

Exploring the Challenges of Assuring CSR Information

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ABSTRACT

Objectives of the Study

The objective of the study is to explore the challenges related to assuring CSR information while gathering knowledge about the current and future state of the service.

Academic background and methodology

The research about this subject is in its formative stages and thus, a qualitative research method is used to explain the phenomena. A framework is formed through the literature, and this is used as the basis of the empirical study. The framework is revised according to the empirical part and used to explain this phenomena.

Findings and conclusions

The challenges of third-party assurance are divided into two parts: the issues related to CSR reporting and issues directly related to assurance. CSR report and process quality, supplier and extended enterprise information and stakeholder involvement can create challenges to assurance. The usage of standards and clarity of assurance statement, assurance process, and assurance provider can cause challenges. Also, the role of assurance in the reporting organization can limit the effects from assurance. With the current challenges, CSR reporting and assuring are facing multiple future developments that aim to move the field closer to financial reporting and assuring. All in all, assurance is beneficial in creating credibility to stakeholders and improving the quality of CSR processes and reports.

Keywords

Corporate Social Responsibility, CSR, Corporate Responsibility, CR, Sustainability, Assurance, Auditing

ABSTRAKTI

Tutkimuksen tavoitteet

Tutkimuksen tavoitteena oli tutkia yritysvastuun ulkoisen varmentamisen haasteita ja kerätä samalla tietoa sen nykyisestä tilasta.

Kirjallisuuskatsaus ja metodologia

Tämän alueen tutkimus on vasta alkuvaiheessa ja sen takia laadullista tutkimusta on käytetty selittämään tätä ilmiötä. Kirjallisuuden perusteella muodostettiin viitekehys, jota käytettiin empiirisen tutkimuksen pohjana. Viitekehystä muokattiin tutkimuksen tulosten perusteella.

Tulokset ja päätelmät

Yritysvastuun ulkoiseen varmentamiseen liittyvät haasteet voidaan jakaa kahteen osaan: yritysvastuun raportointiin ja suoraan varmentamiseen liittyviin haasteisiin. Yritysvastuun prosessien ja raportin laatu, toimitusketjun ja laajennetun yrityksen informaatio, sekä sidosryhmien osallistuminen voivat luoda haasteita varmentamiselle. Standardien käyttö, varmennusraportin selvyys, varmennusprosessi sekä varmentaja voivat aiheuttaa haasteita suoraan varmentamiseen. Varmentamisen rooli raportoivan yrityksen sisällä voi myös rajoittaa varmentamisesta saatavia hyötyjä. Yritysvastuun raportointi ja varmentaminen näin ollen kohtaavat useita haasteita, mutta myös lähitulevaisuuden tuomia muutoksia. Yritysvastuun raportointi ja varmentaminen ovat lähentymässä tilinpäätöstietojen raportointia ja varmennusta, sisältäen monia tiedon luotettavuuteen, yhtenäistämiseen ja standardeihin liittyviä muutoksia. Tutkimuksessa nähtiin, että varmentaminen on hyödyllinen, koska se tuo luotettavuutta sidosryhmille samalla parantaen yritysvastuuprosessien ja -raportin laatua.

Avainsanat

Yritysvastuu, varmentaminen, auditointi.

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1. INTRODUCTION

The introduction chapter explains the background for this research; including motivation, research question, objectives and research scope, earlier research and definition of the main concepts.

1.1. Motivation

Corporate Social Responsibility (CSR) report third party assuring is an interesting topic in a sense that it has not been overly studied by the academics, but it is becoming a standard for many companies. While companies are struggling to balance the social, economic and environmental components at the same time as they are building shareholder value, they are increasingly searching for ways to increase the credibility of their reports in this area. CSR reporting is popular especially in stock listed or government owned companies. About 40% of stand-alone CSR reports are independently assured (about half assured by the accounting professionals and half by environmental/sustainability experts) on an international level (e.g. Kolk and Perego, 2010; Pflugrath et al., 2011; Smith et al. 2011). Large companies are significantly more likely to assure their sustainability reports than small companies (Simnett et al., 2009). However, there is great variability in the adoption of assurance practices in the formative stages of this novel market across corporations (Perego and Kolk, 2012). The verification of sustainability reporting results from existing and growing market demand, and important driver is the legal requirement to report environmental issues in many countries (Wallage, 2000). Literature suggests that the academic research on the assurance of non-financial reports have has been scarce so far, and that there is limited understanding of the nature and extent of this emergent assurance practice.

This information from the literature highlighted the importance of further research in this area. Corporate Social Responsibility is becoming more and more important for companies and visible to stakeholders. The short assurance statements following often very extensive CSR reports and the work related to that ended up becoming the topic of this thesis.

1.2. Research question, objectives, and research scope

Research question of this thesis is the following:

What are the challenges in assuring CSR information?

The objective of this study is to analyze and better understand the CSR reporting and assuring with its current challenges. The study also attempts to find out future challenges that are about to affect the subject within the next years. A framework of possible challenges in third-party assurance of CSR reporting is created on the basis of the literature and results from the empirical study.

The theory for the research will be found from the literature while interviews are used to confirm the theory and explain the phenomena further. Due to the nature of the interviews, insights about the current state as well as the future of the CSR reporting will be found. While studying the current challenges or limitations, the future developments and challenges related to those are naturally occurring during the empirical study. This study is developing knowledge about the phenomena as a whole. The information gathered from the literature and interviews, and all of those ideas could be studied separately even further. The results will be helpful for companies figuring out whether to use third-party assurance or not, as well as to assurance providers in deciding how to develop their work.

The study is of limited scope, and further research in this area could to be conducted. The literature in this area is scarce, and highly cited articles are still missing. The subject of non-financial assuring is new and rather challenging service (Wallage, 2000). The empirical part is done on the traditional big four international consulting firms (Ernst &Young, Deloitte, and PwC) with one exception of Ethos International, a Stockholm based Corporate Social Responsibility consulting company.

1.3. Earlier research

Most of the literature (in this area) appears not to be peer reviewed scientific texts or academic papers – (but) – subjective comments in business magazines or company reports (Morimoto et al., 2005). The academics lack answers to the question of ‘how a CSR system should be audited?’ (Castka et al., 2004). However, during the recent 10 years the subject has been studied more. Research from this subject seems to be about developing audit instruments and frameworks for structured CSR report auditing (from early 2000). For example Kok et al. (2001) studied how total quality management models/excellence models give direction to developing a structured policy for CSR audit. Wallage (2000) described the auditing criteria and procedures as well as studied how challenging the sustainability report assurance service is for financial auditors. Park and Brorson (2005) studied 28 Swedish companies and their experiences and views on third-party assurance of corporate environmental and sustainability reports. In more recent years the studies have focused on explaining the subject even further. Research has been done about the credibility and expectation issues (e.g. Adams & Evans, 2004, Dando and Swift, 2003; Pflugrath et al., 2011). Some about investigating ‘capture’ in corporate sustainability reporting assurance (e.g. Smith et al., 2011). Kolk and Perego (2010) studied the institutional factors that explain the adoption of sustainability assurance statements. Hasan et al. (2005) compared the types and levels of assurance services provided by the Big Five firms and non-Big five audit firms (*nowadays there are only four big audit firms left: Deloitte, Ernst & Young, KPMG and PwC*). Perego and Kolk (2012) studied even further the diffusion patterns of sustainability assurance, assurance quality variability deriving from assurance providers and standards. Almost all studies have concluded that assurance brings credibility but that a lot of assuring is done by financial assurance models that focus on the quantitative information and there is a need for more adequate universal standard for CSR report assuring (e.g. Dando and Swift, 2003).

