Standalone CSR Reports: A Canadian Analysis

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Abstract

This research examines whether firms who issue these reports are really more socially responsible or if they are merely trying to convince stakeholders that they are. We use the CSID index as an independent evaluation of firms' level of CSR and find that firms that issue standalone CSR reports every year do have significantly higher Total CSR, CSR Strengths and CSR Weaknesses than firms that never issue these reports. Additionally, we find that firms that issue standalone CSR reports in some years have higher Total CSR and CSR Strengths scores than firms that never issue standalone CSR reports. Our results provide support for the explanation that firms who issue standalone CSR reports do so as a signal of their superior commitment to social responsibility actions. We found minimal support for the argument that firms who issue standalone CSR reports are more profitable.

Keywords: *Corporate Social Responsibility, Sustainability Reports*

Introduction

Corporate Social Responsibility (CSR) refers to a firms' impact on the environment and on society beyond the role of maximizing profitability (Crane, McWilliams, Matten, Moon, and Siegel, 2008). Unlike the regulations for the reporting of public firms' financial information, the reporting of a firm's environmental and social information in Canada is not mandatory[1] (Bebbington, Larrinaga, and Moneva., 2008). The lack of mandatory reporting and certification requirements results in information asymmetry about firms' CSR practices. Information asymmetry means that stakeholders cannot distinguish between those firms that are good corporate citizens and those that are not (Gugerty, 2009). In the face of information asymmetry, one way that firms can communicate to stakeholders that they are good corporate citizens is to voluntarily issue standalone CSR reports.

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[1] Though the issuance of standalone CSR reports is involuntary in Canada, standalone CSR reports are mandatory for public corporations in Sweden, Norway, the Netherlands, Denmark, France and Australia (Frost, 2007).

Voluntary disclosure of standalone CSR reports is on the rise over the past decade (Bebbington et al., 2008; Erusalimsky, Gray, and Spence, 2006). For instance, CorporateRegister.com reports that the issuances of voluntary standalone CSR Reports in Canada has grown from only Dow Chemical Canada Inc. issuing standalone CSR reports for the years 1989 and 1990 to over 177 firms issuing standalone reports covering the year 2008. KPMG International (2011) found that nearly 95%of the largest 250 companies in the world are now issuing these standalone reports. As a result of this growth in issuing standalone CSR reports, there is a need to understand why companies choose to issue these reports on their sustainability efforts and issues (Adams, 2002; Bebbington et al., 2008).

The recent increase in voluntary reporting of CSR is most likely due to the result of growing pressure from both internal and external stakeholders for firms to be good corporate citizens (Ballou, Heitger, Landes, and Adams, 2006). On the one hand, engaging in and reporting CSR activities can impose costs on a firm, and to the extent that rivals fail to participate, a firm's competitive position in the marketplace may suffer (Baron, 2001). On the other hand, some benefits accrue to good corporate citizens. For example, prior research has shown that firms that are known to have a genuine commitment to CSR are subject to beneficial consumer behavior (Marin, Ruiz, and Rubio, 2009), attraction and retention of employees (Greening and Turban, 2000; Turban and Greening, 1997), positive investment (Sen, Bhattacharya, and Korschun, 2006) and greater profitability (Orlitzky, 2008). Thus, a firm may choose voluntarily to issue a standalone CSR report to project an image that the company is socially aware and environmentally friendly (Guidry and Patten, 2010).

Standalone reports and other forms of voluntary disclosure are based on the premise that managers of firms wish to disclose additional information in the hopes that the stakeholders interpret such information as favorable to the company. According to PricewaterhouseCoopers (2002), managers believe that a major benefit of issuing standalone CSR reports is reputation enhancement. These findings are confirmed by KPMG International (2008) who noted that brand enhancement and reputation were the major reasons for issuing these reports. While some firms may present reliable standalone CSR reports, other firms may take advantage of information asymmetry and the lack of regulation to project a commitment to pro social and environment practices, which may not be entirely accurate (Lyon and Maxwell, 2011). In other words, CSR standalone reports may be used as a signal of a good corporate citizenship or may be used as a form of greenwashing. Greenwashing is a disinformation strategy made possible by information asymmetry due to lack of mandatory reporting standards for CSR (Lyon and Maxwell, 2011). Critical to the interpretation of standalone CSR reports is the need to unravel the extent to which CSR reports can be relied upon. Along with providing an understanding of the motivation for firms to issue standalone reports, insight into this understanding will be useful in determining the necessity for additional mandatory disclosures and for certification of standalone CSR reports.

This paper is organized into four sections. The first section develops the hypotheses. The second and third sections outline our methodology and results. The last section contains our summary and conclusion.

Hypotheses Development

Consistent with a theoretical explanation that has been previously used in the CSR reporting literature, there are two possible reasons that firms choose to voluntarily issue standalone CSR reports (Dawkins and Ngunjiri, 2008). Firms can issue voluntary standalone CSR reports to differentiate themselves from other firms that do not issue standalone reports by signaling to stakeholders that they are engaging in good corporate behavior (Gugerty, 2009). This explanation is consistent with signaling theory, which suggests that firms are voluntarily disclosing social and environmental information to communicate their superior positions regarding CSR activities (c.f., Healy and Palepu, 2001) and thereby directly signaling the firms' values for promoting CSR. Firms may also use voluntary standalone reports as a form of green washing, to misrepresent their corporate social performance by posing as "friends of the environment and leaders in the struggle to eradicate poverty" when they are not, in fact, good corporate citizens (Greer and Bruno, 1996). This latter explanation is consistent with legitimacy theory, which suggests that firms are voluntarily disclosing information to promote an impression of legitimacy in terms of social and environmental values, which (more often than not) may not be substantiated.

