prospering?" It carried the response of Westpac's management to the increasingly growing criticisms against banks and large companies for their focus on solely financial objectives rather than sustainability. In the report it was stated "Because we know that a prosperous business goes hand-in-hand with a prosperous society, our social, environmental and economic performance is central to the way we operate" (Westpac, 2004).

The number of indicators used in each category is: 28 in customer perspective, 25 in financial perspective, 28 in internal process perspective and 11 in learning and growth perspective.

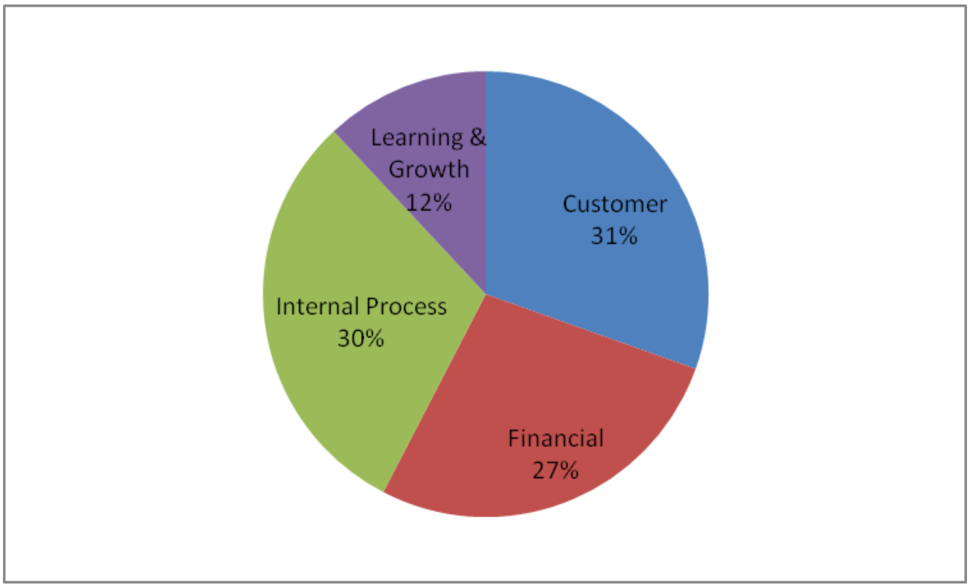


CHART 3 2004 INDICATORS SCORE

The pattern was in consistent with both previous years. The reason for the relatively fewer number of indicators in the learning and growth perspective could be that there were less innovative activities involved with Westpac's sustainability management, hence only those in relation with employee satisfaction and development were included. There is reasonable explanation that the learning and growth perspective in fact had a much greater significance than it appeared to be in above approach, that is the formal stakeholder dialogue framework itself was not counted as a key learning and growth objective. Instead, issues raised from this framework generated additional reporting indicators concerning other perspectives of the balanced scorecard approach, therefore the significance of learning and growth was not completely recognized in the measurement.

The 2005 Stakeholder Impact Report started a new era of Westpac's sustainability reporting. There were a number of significant changes compared to previous three reports. Firstly the rather complicated indicator index was not used in the 2005 report. In previous years, the length of the index had grown to more than four pages containing more than 90 indicators, though it seemed to be comprehensive, it in fact made the reading process complicated. The audience needed to go back and forth within the same report to locate information on the same topic. The 2005 presentation applied a more elegant style where the reporting contents were classified under eight categories: employee, customers, environment, social, suppliers, New Zealand, Pacific Banking and Finance and Governance. The sequence revealed the ranking of importance that Westpac is trying to project in the sustainability reporting. The issues concerning employees were separated from social category which it originally allocated to in three previous reports. This new classification brought more clarity than the previous Triple-Bottom-Line framework used. At the front of each section, the report contained heavily phased headlines outlining the importance of performance measurement within the area. For example, the reason f Westpac provided why the category of employee as the most prioritized sustainability indicator was outlined in the report: "how we treat them (employees) feeds through to our customer's experience… attracting and retaining the best people is fundamental to our long term prospects (Westpac 2005, p. 12).

The BSC approach generated different result compared to last year, where the percentage of financial indicators significantly reduced.