There seems to be the need to move from the triple-bottom line (economic, social and environmental) towards stakeholder oriented reporting. Also the effects of the supply chain are taken into consideration more (Juutinen and Steiner, p. 208). The question of whether current reporting and auditing frameworks supporting this shift towards the wider effects the company and its product have on the society and the environment rises from these studies. Juutinen and

Steiner (p. 208) also predict that companies are more and more taking near future into account in reporting, instead of current history focused reporting.

Moreover, the limitations related to CSR assurance have been even less discussed by the academics. The fact is that CSR assurance is a new service even for assurance providers. Standards are under development (for example GRI is constantly providing new versions), governments are figuring out whether to regulate or not, and the companies are in different phases of CSR development. CSR third party assurance brings credibility to CSR reports but it is not a magical savior. CSR assurance has its limitations. Wallage (2000) studied how the CSR assurance is a challenging service for financial assurance providers. Some researchers have focused on the ‘managerial capture’ challenge within CSR reporting, but most limitations are just mentioned by the researchers. Thus, the research is justified.

The literature also directly suggests this direction for further research. O’Dwyer et al. (2011) suggest that studying assurance practice is in its infancy and offers multiple research topics, for example the effect of assurance providers on the quality of assurance, risk management, and influencing the future development of assurance practice. Perego and Kolk (2012) emphasize the need to extend firm-level analysis to supply side characteristics, i.e. to the assurance provider.

1.4. Definition of main concepts

The area of **Corporate Social Responsibility (CSR)** is confusing due to the lack of one consistent terminology. Sustainability, Corporate Responsibility (CR), Corporate Citizenship, Sustainable Development, Environment and Society are all names of the reports companies produce about this subject (Hubbard, 2009).

All of the mentioned cover the areas of social, environmental, and sustainability issues despite the name of the report produced. There are no single standard that forces companies to include all the areas in the report, rather companies can choose which ones they want to include. The concept more and more extends beyond the organization’s traditional boundaries, concerning the whole organizational ecosystem. Reporting is usually done based on stakeholders’ expectations.

European Commission defines CSR as “the responsibility of enterprises for their impacts on society”. Enterprises “should have in place a process to integrate social, environmental, ethical human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders” to fully meet their social responsibility. (European commission, 6.4.2013)

This thesis mainly uses the term Corporate Social Responsibility (CSR) for this broad subject.

Assurance is the voluntary decision to assure social, environmental and sustainability reports. Sometimes the academics use terms like Sustainability Reporting Assurance (SRA) (esim. Smith et al. 2011) for this subject. Some literature (e.g. Adams and Evans, 2004; O’Dwyer et al., 2011) discusses ‘audit’ as a synonym for assurance.

Stakeholders – The CSR report is conducted for a broad range of stakeholders with different and competing interests, unlike the financial audit, which is primary done for the shareholders. Stakeholders represent a variety of groups in the organizational ecosystem.

2. CORPORATE SOCIAL RESPONSIBILITY REPORTING

This chapter provides background information about CSR reporting. It is important to understand the basics about Corporate Social Responsibility in order to go into the assuring part of the thesis.

2.1. Motivation and background for CSR reporting

Organizations are increasingly asked to demonstrate a balanced business perspective instead of just delivering profits to shareholders (Maon et al., 2009). They usually have several ongoing projects in order to improve their sustainability aspects, and communicating about these to investors, environmental groups, local communities, governments, other stakeholders and even employees is usually done annually with some sort of CSR report. Moreover, the reporting is not just about how companies are ‘doing good’ or being a good corporate citizen but the activities actually promote innovation and learning; helping companies grow and increase value (KPMG, 3.3.2013).

Organizations are finding CSR an excellent tool for enhancing legitimacy among its stakeholders by improving communication as well as transparency, and enhancing positive corporate image (Morimoto et al., 2005). Reporting is meant to improve a company’s CSR performance (van Wensen et al., 2009). It is a natural stage after the company has taken CSR matters into account and wants to enhance increased credibility among stakeholders (see figure 4 on page 14).

Waddock (2008) states that the CSR infrastructure recognizes the fundamental role that businesses play in building healthy societies through the impact of their business models – it is not just about ‘doing good’. Companies are also recognizing that they are operating under the watchful eye of activists, investors who care other things than just wealth maximization, the media, and competitors who provide positive example (Waddock, 2008).

The European Union (EU) and Finland have both been advocating corporate social responsibility issues. After the adoption of the Lisbon Strategy in 2000, the EU has especially been interest in the subject. The Lisbon Strategy strengthened the social dimension in improving the

competitiveness of enterprises. The government program of 2011-2015 in Finland has determined the goal of Finland being the forerunner in corporate responsibility issues. (Työ- ja elinkeinoministeriö, 2.3.2013)

Law

Law does not bind CSR reporting; rather it is a voluntary procedure. In some countries, however, the legal requirement to report on environmental issues in several countries is an important driver for CSR reporting. Denmark and The Netherlands legally require special environmental reporting, while Norway and Sweden force environmental issues to be included in the annual report (Wallage, 2000).

Background

Organizations' and their manager's social responsibilities have been discussed since the 1950's (De Bakker et al., 2005). But only during the mid-1990s, the real interest in corporate responsibility started, or actually the ways in which a company's business model, strategies, and practices affect stakeholders and the natural environment (Waddock, 2008). A study of sustainability reporting in the European Union (van Wensen et al., 2009) suggests that the number of companies disclosing their environmental, social and governance (ESG) performance has grown significantly since the 1990s and has become a mainstream phenomenon for large multinational companies (MNEs).

The sustainability agenda has been linked to early concepts such as social audits and human resource accounting (1970), to intellectual capital, environmental and triple bottom line reporting (1990), and to recent versions of GRI (2007). Basically the idea with all these has been that the traditional financial reports are not adequate to represent the multiple dimensions of corporate value. These concerns have generated in companies developing nonfinancial, general-purpose reports, also called as sustainability reports. (Simnett et al., 2009)

2.2. Reporting and corporate strategy

Corporate strategy usually evolves around maximizing wealth to the investors. Focusing on CSR activities changes to focus into social, sustainability and stakeholder issues. Pressures are raising; stakeholders hold companies responsible for their actions that impact people, the planet, and societies.

The emerging institutional infrastructure on CSR determines the new rules that reframe what companies need to do to sustain their legitimacy over the long term, and be accepted social actors (Waddock, 2008). It is not enough that the company can be economically successful; it also has to take responsibility on its actions. Reporting about CSR is a natural step after these issues have been taken into reality.

Thus it is important that CSR is part of the organizational strategy. Successful CSR should be connected with organization's core values and competencies (Maon et al., 2009). Top management determines the CSR direction and strategy, middle management and employees implement it (for example figure 3, page 11). Good communication about current situation, goals, and progress updates, create employee awareness. Training activities that engage employees in CSR should be part of the CSR strategy.