According to both signaling and legitimacy theoretical perspectives, voluntary CSR reporting arises in part as a response to imperfections in the market for firm accountability. Information asymmetry between firms and their stakeholders is a major result of these imperfections (Gugerty, 2009). Since stakeholders cannot easily observe firms' CSR activities, firms faced with this dilemma may need to provide some credible signal of their virtue (Verrecchia, 1983). As a result, firms will undertake voluntary disclosure when the benefits of providing standalone CSR reports outweigh the associated costs.

On one hand, signaling theory is based on the premise that in the absence of information, under information asymmetry, stakeholders will assume the worst (Milgrom, 1981). Therefore, firms that have made a substantive commitment to CSR will benefit from the issuing of standalone CSR reports, while firms that have not made a substantive commitment to CSR will not benefit. Signaling theory suggests that the firm's stakeholders use various clues, provided by a firm in its voluntary disclosures, to draw conclusions about the firm's intentions or actions (Srivastava and Lurie, 2001).

According to signaling theory, the standalone CSR report acts to signal a good corporate citizen because it mitigates the information asymmetry surrounding firms' CSR by providing information in the social and environmental domain. Since "bad" corporate citizens should find it more costly to present a standalone CSR report, as compared to a "good" corporate citizen, the standalone CSR report itself will act as a

signal of good corporate behavior. Prior lawsuits (Nike-Kasky Case, 2002) suggest that there are additional costs imposed on bad firms that choose to issue standalone CSR reports. This suggests that firms with "good" social and environmental news would have a greater incentive to issue voluntary standalone CSR reports than firms with "bad" social and environmental records, thus biasing the reporting of standalone reports toward those with "good news" to tell on the CSR front (Lizzeri, 1999).

On the other hand, according to legitimacy theory (Cho, Guidry, Hageman, and Patten, 2010; Cho and Patten, 2007; Patten, 1992; Brown and Deegan, 1998; Deegan, Rankin, and Tobin, 2002), firms use CSR disclosures to provide favorable pictures of their commitment to society and the environment by emphasizing their positive actions and mitigating their negative actions (Lindblom, 1994). The legitimacy theory perspective suggests that firms voluntarily incur costs to issue standalone reports and engage more in corporate political activity (Cho, Patten and Roberts, 2006) when firms wish to "greenwash" information so that their stakeholders believe that they are good. Greenwashing is the issuing of false or misleading information on social and environmental issues. Greenwashing is made possible when stakeholders cannot distinguish between firms that are actually good corporate citizens and those that are only posing as friends of the environment and society (Greer and Bruno, 1996). Recent events, however, suggest that there are costs imposed on firms if it is discovered that they engage in greenwashing. For example, prior to 2002, Nike issued standalone CSR reports that included false claims regarding labor practices of its subcontractors in the third world. When the claims were subsequently proven false, legal action was taken against Nike, which was subsequently settled when the company (Nike-Kasky Case, 2002) agreed to pay $1.5 million to a labor standard organization. Immediately after the settlement was reached, Nike stopped producing its standalone report for three years. In 2005, Nike started once again to voluntarily issue its standalone CSR reports, and has been presented as an industry leader due to its extremely high levels of transparency and disclosure (Murray, 2005).

According to Legitimacy theory, voluntary CSR disclosures may not correspond with actual social performance and may not be substantively based (Cho and Patten, 2007: Cho, Patten and Roberts, 2010, Cho, Freedman, and Patten, 2012). Empirical findings adopting a legitimacy perspective are mixed (Patten, 2002). One possible explanation for the mixed findings is due to the methodological shortcomings in the extant research, which include small sample size, failure to control for industry differences, and firm size[2] (e.g. Cho and Patten, 2007). Alternatively, the mixed findings may be due to the inapplicability of the legitimacy perspective as a basis for understanding CSR disclosures.

Signaling theory predicts that the voluntary disclosure of CSR information may be an attempt to signal company values with respect to social and environmental issues. Prior research on the levels of CSR disclosure by Gelb and Strawser (2001) finds a

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[2] In a more recent study, Cho and Patten (2007) found a difference in the amount of CSR disclosure according to a firms' level of CSR when controlling for industry and firm size.

positive relationship between disclosure level and CSR. This study also found that firms with higher CSR scores have more extensive disclosures. In a study of U.K. firms, Toms (2002) also found a positive relationship between levels of CSR disclosures and measures of corporate reputation. Given that measures of CSR tend to rely on publicly available information, signaling theory predicts that firms who issue standalone CSR

Reports do so because revelation of their positive CSR practices will reap benefits. If firms use voluntary CSR reports to signal to stakeholders their superior social and environmental performance, then we would expect that CSR scores would be higher for firms that provide voluntary CSR reports than for firms that do not. This gives rise to the following hypothesis, which is consistent with a signaling theory perspective:

> *H1: CSR scores are higher for firms that issue standalone CSR reports than for firms that do not.*
> *H1a: CSR scores are higher for firms that issue standalone CSR reports every year than for firms that do not*
> *H1b: CSR scores are higher for firms that issue standalone CSR reports in some of the years than for firms that never issue standalone CSR reports.*

Support of H1 would be consistent with signaling theory, while lack of support for H1 would be more consistent with a legitimacy explanation. Signaling theory predicts an actual difference in CSR scores between firms that issue standalone reports and firms that do not, while legitimacy theory predicts no difference. It follows that support for H1 would suggest that firms that voluntarily issue standalone CSR reports do so to signal their stronger CSR commitment, and lack of support for H1 would suggest that firms with standalone CSR reports may be greenwashing.

A signaling perspective suggests that firms issue standalone CSR reports only when their "good news" outweighs the "bad news", which could include the costs of environmental cleanup, costly litigation and other compliance costs (Verrecchia, 1983; Li, Richardson, Thornton and Hughes, 1997). When the "bad news" outweighs the "good news", firms would tend not to signal. Thus, a signaling perspective suggests that firms that issue standalone CSR reports may be more likely to have higher CSR Strengths than firms that do not issue standalone CSR Reports, and also would tend to have Higher CSR Strengths than Weaknesses.

This is in contrast to a legitimacy perspective (Cho and Patten, 2007; Patten, 1992; Brown and Deegan, 1998; Deegan et al., 2002), where firms would use voluntary standalone CSR reports to overstate their actual positive action and/or omit or understate their negative actions (Lindblom, 1994). According to Gray (2006), many companies choose to focus only on positive aspects of their CSR, and fail to disclose CSR Weaknesses. According to a legitimacy perspective, we would anticipate higher CSR Strengths and lower CSR Weaknesses in firms that choose to issue standalone CSR reports than those that do not.

CSR and Financial Performance

A substantial body of empirical evidence into the association between CSR and financial performance (FP) indicates that on the balance, there is a positive association between CSR and firm profitability (Clarkson, Li, Richardson and Vasvari, 2011; Orlitzky, 2008; Van der Laan, Van Ees and Van Witteloostuijn, 2008). Signaling theory not only predicts that the voluntary disclosure of CSR information may be an attempt to signal company values with respect to social and environmental issues, but also signal that the company is committed to eliminating information asymmetry and that the company is well managed (e.g. Alexander and Buchholz, 1978; Waddock and Graves, 1997). A well run firm is more likely to be profitable than one that is not, and a company with good FP allows firms to redistribute from shareholders to other stakeholders and pay attention to social and environmental issues (Baron, 2001). Orlitzky (2008) suggests that a positive association between ROA and CSR may signal enhanced organizational reputation and increased sales revenues. Moreover, signaling theory would suggest that the issuing of standalone CSR reports may be an attempt by firms to signal profitability, as these firms are better able to bear the incremental costs associated with the issuing of standalone CSR reports than those that do not issue standalone CSR reports. As a result, a firm that produces voluntary standalone CSR reports may be using it to indirectly signal profitability.

If firms use standalone CSR reports to signal to stakeholders that they are committed to mitigating information asymmetry and are better run than those firms that do not issue standalone CSR reports, then we would expect a stronger association between CSR scores and profitability for firms that issue standalone CSR reports than in firms that do not. For those firms issuing standalone CSR reports, we anticipate firms with higher overall CSR scores would be more profitable than firms with lower CSR scores. Accordingly, our second hypothesis is that those firms with standalone CSR reports are likely to have a strong positive association between CSR and FP, while those firms that do not issue CSR have a spurious association between CSR and FP. This gives rise to the hypotheses 2:

> *H2 : The relationship between CSR and FP is stronger for firms that issue standalone CSR reports than firms that do not.*
> *H2a : The relationship between CSR and FP is stronger for firms that issue standalone CSR reports every year than those firms who do not.*
> *H2b : The relationships between CSR and FP is stronger forms firms that issue standalone CSR reports in some of the years compared to firms that never issue standalone CSR reports.*

Support for these hypotheses would be consistent with the signaling theory explanations, as these firms are disclosing their actual superior performance. Lack of support for these hypotheses would be consistent with legitimacy theory indicating that firms who issue standalone CSR reports may or may not be better managed, are engaging in greenwashing, and may or may not have higher profitability.

Methodology

Sample Selection

Our sample was obtained from the CSID database. The CSID database was developed in 1992 by Michael Jantzi Research Associates and scores firms on their corporate social responsibility actions. CSR scores are determined by MJRA through research that includes interviews, surveys, analysis of litigations and legislative actions, and analysis of public and private documents. The CSID database contains CSR social profiles on over 250 publicly traded Canadian companies. For a company to be included in our analysis, CSR scores needed to be available for the company for each year from 2003 through 2008[3]. This resulted in a total of 120 companies in our sample, totaling 720 observations over the span of six years.