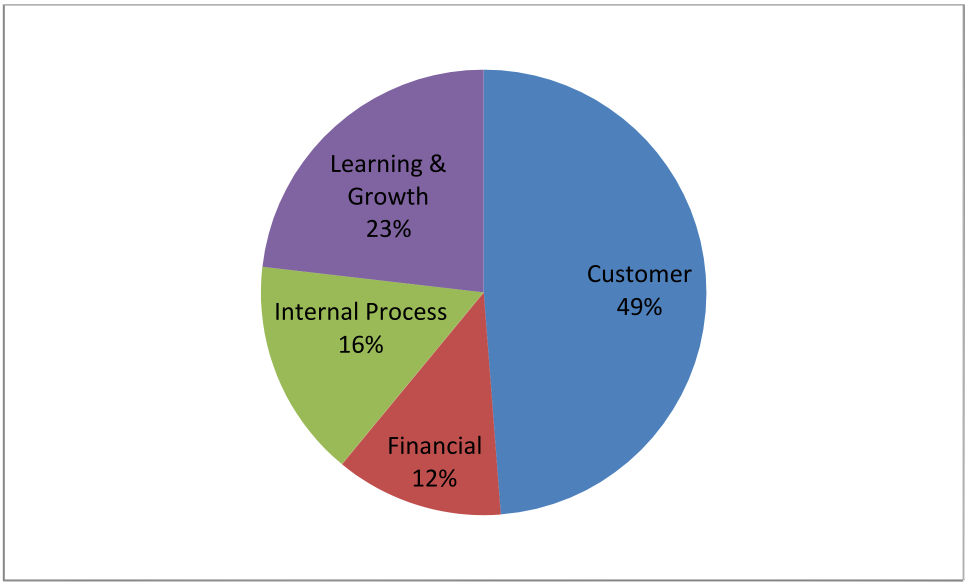


CHART 4 2005 INDICATORS SCORE

The numbers of issues covered in 2005 significantly increased over the previous period and covered a very broad range of stakeholder interests. There is evidence that Westpac's sustainability reporting responds to both macro-level external factors such as the topic of climate change and the firm-specific issues such as customer relationship, demands on product and services.

Towards the end of the reporting of sensitive issues, Westpac emphasised its service-profit model as a motive for the firm to measure and report sustainability performance. Aligned with the fundamental concept of BSC, the Westpac model also establishes the relationships between financial performance and non-financial performance. It supports the assumption that the sustainability BSC is potentially the system that Westpac adopts to manage its sustainability performance.

The 2006 Westpac sustainability report had the largest volume by numbers of pages (100). In the opening pages the company outlined the firm's view of sustainability. . From starting point, "every generation should live better than the last" (Westpac, 2006, p3), the company acknowledge that a business has capacities to tackle the social, ethical and environmental issues to build values for tomorrow.

The BSC approach generated result as follows:

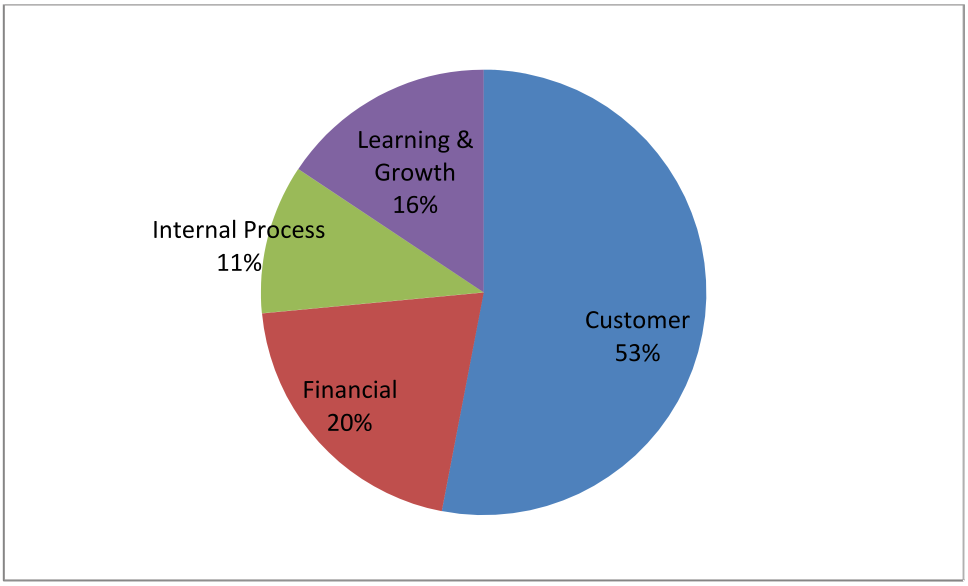


CHART 5 2006 INDICTORS SCORE

The service-profit model emphasised in the report is potentially the key contributor to the even further increased report on customer and external related indicators. The reduced coverage on internal business process indicators is caused by a reduction in disclosures on the current policies in relation to sustainability issues, as most of the key policies remained the same as in previous reporting cycles. Incremental reporting has been observed for some of the 2005 emerging issues, especially for accessibility and climate change, which support the legitimacy theory view of sustainability reporting. In 2007 Westpac issued two reports related to sustainability performance: the Stakeholder Impact Report and an additional Community Involvement Report.