Barriers to CSR orientation include the fear of change, threats to stability, beliefs that CSR orientation is inappropriate for the organization, or that focusing on CSR will result in losing the sight of organization's core values (Maon et al., 2009).

Reporting content

There can be different views between the company and stakeholders of what should be included in the CSR report. A study of the sustainability reporting in the EU (van Wedsen et al., 2009) state that the expectations of reader groups and the information provided by reporting organizations do not always match.

Companies can use materiality matrixes to define the material issues that they should report. It is important to define the current or potential impact on the company as well as the level of concern to shareholders.

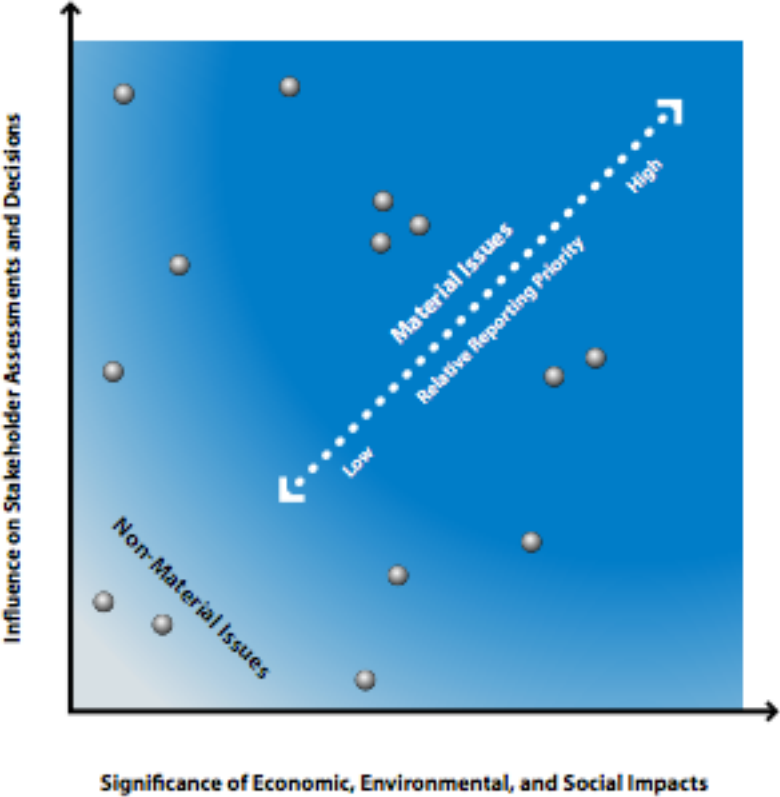


Figure 1: A materiality matrix (Globalreporting, 24.5.2013)

Figure 1 indicates how the company should define its material issues and reporting content. The example is from GRI G3 guidelines. Companies might want to use something similar in defining their core reporting content. A high impact, high concern issue should definitely be covered in the CSR report, while the medium issues can be issues for the future.

2.3. CSR management process

Corporate social responsibility nowadays rarely is an external entity in the organizations. It rather is connected to the company strategy and management systems. Castka et al. (2004) developed the following framework (figure 2) that captures the Corporate Social Responsibility process.

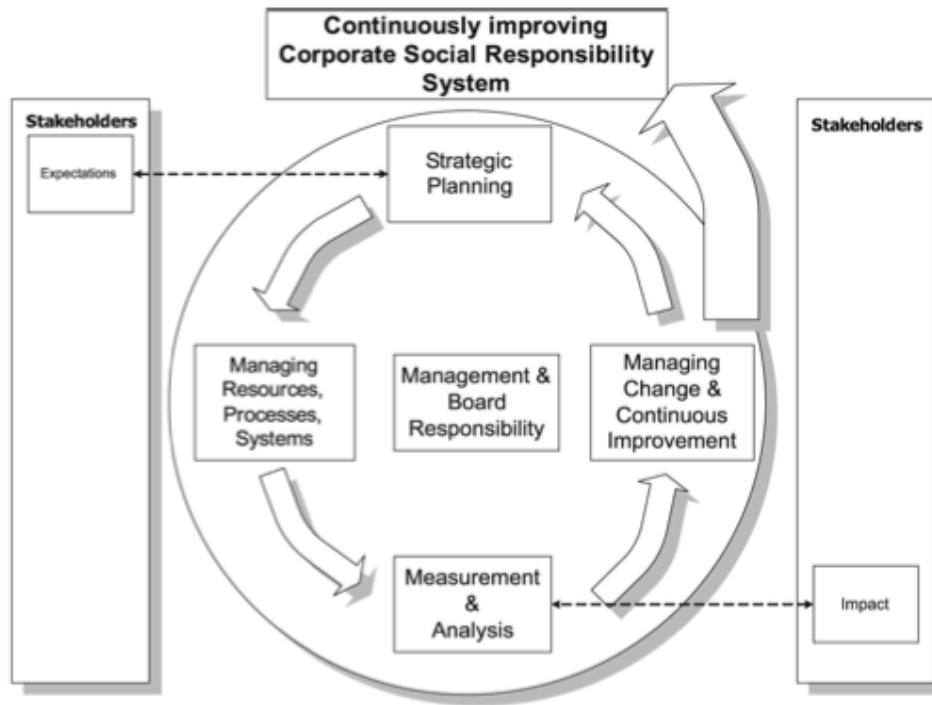


Figure 2: The conceptual CSR framework (Castka et al., 2004)

The framework is designed to help with establishing, managing, improving and reporting about CSR (Castka et al., 2004). From the framework it is inevitable to notice the importance of stakeholders in the process; stakeholders' expectations should be in the core of CSR strategy, while the final impact of these actions is towards the stakeholders as well.

Managing CSR is a continuous process. The framework also highlights the importance of managing stakeholder expectations and turning them into operations. Part of managing the expectations and improving the communication is CSR reporting. Next chapter discusses the elements of successful reporting.

2.4. Successful CSR reporting

The literature has identified several factors that affect the success of CSR. Morimoto et al. (2005) found in their research that good stakeholder management, good corporate leadership, greater priority for CSR at board level, the integration of CSR into corporate policy, regulation at national and international level, and the active involvement of, and good coordination between, government, business, non-governmental organizations (NGOs) and civil society are the most significant factors in achieving successful CSR.