Independent Variable

Measurement of CSR

In consistency with other research, CSR scores are measured by using the ratings in the CSID index developed and maintained by Michael Jantzi Research Associates Inc. (MJRA) (Thorne, Mahoney and Bobek,2010; Mahoney and Roberts, 2007; Mahoney and Thorne, 2006)[4]. The CSID index, developed by MJRA, Inc., is an independent rating on a firm's various dimensions of CSR. The ratings are determined by screening criteria applied consistently across a wide range of companies and are largely objective (Mahoney and Roberts, 2007; Mahoney and Thorne, 2006). Information is gathered from different data sources, both internally and externally, including investment analysts' reviews of corporate documents, company's annual reports, annual information forms and proxy information circulars. Firms' environmental policies, health and safety policies, and codes of business conduct are also evaluated, along with information from government, labor, industry, and non-profit organizations. (For further information, see Mahoney and Roberts, 2007). Finally, interviews are performed, including interviews with important stakeholders, company and industry executives, community groups, environmental organizations, government and regulatory representatives, and union representatives (MJRA, 2000).

The CSID index rates each company across several dimensions within the categories of environment, customers, employees, corporate governance, community and human rights. Each of these dimensions is given two ratings; a strength rating and a weakness rating. These ratings range from two to zero. A rating of 2 represents a

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[3] Effective in 2009, MJR began to report CSR information in their new Global Platform. Thus, comparable CSR scores after 2008 are not available.

[4] This multidimensional database measuring CSR for Canadian firms was developed in 1992 by Michael Jantzi Research Associates, Inc. (MJRA), and specializes in the assessment of CSR for Canadian corporations. Ratings for the CSID are determined by MJRA through extensive research, including public and private documents, interviews, surveys, analysis of litigations and legislative actions. The CSID database specializes in the assessment of CSR for Canadian corporations and contains social profiles of over 400 publicly traded Canadian companies, including the companies on the Toronto Stock Exchange (TSE) 300 Index.

major strength or major weakness, a rating of 1 indicates some strength or weakness, while a rating of 0 indicates no strengths or no weaknesses. A score for CSR Weaknesses is calculated by summing the weakness ratings across all dimensions, while a score for CSR Strengths is calculated by summing the strengths ratings across all the dimensions. The Total CSR score is calculated by taking CSR Strengths and subtracting CSR Weaknesses.

Dependent Variables

Standalone CSR Reports

CorporateRegister.com is estimated to have over ninety percent of the world's standalone CSR reports published online (CorporateRegister.com, 2008). Of the 120 companies, we found that 23 companies issued standalone CSR reports in each of the six years, 24 companies issued standalone CSR reports in some of the six years, and 75 companies never issued a standalone CSR reports in any of the years between 2003 and 2008.

Financial Performance

Return on assets (ROA) is used to measure FP for a firm (Fauzi, Mahoney and Rahman, 2007). In consistency with prior research, a one-year lag of CSR is used to examine the relationships between FP and CSR (Waddock and Graves, 1997; Roman, Hayibor, and Agle, 1999; Mahoney and Roberts, 2007). The Compustat database was used to obtain information on each firm's ROA.

Measurement of Control Variables

To control for differences in the relationships between CSR and FP that have been noted in other research, we control for debt level (debt-to-assets), firm size (Total Assets), and industry (firm sector) (Craighead, Magnan and Thorne, 2004:Mahoney and Roberts, 2007; Graves and Waddock, 1994; Waddock and Graves, 1997). Industry sectors are represented by dummy variables and are broken down by industry sector. Compustat was used to obtain information on debt-to-assets and total assets. Industry sector was obtained from the MJA database.

The Model

Hypothesis 1 posits that CSR is higher for firms that issue standalone reports than for firms that do not. Hypothesis 1a posits that CSR is higher for firms that issue standalone CSR reports every year compared to firms who do not. Hypothesis 1b posits that CSR is higher for firms that issue standalone CSR reports in some of the years compared to firms that never issue standalone CSR reports. To test Hypothesis 1, 1a, and 1b, we performed an ANOVA between firms that issue standalone CSR reports every year, firms that issue standalone CSR reports in some years, and firms that never issue standalone CSR reports across three measures of CSR: Total CSR, CSR Strengths and CSR Weaknesses.

Hypothesis 2 posits that the association between CSR and FP is stronger for firms that issue standalone CSR reports compared to those firms who do not. Hypothesis 2a posits that the association between CSR and FP is stronger for firms that issue standalone reports ever year than for firms that do not. Finally, Hypothesis 2b posits that the same association is stronger for firms that issue standalone reports in some of the years compared to firms who never issue reports. We test Hypothesis 2, 2a, and 2b using the following equation that includes a dummy variable for *Report.*   For Hypothesis 2, the value of Report is 1 if a firm issues a standalone CSR Report and 0 otherwise. For Hypothesis 2a, the value of Report is 1 for firms that issue standalone CSR reports every year and 0 otherwise. For Hypothesis 2b, the value of Report is 1 for firms that issue standalone CSR reports in some of the years and 0 otherwise. To specifically test H2, the interaction term *Match*ROA* is included to capture whether there is a significant difference in the association between ROA and CSR between firms to specifically test these hypothesis. The following regression equation is used:

$$CSR_{i,t+1} = \beta_0 + \beta_1 ROA_{it} + \beta_2 Report_{it} + \beta_3\ ROA_{it}{*}Report_{it} + \beta_4 Debt\text{-}to\text{-}Assets_{it} +$$
$$\beta_5 Assets_{it} + Industry_{it}^{k}\ \beta_6 + \varepsilon_{it} \tag{1}$$