The Community Involvement Report contained some revolutionary changes to the format of sustainability reporting, the most significant one is the introduction of the "Six Degrees of Sustainability". According to Westpac (2007), this new framework acted as the heart of 2007 sustainability report, communicating what the company believe in, where it is going and how to build values for business and community. The six degrees are referring to: Philosophy – what does the company believe?; Value – Why the company does it?; Issues – What are the concerns?; Advocacy – How is the company showing the way? ; Actions – What is the company doing?; and Outcomes – Performance measurement and scorecard.

These six degrees were carried out in every sub-section of the reports to provide an extended understanding for sustainability performances in each category (besides financial). The last two degrees are reported using both qualitative and quantitative information included in the indictors.

This new reporting style clearly showcased Westpac's high level of participation and engagement in broad range of sustainability issues. The advocacy section indicated Westpac's position as a key contributor to sustainability policy making, further enhancing its reputations in the sustainability domain.

The results of BSC approach are as follows:

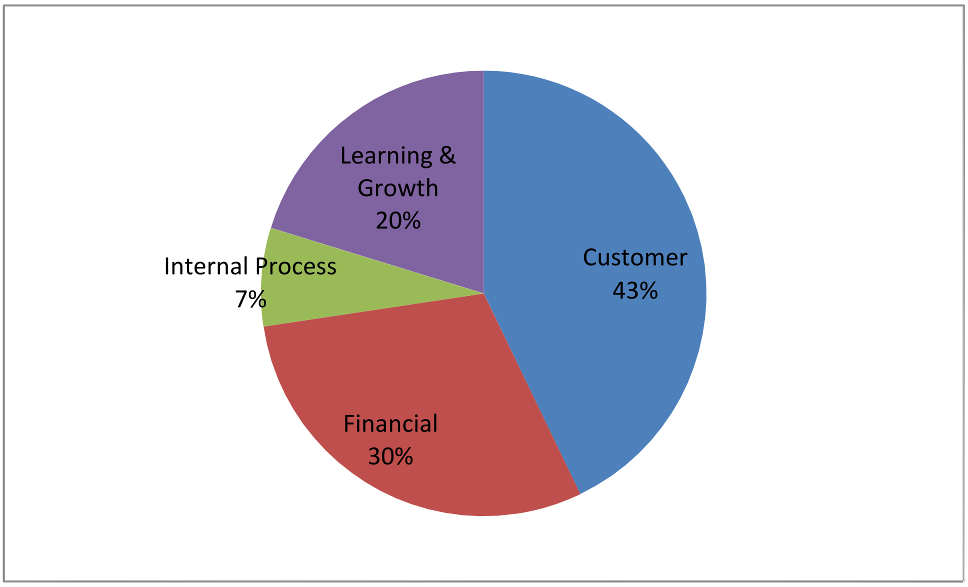


CHART 6 2007 INDICATORS SCORE

Even further reduced reporting on policies and frameworks was observed in the 2007 report's indicators as a significant amount of policy related information were addressed in the philosophies and values discussions using case studies, stakeholder responses or partnerships' acknowledgements. The service-profit model again dominated the sustainability report for 2007.

In 2008, Westpac undertook some major changes in its management. Westpac's CEO David Morgan, one of the Australian well recognized business leaders, left the organisation to take on a directorship at BHP Billiton. The new CEO, Gail Kelly, is a well-known business woman due primarily to her remarkable history of success as the CEO for St. George Bank.

The Stakeholder Impact Report in 2008 also had some changes, the volume of the printed report was significantly reduced as more information was made available online at Westpac's corporate social responsibility websites. Most of the indicators continued along with the six degrees of sustainability format applied again in 2008. Some new indicators contained unexpected and interesting information, for example under the disclosure for social performance, using suppliers with Fair Trading policy has been introduced as part of the Westpac's SSCM strategy. The example given is that Westpac started to provide coffee from

Fair Trading suppliers (also the paper coffee cups) to more than 8,000 employees through company cafeterias. The company believe this is an effective strategy to communicate company values to its employees.