	Plan	Do	Check / Improve	Mainstream
CORPORATE LEVEL	<ul style="list-style-type: none"> ○ Connecting CSR vision and initiatives with organization's core values and competencies ○ Formalizing CSR vision through official documents 	/	<ul style="list-style-type: none"> ○ Considering mistakes as an opportunity to learn and improve CSR programs and policies 	/
	<ul style="list-style-type: none"> ○ Getting key people's commitment (directors, owners, senior managers) ○ Engaging participation of key stakeholders in the CSR process 			
ORGANIZATIONAL LEVEL	<ul style="list-style-type: none"> ○ Building upon existing organizational structures and process 	<ul style="list-style-type: none"> ○ Ensuring the organization has internal skills to make the transformation ○ Training of employees in CSR-related issues 	<ul style="list-style-type: none"> ○ Considering mistakes as an opportunity to learn and improve CSR programs and policies 	<ul style="list-style-type: none"> ○ Emphasizing relationships between new organizational behavior and success
	<ul style="list-style-type: none"> ○ Fostering the presence of moral / CSR champions ○ Thinking in terms of long-term engagement rather than quick fix solutions 			
MANAGERIAL LEVEL	/	<ul style="list-style-type: none"> ○ Creating enthusiasm and credibility around CSR (by providing regular updates on progress) 		<ul style="list-style-type: none"> ○ Rewarding people that create CSR successes
	<ul style="list-style-type: none"> ○ Recognizing the critical role of leadership 			

Figure 3: Critical success factors in CSR process (Maon et al., 2009)

Figure 3 indicates the findings of Maon et al. (2009) who studied the critical success factors in designing and implementing CSR. The figure explains in more detail the factors Morimoto et al. (2005) pointed out to be critical for the success of Corporate Social Responsibility. Successful CSR process starts from high commitment in the managerial level that is transferred throughout the organization to the everyday actions of employees while engaging key (internal and external) stakeholders. Morimoto et al. (2005) also point out the importance of good communication about CSR strategy and implementation between top management and employees.

2.5. Standards

Currently there are no generally accepted approaches to how a company should collect, evaluate and report its non-financial performance data (Kolk and Perego, 2010). Global Reporting Initiative (GRI) offers guidance on both CSR reporting and auditing (and is internationally the most used standard for sustainability reporting), the ISO 14000 and 26000 series, EMAS, SA8000, AA1000, the Copenhagen Charter, and United Nation's Global Compact are examples of the models used for CSR reporting and accountability.

GRI is a globally shared sustainability reporting framework of concepts, language, and metrics. The Framework consists of the Sustainability Reporting Guidelines, the Indicator Protocols, Technical Protocols, and the Sector Supplements (Globalreporting, 24.5.2013). In the G3 Guidelines, the principles defining report contents are materiality, stakeholder inclusiveness, sustainability context, and completeness, while those defining report quality are balance, comparability, accuracy, timeliness, reliability, and clarity (Työ- ja elinkeinoministeriö, 2.3.2013). Next version, the G4 guidelines, is published in May 2013.

GRI partnerships with nearly all of the platforms and organizations that promote CSR reporting. At least UN Global Compact, AccountAbility, OECD, UNEP, the Carbon Disclosure Project and many other governments and sector organizations are partnered with GRI. (van Wensen et al., 2009)

3. ASSURANCE

This chapter is going to introduce CSR third-party assurance; its goals and benefits, the process, role, assurance institutions as well as standards and limitations. The literature review will be followed by the empirical part of the thesis.

3.1. Introduction to assurance

This research uses assurance as a term to describe the external verification of the annual CSR report. External assurance is a voluntary process that is carried out based on standards and guidelines that are discretionary for corporations (Manetti and Becatti, 2009). It can be seen as a fundamental element in the process the same way as external assurance is done for financial reporting (Simnett et al., 2009).

Assurance is concerned with how the organization's performance is reported; it should ensure balanced, complete, and accurate portrayal of all outcomes that may affect stakeholders in a way that stakeholders can trust the assured information in their decision making (Adams and Evans, 2004).

Figure 4 shows the traditional steps normally taken by the reporting organization in the CSR development process. Assurance is often a natural step occurring after some development of the CSR activities. Step 1 creates internal reporting systems and reports. The next stage is to publish the report. Step 3 increases credibility by assuring the report on third-party assurer. Finally, the stakeholders are taken into the assurance process with the aim of increasing value and enhancing credibility.

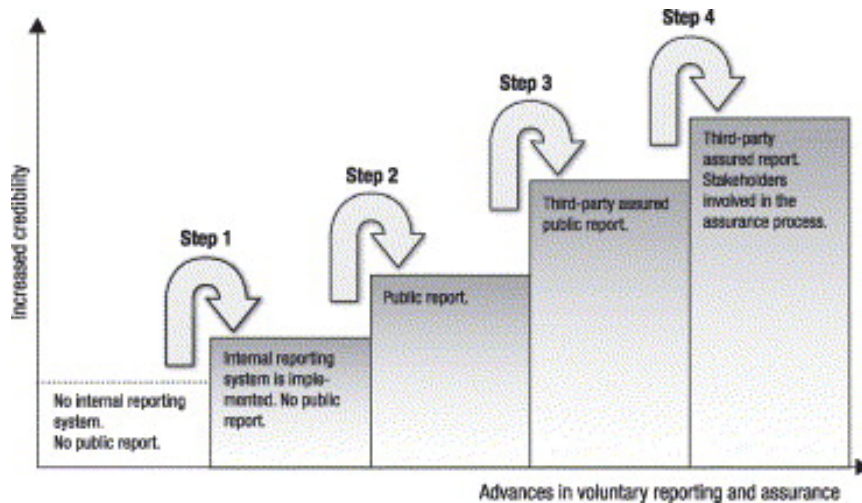


Figure 4: Steps towards third-party assurance (Park and Brorson, 2005)

Since assurance is concerned on the way organization’s performance has been reported, it should ensure a balanced, complete and accurate portrayal of all the ways stakeholders may be effected (Adams and Evans, 2004). This means stakeholders can trust the statement on their decision making and management have an understanding of their effects on the wider ecosystem.

Figure 5 below shows the growth of external assurance statements. The service is relative new, as seen from the figure, but growing steadily.

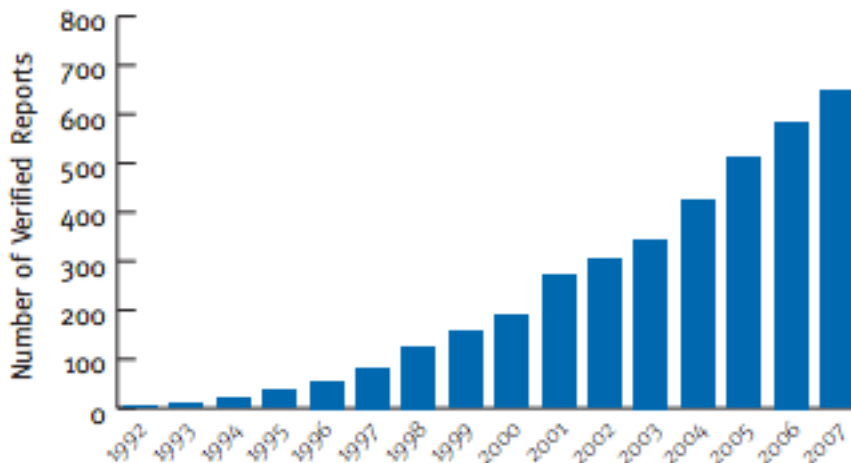


Figure 5: Growth of External Assurance Statements (CorporateRegister.com, 2.3.2013)

3.2. Goals and benefits of external assurance

One of the main purposes of conducting CSR third-party assurance is to encourage organizations to improve their performance and include CSR in their culture (Morimoto et al., 2005). An external assurance provider can better identify the improvement areas the company should focus on in the future, and also express concern in the report.