Where
i   = firm
t   = year (2003 through 2008)
CSR   = Corporate Social Responsibility Score for Total, Strengths and Weaknesses
ROA   = Return on Assets
Report   = H2-1 if a firms issues a standalone CSR report or 0 otherwise; H2a- 1 if firm issues standalone CSR report every year or 0 otherwise; H2b-1 if a firm issues a standalone CSR report in some of the year and 0 otherwise
Debt-to-Assets= Total Debt/Total Assets
Assets   = Total Assets in Millions
Industry$_k$ = 1 if industry sector k; 0 otherwise; k = 1, 2… 10 (number of sectors minus one)
ε_{it} are independent, normally distributed error terms with mean 0 and variance σ^2

The significance of the interaction variable of *Report*ROA* would suggest support for each hypothesis.

Results

Descriptive Statistics

Table 1 shows the mean, standard deviation and correlation statistics for all firms in our sample.   For all firms, the average Total CSR, CSR Strengths, and CSR Weaknesses scoresare .049, .835, and .786 respectively. The average ROA is 3.46. ROA and Total Assets are significantly positively related to Total CSR and Debt-to-Assets is significantly negatively related to Total CSR at p<.01.   Debt-to-Assets is

significantly positively correlated to CSR Weaknesses at p<.05 and CSR Strengths at p<.01, while Total Assets is only significantly positively correlated with CSR Strengths at p<.01.

Table 1. Correlations for All Firms

Variable	Mean	SD	Total Assets	Debt-to-Assets	ROA	CSR Weaknesses	CSR Strengths
Total Assets	$27,424	$76.863					
Debt-to-Assets	57.7%	.221	-.491*				
ROA	3.46	9.66	-.066	-.049			
CSR Weaknesses	.786	.890	-.019	.084**	.061		
CSR Strengths	.835	1.014	.279*	.230*	-.048	.002	
Total CSR	.049	1.347	.223*	-.118*	.077**	-.659*	.751*

*p < .01
**p < .05

Table 2 shows the mean, standard deviations and correlation statistics for firms that issue standalone CSR reports every year. The average Total CSR, CSR Strengths, and CSR Weaknesses scores are .272, 1.272 and 1.0 respectively, and all are higher than the averages for the total sample. Total Assets and Debt-to-Assets are significantly positively related to CSR Strengths and Total CSR at p<.01, and are negatively related to CSR Weaknesses at p<.05 and p<.01 respectively. ROA is significantly negatively related to CSR Strengths and Total CSR at p<.01.

Table 2. Correlations for All Firms that Issue Standalone CSR Reports Every Year

Variable	Mean	SD	Total Assets	Debt- to-Assets	ROA	CSR Weaknesses	CSR Strengths
Total Assets	$92,190	$125,424					
Debt-to-Assets	69.1%	.197	.806*				
ROA	4.980	5.676	-.461*	-.635*			
CSR Weaknesses	1.000	1.056	-.202**	-.253*	.020		
CSR Strengths	1.272	1.056	.402*	.445*	-.357*	-.205***	
Total CSR	.272	1.640	.389*	.450*	-.243*	-.776*	-.777*

*p < .01
**p < .05

Table 3 shows the mean, standard deviations and correlation statistics for firms that issue standalone CSR report in some of the years. The average Total CSR, CSR Strengths and CSR Weaknesses scores are .449, 1.101 and .652 respectively. The Total CSR and CSR Weaknesses scores are higher than the average scores for firms that issue standalone CSR reports every year, while CSR Strengths are lower. The ROA for these firms is 4.789, which is lower than firms that issue standalone CSR reports every year. Total Assets is significantly positively related to CSR Weaknesses, while Debt-to-Assets is significantly positively related to CSR Strengths and Total CSR. ROA is not significantly related to any form of CSR.

Table 3.
Correlations for Firms that Issue Standalone CSR Reports in Some of the Years

Variable	Mean	SD	Total Assets	Debt-to-Equity	ROA	CSR Weaknesses	CSR Strengths
Total Assets	$8.183	$8,031					
Debt-to-Assets	53.2%	.209	.504*				
ROA	4.789	6.304	.057	-.140			
CSR Weaknesses	.652	.986	.223*	.121	.082		
CSR Strengths	1.101	1.198	.163	.412*	-.073	.240*	
Total CSR	.449	1.357	-.019	.276*	-.124	-.515*	.708*

$*p < .01$
$**p < .05$

Table 4 shows the mean, standard deviations and correlation statistics for firms that never issue standalone CSR reports. The average Total CSR, CSR Strengths, and CSR Weaknesses scores are -.140, .624, and .764 respectively. For all forms of CSR, the scores are higher for firms that issue standalone CSR reports every year compared to firms that never issue them. Compared to firms that issue standalone CSR reports in some of the years, total CSR and CSR Strengths for firms that don't issue CSR reports are lower, while CSR Weaknesses are higher. ROA is 2.606, which is lower than for firms that issue standalone CSR every year or in some of the years. Only Total Assets is significantly positively related to CSR Strengths and Total CSR at $p<.01$, while Debt-to-Assets is significantly positively related to CSR Weaknesses at $p<.01$. ROA is not significantly related to any form of CSR.