The results of BSC approach are as follows:

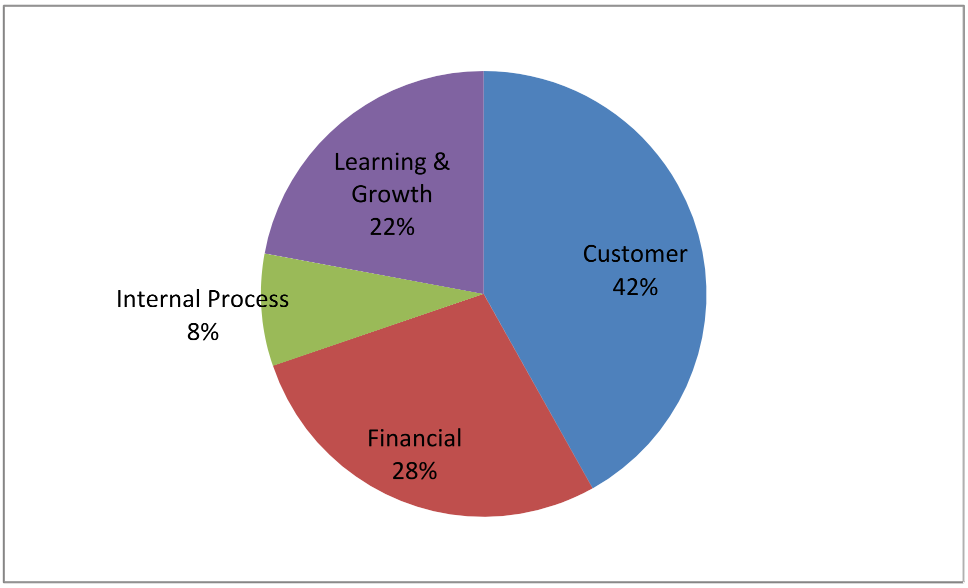


CHART 7 2008 INDICATORS SCORE

Besides the continuing issues, this year more employee related matters were reported, which provided the same outcome as the BSC approach where more learning and growth perspective indicators have been observed. Two of the most significant issues: the global financial crisis and the departure of former CEO make less impact on the content and format of Westpac's sustainability reporting. This might due to the fact that this established reporting framework has been underpinned into the sustainability management of Westpac.

Comparison of Results

Based on the individual results of each annual sustainability report, summary and comparison made to identify patterns of changes or innovations. It is very clear that there are two distinctive periods, the 2002-2004 Social Impacts Reports period and the 2005-2008 Stakeholder Impacts Reports period.

The first period's reports used a Triple-Bottom-Line structured reporting format, where indicators are categorised as social, environmental and economical. It can be seen as the early developing stages of Westpac's sustainability management and reporting, where establishment, implementation and changing of varies policies to reflect sustainability concerns become the essential information disclosed in the report, which is reflected by the increasing weight percentage of internal business process perspective under BSC approach. From the legitimacy perspective, the active participations in policies development are viewed as effective legitimacy-gaining tactics; by showcasing advocacy in those sensitive matters Westpac demonstrates its commitment and leading positions in sustainability management.

In the next period a change in reporting pattern was identified that much less reporting on policies are used as indicators. Instead, structured themes are introduced in every sections of sustainability reporting to communicate management philosophy and corporate value in relations to sustainability matters. The categorisation has evolved from the traditional Triple-Bottom-Line to the six new classifications, where the customer, employee and supplier category are separated from the former social category for an extended view on corporate social responsibility. The indicators reported under customer and financial perspectives have significantly increased during this period, indicating the dominating factor – Westpac's service-profit model.

Conclusions

The previous section presented the results obtained from analytical approaches on Westpac's sustainability performance reports using the BSC approach and legitimacy theory perspective.

From the research results, it is observed that the reporting contents are imbalanced using the percentage of indicators under each perspective of the total indicator reported as the measurement. It rather indicated the firm emphasized the performances of indicators within customer and financial perspectives. For reports in the first period (2002-2004), customer and financial indicators combined contributes to more than 55% of the total indicators. The pattern became more significant in the second period, where in 2005– 2008 the figure exceed 70%.

There are a number of factors which contribute to this outcome. The first is that the financial service type industry which Westpac operates in involves a great deal of customer relationship management and financial performance measurement. Many indicators selected under the customer's perspective are service quality type measurements such as complaints types and resolution rates. Maintain customers' satisfactory level is an essential element of service firm's operational objective; it remains as Westpac's focus of sustainability management. The service-profit model emphasized since the 2005 sustainability report is also a dominating factor of continued increasing disclosure on customer related and financial performances. The model itself does promote the importance of employee's performance, motivation and involvement level, however there are little innovations identified in Westpac's reporting on employee related issues. The indicators used to represent employee category did not go under any major updates or shifts as in other non-financial perspectives. The majority of employee related indicators are adopted from the GRI framework, with the addition of Westpac's unique selections of indicators raised from CCC and Internal committees' meetings.