Assuring CSR reports has both internal and external benefits; main arguments for using a third-party auditor are companies seeking credibility for their reports (e.g. Adams and Evans, 2004; Dando and Swift, 2003; Kolk and Perego, 2010; Simnett et al., 2009) improving completeness (Adams and Evans, 2004) and wanting to build corporate reputation, attest organizational commitment and risk management (Simnett et al., 2009). Manetti and Becatti (2009) suggest that the credibility gap could be bridged by means of generally accepted principles for sustainability reporting. This type of generally accepted principle is highly unlikely since reporting is done on such a different instances. For example GRI is the most popular reporting framework but even that is meant for guidance since the organizations, their motives and needs for reporting are very different from each other. Thus assurance will most likely be used for increasing CSR report credibility also in the long run, like with the case of financial assuring.

3.3. The role of external assurance

Assurance providers often provide recommendations for further improvements in the processes, programs, and systems associated with CSR management (Manetti and Becatti, 2009). The recommendations can be given in the informal discussions, management letters or even assurance statements. Manetti and Becatti (2009) however state that assurance service should only express a professional opinion on the reliability of the sustainability information instead of giving advices to the management.

Assurance as an external can be seen as a control mechanism. Two types of credibility are identified: internal and external. Internal credibility is about the quality of policies, internal management systems, risk management, organizational structures, compliance record and internal audit systems. All of these elements should be covered on the external assurance, which

makes the assurance process of fundamental importance to the credibility of reports. (Adams and Evans, 2004)

3.4. Assurance institutions

Typically third-party assurance providers are either accounting professionals from well-established companies or experts outside the profession. Pflugrath et al. (2011) research indicated that assurance by the accounting profession is perceived to be significantly more credible (in terms of trustworthiness, expertise, and overall credibility) than the assurance by sustainability experts. They, however, stated that this is context-specific, and there is difference in the perceived credibility of assured CSR information between industries and countries. Stakeholder-orientated countries are more likely to choose the auditing profession as an assurer (Simnett et al., 2009). Sustainability experts may be perceived to have more subject matter expertise, but most professional assurers work in teams that combine professional accountants and other experts.

Well-developed ‘global’ standards, a body of ethics and independence requirements, as well as quality control mechanisms at both the firm and engagement levels are the qualities of auditing profession that help ensure that the assurance provided is of a consistently high quality. However, in some countries, specialized experts that may have a higher level of subject-matter expertise conduct auditing. (Simnett et al., 2009)

Different assurance provider types: (CorporateRegister.com, 2.3.2013)

- Accountants: e.g. ‘the Big 4’: Deloitte, Ernst & Young, KPMG, PricewaterhouseCoopers
- Broader Consultancies: e.g. management and engineering consultancies
- Certification Bodies: Organizations providing certification and risk advisory services
- Government Bodies & Agencies
- Independent Advisory Boards
- Individuals: Occasionally a prominent ‘green’ personality or NGO representative, but more usually an academic (especially in Japan)
- NGOs & Trade Bodies

- Specialist Consultancies: e.g. environmental / CSR consultancies

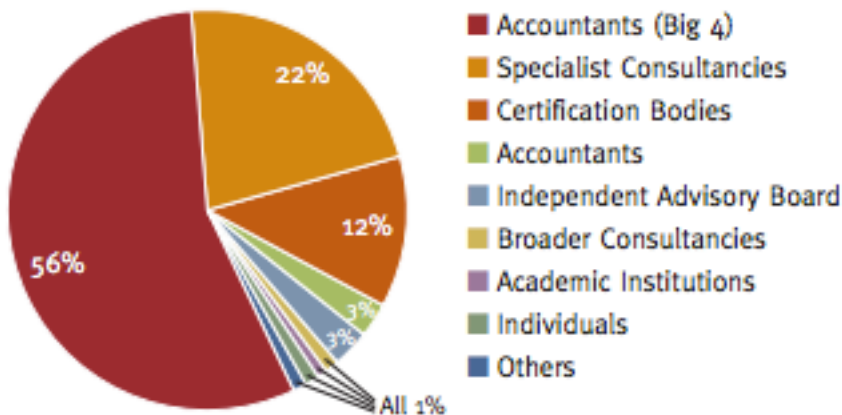


Figure 6: External assurance statements by provider type in reports from the Global FT500 (2007) (CorporateRegister.com, 2.3.2013)

Figure 6 indicates the assurance distribution by different assurance provider types. Accountants dominate the industry by 56 percent while specialist consultancies are on the second place with 22 percent.

3.5. Assurance standards

There are multiple standards available, although not one widely accepted. The standards or guidelines are different in scope and content. The guidelines (AA1000, ISAE 3000, and others) do not directly compete against each other, since the assurance providers reference them in different combinations since they overlap in the minimum content of assurance, suggests Kolk and Perego (2010). There have been a lot of criticism towards the standards, since most are based on financial assurance models that are thought to be inadequate for the broader, qualitative

dimensions of social, ethical, and environmental (SEE) performance data evaluation (e.g. Dando and Swift, 2003).

There are over hundreds of NGOs worldwide who are actively involved with issuing guidelines and principles, providing SRA services, and serving as activists in the area of sustainability (Waddock, 2008). This explains the huge amount of different standards and policies.

AA1000AS

The standard was issued by a British non-profit organization, The Institute of Social and Ethical AccountAbility (ISEA) in 2003 (Accountability, 6.4.2013). Based on three principles of completeness, materiality, and responsiveness. (Dando and Swift, 2003). AA1000AS is the improved version of the original AA1000 standard.

The standard is aimed to help businesses improve overall corporate responsibility, it is the first-ever responsibility assurance standard (Waddock, 2008). The AA1000 AS standard place more attention on the audit process than ISAE 3000 (Manetti and Toccafondi, 2012).

The standard was made on an extensive, two-year period that included worldwide consultation of hundreds of professionals, organizations, NGOs, investment communities, labour and organizations. AA1000AS is the second edition of the standard, and was published in 2008. The standard is compatible with the financial accounting body standard ISAE 3000. (Accountability, 6.4.2013)

AA1000AS has its unique characteristics that can be best seen in the assurance statement. The statement has to include the following (CorporateRegister.com, 2.3.2013):

- How the assurance provider applied the principles of materiality, completeness and responsiveness
- Description of work undertaken and level of assurance provided
- Conclusions about the quality of the report, as well as underlying organizational processes, systems and competencies
- Additional comments; for example suggestions for further improvement

- Independence from the reporting organization

ISAE 3000

The International Auditing and Assurance Standards Board's (IAASB) standard for non-financial report verification that was entered into force on 1 January 2005 (Manetti and Becatti, 2009). 'Assurance Engagements Other Than Audits or Reviews of Historical Financial Information' is a standard that provides guidance for professional accountants in the form of basic principles and essential procedures (CorporateRegister.com, 2.3.2013). The 'Big Four' audit firms all use ISAE 3000 as the point of reference (Manetti and Toccafondi, 2012).