Table 4. Correlations for Firms that Never Issue Standalone CSR Reports

Variable	Mean	SD	Total Assets	Debt-to-Assets	ROA	CSR Weaknesses	CSR Strengths
Total Assets	$14,327	$57,726					
Debt-to-Assets	55.7%	.220	.359*				
ROA	2.606	11.221	-.025	.020			
CSR Weaknesses	.764	.791	-.000	.142*	.067		
CSR Strengths	.624	.872	.185*	.044	-.046	-.054	
Total CSR	-.140	1.209	.133*	-.061	-.077	-.694*	.757*

*p < .01
**p < .05

Hypothesis 1 Statistical Testing

Hypothesis 1 predicts that when firm issues a standalone CSR report, they will have higher CSR scores than firms who do not issue a standalone CSR report. Hypothesis 1 is tested using an independent t-test and is reported in Table 5. The results show that when a firm issues a standalone CSR report, Total CSR, CSR Strengths, and CSR Weaknesses are significantly higher, thus supporting Hypothesis 1.

Table 5. Results of T-test for Issuance Firms Who Issue Standalone CSR Reports versus Firms Who Do Not

	Standalone Report CSR Issued	Standalone Report CSR Not Issued	Difference	T Statistic
CSR Strengths	1.222	.692	.530	6.384*
CSR Weaknesses	.937	.730	.207	2.782*
Total CSR	.285	-.038	.323	2.863*
N	193	527		

*p < .01

To further investigate whether there is a difference between firms that issue standalone CSR reports every year, firms that issue standalone CSR reports in some of the years, and firms that never issue standalone CSR reports, additional analysis was done. Hypothesis 1a predicts that firms who issue standalone CSR reports every year will have higher CSR scores than firms that issue standalone CSR reports in some years and firms that never issue standalone CSR reports. Hypothesis 1b predicts that firms that issue standalone CSR reports in some years will have higher CSR scores than firms that never issue standalone CSR reports. The hypothesis 1a and 1b is investigated with a one-way ANOVA where the frequency of issuing reports is the dependent variable and CSR scores are the independent variable. Tables 6 through 8 show the results of the ANOVA for Total CSR, CSR Strengths, and CSR Weaknesses, respectively. The results of the three different ANOVAs show that Total CSR, CSR Strengths, and CSR Weaknesses are significantly different between the three reporting groups.

Table 6. One Way ANOVA between Firms that Issue Reports Every Year, Some Years and Never: Total CSP

Source	SS	df	MS	F
Between Groups	44.792	2	22.396	12.74*
Within Groups	1260.507	717	1.758	
Total	1305.298	710	1.815	

Table 7. One Way ANOVA between Firms that Issue Reports Every Year, Some Years and Never: CSR Strengths

Source	SS	df	MS	F
Between Groups	55.039	2	27.520	28.84*
Within Groups	684.293	717	.954	
Total	739.332	710	1.029	

Table 8. One Way ANOVA between Firms that Issue Reports Every Year, Some Years and Never: Total CSR Weaknesses

Source	SS	df	MS	F
Between Groups	8.726	2	4.363	5.58*
Within Groups	260.335	717	.782	
Total	569.061	710	.791	

For Total CSR, the Bonferroni test for multiple comparisons found a significant difference between firms that issue standalone CSR reports every year compared to firms that never issue standalone CSR reports, at $p < .005$, and between firms that issue standalone CSR reports in some of the years compared to firms that never issue standalone CSR reports, at $p < .000$. There is no significant difference between firms that issue standalone CSR reports every year compared to firms that issue standalone CSR reports in some of the years.

For CSR Strengths, the Bonferroni test for multiple comparisons found a significant difference between firms that issue standalone CSR reports every year compared to firms that never issue standalone CSR reports, at $p < .000$, and between firms that issue standalone CSR reports in some of the years compared to firms that never issue standalone CSR reports, at $p < .000$. There is no significant difference between firms that issue standalone CSR reports every year compared to firms that issue standalone CSR reports in some of the years.

For CSR Weaknesses, the Bonferroni test for multiple comparisons found a significant difference between firms that issue standalone CSR reports every year compared to firms that never issue standalone CSR reports, at $p < .022$, and compared to firms that issue standalone CSR reports in some of the years, at $p < .004$. There is no significant

difference between firms that never issue reports compared to firms that issue reports in some of the years.

These results support Hypothesis 1 in that firms that issue standalone CSR reports have higher Total CSR, CSR Strengths, and CSR Weaknesses scores. Additionally, Hypothesis 1a is partially supported in that firms that issue standalone CSR reports every year have significantly higher Total CSR, CSR Strengths, and CSR Weaknesses than firms that never issue standalone CSR reports. There appears to be no significant difference in CSR Strengths and Total CSR between firms that issue standalone CSR reports every year and firms that issue these same reports in some of the years. Firms that issue standalone CSR reports every year have significantly higher CSR Weaknesses than firms that issue standalone CSR reports in some of the years[5]. Hypothesis 1b was also partially supported, as firms that issue standalone CSR reports in some of the years also had significantly higher Total CSR and CSR Strengths than firms that never issue standalone CSR reports. No significant difference was found between the two groups for CSR Weaknesses, though the average CSR Weaknesses was higher for firms that never issue standalone CSR reports.