This paper argues that the finding does not weaken the effectiveness of using a BSC approach to analyze the contents of sustainability reports. The categories used contained a much higher level of ambiguity, for example in the social category Westpac included both the policy of screening institutional lending clients and the amount lent to the clients as social performance indicators, but the first involves policy development and monitoring, the second has direct impact on financial position and performance. Under the BSC approach, the two indicators mentioned above would be categorized under internal business process perspective and financial perspective respectively, enabling a closely examination and more accurate classification on what type of activities are included under those indicator headings.

From the analytical results from potential legitimization tactics identified in Westpac's sustainability reports, it is clear that the company responds to broad types of stakeholders' expectations. From the view of the legitimacy theoretical framework, this study concludes that Westpac's sustainability report contains a significant amount of identifiable legitimization tactics, including:

1. Maintain legitimacy by complying with established frameworks, regulations and guidelines, anticipating stakeholder needs and attempting to provide products and services exceeding those needs.
2. Repair legitimacy by indicating avoidance or disclosing remedy procedures and prevention strategies.
3. Gain legitimacy by participating with renowned associations, establishing and maintaining on-going community partnerships, and showcasing advocacy by actively involving in policy development for both government and sustainability associations.

The main organisational strategy to manage legitimacy related sensitive issues is the stakeholder dialogue mechanism. Stakeholder engagement is a strategy recognized by GRI and Institute of Social and Ethical Accountability's Foundation Standard, AA1000 as necessary means to achieve meaningful sustainability reporting (Owen, Swift and Hunt, 2001), but little genuine stakeholder engagement has been identified in the domain of sustainability management (Cooper and Owens, 2007). Westpac's stakeholder dialogue can be considered as a rare example of effective stakeholder management, since originated in 2002, it remained as a prioritized constant feature of sustainability reporting of Westpac, and remained as the essential output source for identifying legitimacy threatening issues.

From the comparisons between those annual sustainability reports, it is observed that there are many factors caused changes of reporting contents, both from internal and external. This thesis suggests that it reflects the continuous improvement process in Westpac's sustainability management strategy. It reinforces the comments that Baxter, Chua and Strong (2010) made that the sustainability reporting initiated as a responsive strategy towards external crisis but gained internal momentum by making sustainability management as key part of business strategy. The sustainability reports clearly acted as one of the communication vehicles for Westpac to publish this strategy focus.

Adoption of GRI framework is one of the decisive factor of Westpac's sustainability reporting contents and selection of indicators. The majority of indicators reported are from the G3 framework, the rest are generated through the stakeholder dialogue mechanism. As the advisor to Westpac's sustainability group Barnett (2007) recommended, that GRI framework is a handy reference manual for firms to consider what to include in sustainability reports, but not as a "tick box" checklist. Westpac demonstrated its high level of commitment and desire to do more than equivalent by develop in the field that seek gaps of GRI framework, establish new indicators which is relevant to similar business types and introduce them to the GRI framework through its active role as key contributors to financial sector supplement to GRI.

The impacts of voluntary codes of conduct on the firm's sustainability reporting has been studied and considered to have many functions, such as manufacturing organisational legitimacy through manage expectations (Deegan, 2002) and create meanings through representation (Andrew, 2009).

From the Westpac case study, it is observed that different level of innovations and improvements existing in all four perspectives. The most standardised and consistent pattern was in the reporting of financial indicators, which is expected. The indicators are measuring general economical gains, cost savings and expenses related to sustainability investments and contributions. The reporting of internal business processes indicators experienced a declining pattern, due to the situation that less continuously disclosures on policies and frameworks are required once they are formalised and become an effective control mechanism. Though the importance of employees have been emphasized throughout the sustainability reports of Westpac as it is also an essential element of its service-profit model, the measurement and reporting had little innovations. This represents an opportunity to identify areas of improvement, establishing more meaningful ways to report learning and growth indicators in sustainability management. High level of innovation has been observed in the reporting of customer and external relations indicators, being the positive outcomes of stakeholder engagement and dialogues and SSCM strategies, hence indicating the above two are effective tools to establish reporting contents for customer and external related issues.

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