Main elements of ISAE 3000 are the following: (Manetti and Toccafondi, 2012)

- Level of assurance and reliability of the procedures carried out
- The possibility of making use of experts from other disciplines
- Types of verifications and tests to implement
- The evaluation of audit risk
- Suitable reporting criteria
- The form of the final assurance statement

Other standards

Various other methods are also used for evaluating different aspects such as labour codes (SA8000), environmental management (ISO 14001), ISO 26000 for social responsibility (SR).

Many countries have published specific standards, guidelines, recommendations or sample specimens for sustainability assurance. Accounting authorities of individual countries have also issued standards for the auditing of sustainability reports, in particular Australia (Standards Australia, 2005), Sweden (FAR SRS, 2004), Germany (IDW, 2005), The Netherlands (NIVRA, 2005), France (CNCC, 2004), and Italy (CNDC, 2006). (Manetti and Becatti, 2009).

3.6. Assurance process

The assurance process is often company specific, where the time span of the steps varies depending on the objective and scope of the assurance engagement (e.g. Park and Brorson, 2005).

Figure 7 visualizes the assuring process step by step.

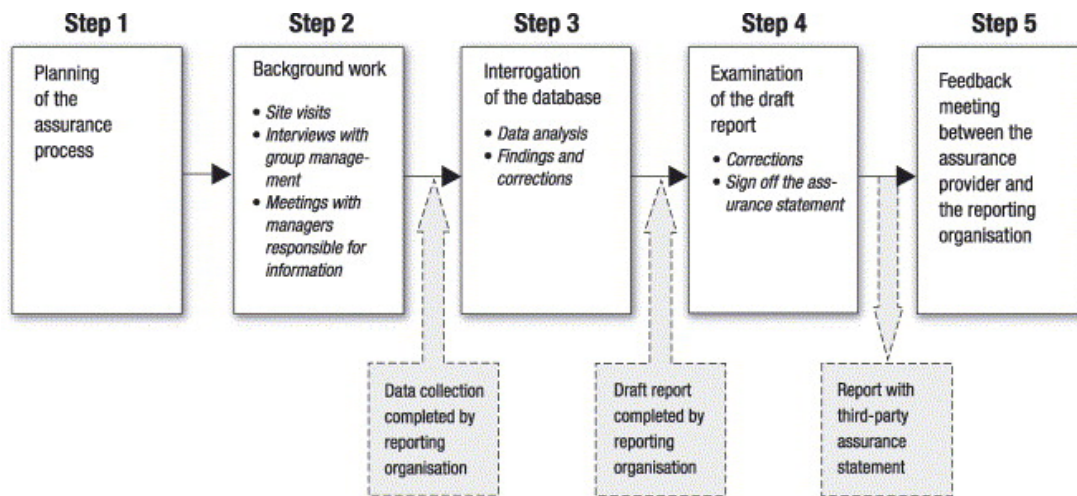


Figure 7: Typical steps of the third-party assurance process (Park and Brorson, 2005)

The assurance starts with a preliminary discussion of the scope of the assurance work, a timetable and budget, which should be confirmed in writing (Adams and Evans, 2004). The actual process of external assurance includes planning and background work of the assurance. These are the recognition and evaluation of ongoing issues and risks as well as planning the next phases (Adams and Evans, 2004). The actual execution of the assurance includes several instruments according to Manetti and Becatti (2009):

- Interviews
- Analytical procedures
- Inspection, observation, and verification

Finally, concluding the assurance by giving feedback to the reporting organization. The feedback includes writing the assurance statement that is based on the final published CSR report, and a separate, unpublished letter of advisement to the management (Adams and Evans, 2004).

3.7. Challenges in assurance

Auditing is no panacea; it is of questionable robustness, reliability and consistency (Dando and Swift, 2003). Next the challenges found in the literature are introduced while interviews are used to deepen the understanding of the subjects.

Accuracy of information

The reliability, transparency and comparability of information in CSR reports and assurance statements were indicated as a challenge from the literature. Reporting on suitable reporting criteria, especially when reporting qualitative information but also with quantitative information is difficult. Relevance and the materiality of the information can be difficult to estimate.

There is no single benchmark against which CSR reporting performance can be evaluated. Due to the absence of a single generally accepted ‘common currency’ for making a professional assessment of the truthfulness or completeness of CSR means that for many stakeholders the credibility of CSR is undermined (CorporateRegister.com, 2.3.2013).

Dando and Swift (2003) state that the lack of consistency in assurance statements, their variable quality, and content make them impossible to evaluate and compare by the stakeholders.

The report should inform stakeholders about the completeness – relevant and meaningful information has been included about the account organization’s performance (Adams and Evans, 2004). Information reported must meet the completeness in terms of the reporting boundaries, the scope, and time frame, states the Global Reporting Initiative (GRI) (Globalreporting, 24.5.2013). Boundary is an interesting dimension. It refers to the range of entities (e.g., subsidiaries, joint ventures, sub-contractors, etc.) whose performance is stated in the report

(Globalreporting, 24.5.2013). Thus the organization has to think about the 'the ecosystem that it wants to include in the report.

Scope and level of assurance

The term 'assurance level' is a technical term from the accountancy profession that describes the level of work behind the assurance. That is; the invested time, scope of work, nature of the subject matter, cost/benefits. Reasonable assurance gives a positive statement (e.g. 'the reported data accurately reflect the company's performance') about the CSR information while limited assurance gives negative statement (e.g. 'nothing has come to our attention which causes us to believe that that the reported data do not accurate reflect the company's performance'). (CorporateRegister.com, 2.3.2013)

The assurance statement should declare the level of assurance. It is not possible to guarantee highly reliable verifications. One reason is that the sustainability report is a particularly complex subject of investigation that combines quantitative type information with entirely qualitative elements and that it implies a process that is difficult to formalize. Limited assurance is preferred due to the nature of the information given in the sustainability reports. However, different parts of a report might be assured at a different level (assurance provider has to indicate in detail which parts of the audit attain reasonable reliability and which only limited). (Manetti and Becatti, 2009)

There is no such thing as 'absolute assurance'. Absolute assurance would mean reducing the assurance risk to zero. This is not usually possible or even attainable or cost beneficial due to several factors: (IFAC, 6.4.2013)

- The use of selective testing
- The inherent limitations of internal control
- Much of the evidence is persuasive rather than conclusive
- The use of judgment in gathering and evaluating evidence and forming conclusions
- Nature of the subject matter

Scope of the report should be stated in the assurance statement. Adams and Evans (2004) recommend the actual reporting organization to also inform readers about the scope of the report. Auditor needs to comment on what has been excluded from the CSR report as well as on the information that has been disclosed (Dando and Swift, 2003).

Hasan et al. (2005) compared the differences of types and levels of assurance services provided by the Big Five (*nowadays Big Four*) and non-Big five audit firms in 11 countries and found out that the Big audit firms considered subject matter to be the most important determinant of the level of assurance, while non-big audit firms considered work effort to determine the level.

Competence of the assurance provider

CSR's complex and heterogeneous nature requires knowledge from experts in many different fields: from accounting to management as well as economic, social, and environmental responsibility (Manetti and Toccafondi, 2012).

Assurance providers are a disparate group of organization that adopt different assurance methodologies depending on their origin, some of which are proprietary (Smith et al., 2011).