Hypothesis 2 Statistical Testing

Hypothesis 2 predicts that firms that issue standalone CSR reports will have a strong relationship between CSR and financial performance than firms that do not issue standalone CSR reports. Hypothesis 2a predicts that firms that issue standalone reports each year will have a stronger relationship between CSR and financial performance than firms that issue standalone CSR reports in some of the years or never issue standalone CSR reports. Hypothesis H2b predicts that firms that issue standalone CSR reports some of the time will have a stronger relationship between CSR and financial performance than those who do not ever issue standalone CSR reports. Panel data analysis is used to investigate these hypotheses as we have cross-sectional and time series data. To control for the potential confounding effects found in other research, all panel data analysis controls for size, financial leverage, profitability and industry. A one-year lag between the FP performance independent variable and the dependent variable of CSR is used to be consistent with prior research.

Tables 9 through 12 present the results of our three panel data regressions comparing firms that issue reports every year to firms that issue reports in some of the years. Our panel data analysis includes Total CSR, CSR Strengths, and CSR Weaknesses, lagged one year, as our dependent variables and the independent variables of ROA, Report and the interaction term of ROA*Report as well as controls variables for size, SIC code, and leverage. Table 9 shows the panel data analysis between firms that report standalone CSR reports and firms that do not, where the dummy variable is 1 in the year a firm issued a standalone CSR report and 0 otherwise. The results show no significant relationship between any form of CSR and ROA as the independent variable of ROA*Report; the relationship is insignificant in all cases.

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[5] These results were also confirmed through independent t-test.

Table 9. Panel Data Analysis
Firms that issue Standalone CSR Reports in a Year Compared to Firms that Do Not Issue: Standalone CSR Reports in a Year

Dependent	Total CSR	CSR Strengths	CSR Weaknesses
Independent			
ROA	-.006 (-1.33)	-.002(-0.42)	.005(1.43)
Report	-.075 (-0.52)	-.051(-0.46)	.008(0.07)
ROA*Report	.014(1.07)	.005(0.46)	-.008(-0.85)
Control			
Debt-to-Assets	-.206(0.61)	.098(0.38)	.377(1.56)
Total Assets	.000(3.11)*	.000(3.33)*	-.000(-0.81)
Adjusted R Square	.1554	.1891	.1021
Wald chi	45.71*	34.04*	28.83**
Number of Observations	720	720	720
Number of Companies	120	120	120

Firm specific intercepts not reported.
 *$p < .01$
 **$p < .05$

Table 10 shows the panel data analysis between firms that issue reports all the time and firms that issue reports some of the time. For Total CSR and CSR Strengths, the interaction term of ROA*Report was insignificant. For CSR Weaknesses, though the interaction term of ROA*Report was negatively significant, no statement can be made as the panel data model was insignificant.

Table 10. Panel Data Analysis
Firms that Issue Standalone CSR Reports Every Year Compared to Firms that Issue Standalone: CSR Reports in Some of the Years

Dependent	Total CSR	CSR Strengths	CSR Weaknesses
Independent			
ROA	-.016 (-0.99)	-.003(-0.27)	.004(1.97)
Report	-.064 (-1.29)	.045(0.13)	.448(1.97)**
ROA*Report	.033(1.31)	-.006(-0.29)	-0.300(-1.84)***
Control			
Debt-to-Assets	-.961(-0.95)	-.469(-0.63)	-.049(0.71)
Total Assets	.000(2.03)**	.000(1.27)	-.000(-1.12)
Adjusted R Square	.1606	.1729	.0873
Wald chi	21.36**	16.35	11.45
Number of Observations	270	270	270
Number of Companies	45	45	45

Firm specific intercepts not reported.
 *$p < .01$
 **$p < .05$

Table 11 shows the panel data analysis between firms that issue reports all the time and firms that never issue standalone CSR reports. For Total CSR and CSR Strengths, the interaction term of ROA*Report was insignificant. For CSR Weaknesses, though, the interaction term of ROA*Report was negatively significant at p<.01, indicating that firms who issue standalone CSR reports every year have a stronger negative relationship between ROA and CSR Weaknesses. Thus the firms with higher profitability have lower CSR Weaknesses. These results provide partial support for Hypothesis 1a.

Table 11. Panel Data Analysis
Firms that Issue Standalone CSR Reports Every Year Compared to Firms that Never Issue Standalone CSR Reports

Dependent	Total CSR	CSR Strengths	CSR Weaknesses
Independent			
ROA	-.006 (-1.27)	-.001(-0.25)	.005(1.66)
Report	.375 (1.17)	.828(3.72)*	.455(2.10)**
ROA*Report	.023 (1.31)	-.009(-0.72)	-0.32(-2.66)*
Control			
Debt-to-Assets	-.311(-0.89)	-.072(-0.28)	.268(1.13)
Total Assets	.000(2.60)*	.000(2.19)**	-.000(-1.70)
Adjusted R Square	.2468	.2957	.1734
Wald chi	57.16*	52.31*	48.00*
Number of Observations	582	582	582
Number of Companies	97	97	97

Firm-specific intercepts not reported.
*p < .01
**p < .05

Table 12 shows the panel data analysis between firms that issue reports some of the time and firms that never issue standalone CSR reports. For Total CSR, CSR Strengths, and CSR Weaknesses, the interaction term of ROA*Report was insignificant, indicating no support for Hypothesis 2b.