The limitations might be due to incompetent assurance provider. The auditor may lack the professional competency to conduct the required assurance, or the use of expert collaborators from other disciplines, which may lead to objective difficulties in meeting the customer's requirements due to excessively generic and opinion-based indicators in the document (Manetti and Becatti, 2009).

The auditors need to require an awareness and understanding of the issues and stakeholders that are salient to the sector and community in which the organization operates, auditor's cannot purely rely on the client's interpretation on the completeness of a report (Dando and Swift, 2003).

Professional background determines many factors. Results have shown that the credibility of a CSR report is greater when the assurer is a professional accountant (Pflugrath et al., 2011). However, this is a country specific factor, in some countries the differences between different assurance providers are very little. At least Pflugrath et al. (2011) suggest this on their research;

based on their research, Australia and UK perceived little difference in the enhanced credibility provided by different assurance providers. Perego and Kolk (2012) also suggest that the diffusion of the subject is country specific.

Assurers from federation of accountants are influenced by the cultural and professional background tied to audition tradition, which can lead to ‘data accuracy approach’. Where as they also have the strength to involve experts from various disciplines and conduct multiple assuring actions. (Manetti and Toccafondi, 2012)

Standards

There is no single agreed standards or guidelines, rather the reporting and assuring is done on case-by-case practices, which also makes the comparability difficult. Also, the guidelines and standards originate from very different professional and ethical imperatives. ISAE 3000 originates from the financial audit while AA1000AS is specifically designed for non-financial audit. The social audit is not a legal requirement like the financial audit (Adams and Evans, 2004), which means that there is no agreed set of rules for assuring.

Literature argues that the absence of established assuring standards reduce the accountability to external stakeholders (e.g. Dando and Swift, 2003; Smith et al. 2011).

Managerial capture

‘Managerial capture’ at the expense of accountability and transparency to external audiences and stakeholder groups (e.g. Dando and Swift, 2003). Management using audits to strengthen and enhance their own managerial procedures instead of stating accountability to stakeholders.

Capture may also mean the dynamic and interactive process between the company and the assurance provider, as well as the wider network of active participants engaged in the SRA policy making field. This meaning that the public ‘accountability’ agenda is not served. (Smith et al., 2011)

Lack of stakeholder involvement

Dando and Swift (2003) remind that stakeholder concerns must be at the centre of assurance (as well as the overall reporting). They remind that stakeholder's views and expectations can threaten the organization's ability to achieve its objectives, but still they are usually not in a position to represent their own interests, or the complexity of organizational activities prevents them from understanding performance (2003).

CSR report has many different stakeholders that might be interested in it where as financial assurance statement is largely meant for shareholders. This means that there can be many different interests and it can be very challenging to involve stakeholders in the assurance. Adams and Evans (2004) state that many reports still do not include all the stakeholders, activities, or operations for which the companies are legally or morally responsible, neither all the issues relating to their impact and performance. Then there is the fact that the expectations of stakeholders and the information provided by reporting organizations do not always match (van Wensen et al., 2009). This can be explained by the very different goals the management and stakeholders have. While managers want to increase the value of the company, stakeholders want the company to do more.

A perception about the process and content of CSR reporting varies across stakeholders. Traditional stakeholder theory views stakeholders as external parties to corporations, while relational view of stakeholders view them as integral to corporate activity and participants in an ongoing relational web.

Some literature argues that the reports still do not include all the stakeholders, activities, and operations for which the companies are legally or morally responsible for their stakeholders, or other issues relating to their impact and performance (e.g. Adams and Evans, 2004).

Manetti and Toccafondi (2012) researched the subject of whether assurance providers consult and involve stakeholders in corporations who have adopted the GRI guidelines. The subject is known as stakeholder assurance (SA) it is suggested by international literature that assurance providers consult and involve stakeholders. Their research found out that while its true, most of the stakeholders are internal to the corporation (primarily employees, 71% of cases). Employees

actually present a primary stakeholder for the researched corporations. However, most of the stakeholder engagement is limited to specific categories in many cases (e.g. the verification of safety management system). (Manetti and Toccafondi, 2012)

Reynolds and Yuthas (2008) studied the moral discourse related to CSR reporting through the relational view suggested by the theory of pragmatism. They saw that under this perspective, the CSR reporting should be an ongoing discourse between the company and its stakeholders rather than a one-way communication. Also, by making the stakeholders an intrinsic part of the discourse and engaging them in an open, fair, and democratic discourse would move the society towards moral corporate discourse. (Reynolds and Yuthas, 2008)

Other factors

The absence of relation with financial auditing, with particular reference to fraud (Manetti and Becatti, 2009). Park and Brorson (2005) who studied 28 Swedish companies, indicated a trend of the integration of environmental or sustainability data with annual financial report that began around year 2000. This type of reporting will probably diminish the concern for financial and CSR auditor cooperation.

Assurance expectations gap can cause challenges. Adams and Evans (2004) have studied the phenomena of reducing assurance expectations gap by improving the credibility and completeness of the report and developing assurance guidelines.

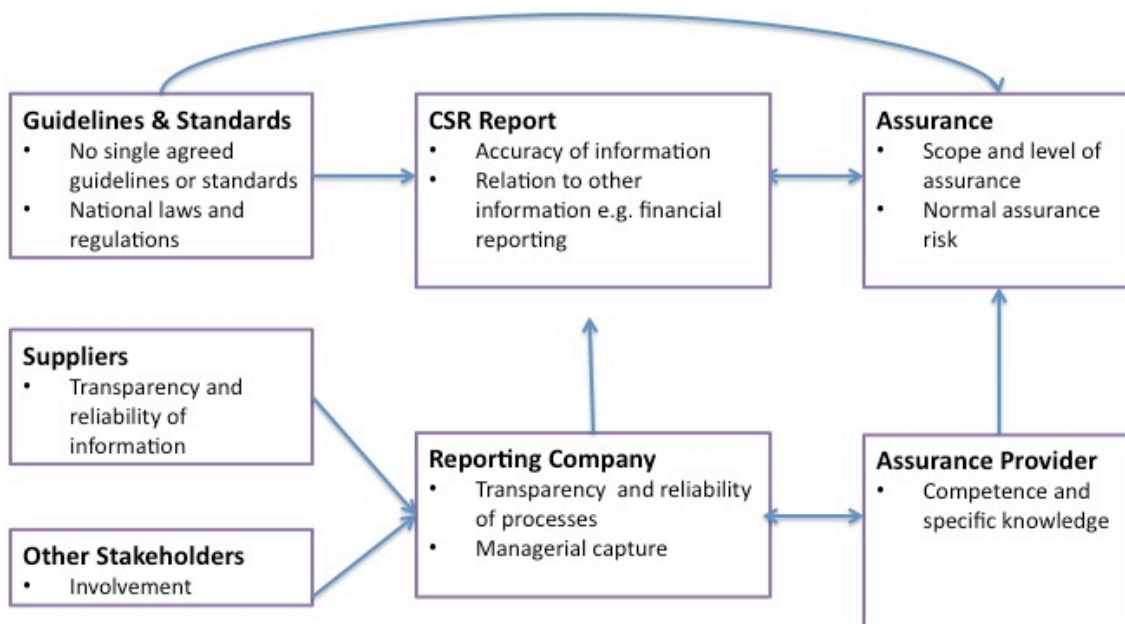
Conclusion of the challenges and forming the framework

The literature review part of the thesis concludes with several identified challenges of CSR assurance from the literature. Next chapter, the empirical part of the thesis includes interviews with assurance professionals about these challenges and the future of CSR and CSR assurance.