Table 12. Panel Data Analysis
Firms that Issue Standalone CSR Reports in Some of the Years Compared to
Firms that Never Issue Standalone CSR Reports

Dependent	Total CSR	CSR Strengths	CSR Weaknesses
Independent			
ROA	-.006 (-1.18)	-.001(-0.24)	.004(1.47)
Report	.676 (2.35)**	.584(2.67)*	-.101(-0.54)
ROA*Report	-.011 (-0.76)	-.004(-0.36)	.007(0.70)
Control			
Debt-to-Assets	-.265(-0.79)	-.091(-0.34)	.257(1.09)
Total Assets	.000(1.28)	.000(0.88)	-.000(-0.77)
Adjusted R Square	.1756	.1836	.1263
Wald chi	34.68*	25.64**	29.66*
Number of Observations	588	588	588
Number of Companies	98	98	98

Firm-specific intercepts not reported.
*$p < .01$
**$p < .05$

Summary and Conclusion

This research provides insight into the reasons why firms choose to issue standalone CSR reports in Canada. The theoretical perspectives of signaling theory and legitimacy theory are used to analyze two different potential explanations in considering whether firms use standalone CSR reports as a means to manipulate stakeholders' perceptions of a firm's pro-social and environment actions through greenwashing or if they use the reports to signal their commitment to and performance of social and environmental actions.

Both signaling theory and legitimacy theory suggest that the CSR scores associated with voluntary reporting will be positively biased. However, depending upon the theoretical explanation used to base our understanding there are different implications for the bias inherent in CSR. Signaling theory suggests that firms that choose to engage in issuing these standalone reports will fairly report their pro-social and environmental information, but only those firms with "good news" would choose to voluntarily report. Legitimacy theory would suggest that individual firms would be overly positive about their pro-social and environmental actions and avoid reporting negative social and environment actions, thus biasing their reporting. Therefore, legitimacy theory suggests that standalone CSR reports would be positively biased, providing theoretical support for greenwashing.

Our results show that Canadian firms issuing standalone CSR reports every year have significantly higher Total CSR, CSR Strengths, and CSR Weaknesses than firms that never issue standalone reports. Additionally, firms that issue standalone CSR reports

in some years have higher CSR Strengths and Total CSR than firms that never issue standalone reports. These results are consistent with the signaling perspective, as it suggests that firms issuing these standalone CSR reports will have higher CSR scores than firms who do not. Firms may use standalone CSR reports to communicate that they are good by providing voluntarily transparent information and support of their good behavior to stakeholders who cannot necessarily distinguish between good and bad corporate citizens (Gugerty, 2009). As signaling theory suggests, "Good" firms incur the cost of issuing voluntarily standalone CSR reports to signal that they are good corporate citizens. This may suggest that these standalone CSR reports disclose information that stakeholders can rely upon. These results are consistent with prior literature that suggests that a key motivation for companies issuing these reports is due to reputation enhancement (PricewaterhouseCoopers, 2002; KPMG International, 2008).

Our results also show a stronger association between CSR and ROA on the measures of CSR Weaknesses. We found that firms who issue standalone CSR reports every year had a stronger negative relationship between CSR Weaknesses and ROA at the p<.01 level when compared to firms that never issued standalone reports and to firms that issued standalone reports in some of the years. Again, our findings for firms that issue standalone CSR reports every year are consistent with a signaling theory and are a signal of a well-run company. Our findings support Orlitzky's (2008) argument that a relationship between ROA and CSR could reflect enhanced organizational commitment to CSR and to enhanced profitability. Interestingly, when comparing firms that issue standalone CSR reports some of the time to firms that never issue standalone CSR reports,we found no significant relationship.

Our results suggest the importance of Canadian firms issuing standalone CSR reports to signal their superior commitment to social responsibility actions. These results may provide incentive, benefit, and rational for "good CSR" firms who presently do not issue these reports to begin doing so. Additionally, these findings provide some insight into the debate of mandatory CSR disclosures in Canada by suggesting that firms with superior CSR performance appear to be facilitating stakeholders' assessment of their CSR performance through the voluntary provision of a standalone CSR Report while firms with poor CSR performance are not. Thus, for stakeholders to obtain adequate CSR disclosure, these results provide evidence for requiring mandatory CSR disclosure for all firms.

However, future research is needed in determining the benefits that firms perceive in their decision to issue standalone CSR reports and whether there is a need or stakeholder benefit for the standardization of these reports. Limitations to this research include the use of CSID Ratings, which are determined by an independent firm (Chatterji and Levine, 2006; Chatterji, Levine, and Toffel, 2009; Orlitzky and Swanson, 2008; Porter and Kramer, 2006). Additionally, this research has limitations associated with the measures, methodology, and sample size, similar to all research.

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