CSR reporting is challenging. It could have challenges from materiality, completeness, and responsiveness (Accountability, 6.4.2013). GRI also includes similar issues; materiality (information that covers that topics and indicators that would substantively influence that assessment and decisions of stakeholders), stakeholder inclusiveness, context and completeness are listed as the GRI principles (GlobalReporting.org, 2.3.2013). Basically, the accuracy of

information and relation to other information determines the quality of CSR report, according to literature.

There is always some risk related to assurance. Juutinen and Steiner (2008, p. 282) highlight that the risk related to assurance engagement has to be taken into consideration when planning assurance. Assurance engagement risk constitutes of inherent risk, control risk, and detection risk (IFAC, 6.4.2013).



Matilda Anttila

Figure 8: Challenges in assuring CSR information

The challenges related to CSR assurance are described on the figure 8. The figure shows the power relationships on how the company is affected by suppliers and stakeholders, the company then produces CSR report that complies with guidelines & standards. The company then interacts with the assurance provider who produces the assurance report; CSR report and assurance are interacting with each other. Of course, other relationships are occurring between the actors, but this just shows the most common ones to indicate the limitations found in the literature.

4. METHODOLOGY

This chapter explains the methodology of the research; the research method, research design and interviewees.

4.1. Research method

A literature review gathers the theoretical basis for the framework. The initial framework is used as a basis for the empirical study. The semi-structured interviews of the assurance professionals will gather practical evidence from the literacy suggested challenges. The research is a qualitative research that tries to capture and describe the challenges related to CSR reporting and assuring from an assurance provider's perspective as throughout as possible. The interviews were conducted with three assurance providers from the big four audit firms as well as one from a Corporate Social Responsibility consulting company. All of the interviewed professionals have the extensive knowledge about the field of CSR through consulting and assuring, they work with several companies about these issues thus they can provide with extensive knowledge about the subject. The chosen semi-structured interview method was to meant for enabling the conversational style of interview; get a deep understanding of the subject while being open of the new paths that the interview might encounter. The result was a deeper understanding of the assurance service that could not have been possible with a quantitative study. The research is not meant for overall generalization of the market, but rather give insight about the challenges. The interviewed people represent the majority of the assurance providers in Finland (and all operate in international markets), and thus, can give a good overall picture of the challenges that relate to assuring CSR.

This type of approach loosely follows the principles of grounded theory. This type of methodology evolves during actual research; going through continuous interplay between data analysis and data collection (Strauss and Corbin, p.273).

4.2. Research design

The scope of this research is to study the CSR assuring market from the perspective of the assurance providers. They are the experts of many organizations' CSR by acting as consultants and assurance providers and therefore, can give expert opinions about the state of the market and where it is developing.

The interviews followed a semi-structured pattern (see appendix 1), but interviewees were encouraged to discuss the issues that came up during the interviews. This type of approach was important due to the fact that this is a rather new and little researched phenomena where the interviewees might include interesting topics not covered by the literature. All in all, the research outline was designed to follow the challenges found in the literature with high emphasize on the interviewees own perceptions of the subject. The interviews were carried out during a one-month period. The length of the interviews was 40-75 minutes.

Finally, the empirical results were analyzed (on chapter 5) followed by revising the initial framework (chapter 6).

4.3. Interviewed professionals

The market of CSR assurance in Finnish consists mostly of financial assurance companies that also conduct non-financial assurance. Below, the interviewed companies and their representatives are presented.

Ernst & Young

A global assurance, tax, transactions, and advisory service company. It employs 167 000 people around the world. Ernst & Young's Climate Change and Sustainability Services (CCaSS) offer different strategy assessment, communication planning and reviewing, compliance and risk services for an example. In the Nordic region, Finland has the smallest entity around CSR activities. The interviewee, Eeva Koivula, authorized public accountant and senior manager from

Ernst & Young. She has 4-5 years of experience CSR actions. Koivula is also conducting background evaluations for the Finnish responsibility reporting competition. (EY, 6.4.2013)

Ethos International

Ethos is Stockholm based consulting agency specialized in Corporate Social Responsibility. The company has taken part in developing some of the CSR standards and initiative, such as ISO 26000 and UN Global Compact's COP Differentiation Framework. Besides auditing (on AA1000), they offer CSR training, help in communicating and reporting, developing CSR action plans etc. The interviewee was Malin Lindfors Speace, a senior advisor and partner with 19 years of experience from different CSR activities. She has experience in community engagement projects, street papers, and projects in developing countries as well as worked as CR advisor since 2001. (Ethos, 6.4.2013)

Deloitte

Deloitte employs 200 000 professionals internationally. It is focused on audit, consulting, financial advisory, risk management and tax services. Deloitte's sustainability services include strategic, resource performance, and data analysis and reporting functions. Deloitte's insights are very future oriented and international. Atte Salminen, associate from Deloitte for two years, was interviewed for this study. Salminen had previously worked on a financial measurement of social responsibility reporting project for two years. (Deloitte, 6.4.2013)

PwC

PwC operates in 158 countries with 180 000 employees. It offers consulting, deals, tax, audit and other assurance services. PwC refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity. In Finland, PricewaterhouseCoopers Oy's Sustainability & Climate Change service unit offers many kinds of services similar to competitors. They conduct a lot of research like the other big 4 consultancies, but also about the Finnish market in particular. The interviewee was Maj-Lis Steiner from the Sustainability and Climate Change unit with more than 6 years of experience in the field. She is

also the co-writer of the book Strateginen yritysvastuu (*Strategic Corporate Responsibility*, 2010). (PwC, 6.4.2013)

5. INSIGHTS FROM THE INTERVIEWS

5.1. Assurance process

The assurance process was described as standardized in the interviews. Accountancy professionals highlighted the similarity between financial assurance, using IFAC's – International Federation of Accountants' standards for assurance. "Basically the process is about planning, implementing the planned assurance actions, and reporting", said one of the interviewed assurance provider. The interviews highlighted that it does not matter whether the information is financial or non-financial, the assurance process is rather similar in both cases. The interviews described the process and interactions with reporting organization as standardized due to strict processes and standard procedures.

One of the interviewee brought up the special characteristics of CSR reporting: going through the risks and finding relevant issues. Where as in the financial assurance the issues that need to be covered and inspected are much more clear. "Usually the materiality issues and indicators are found through the use of GRI", said an interviewee.

One of the interviewee described the execution of the assurance process as talking to all levels of management about the focus areas, looking into their roles specific to those areas, how they work and how they see the CSR issues. The process also includes site visits that can be based on either a major incident, high-risk area or other focus area. "Looking into the specific issues as well as conducting a general staff check is part of the assurance process", added the interviewed. They interview random employees to see if the governance principles filter through the organization. The work is very practical: asking employees about the conduct, the policies, how CR influences their work, which actions they take on daily operations to meet up towards the standards and strategies. "This confirms the connection throughout the organization", adds the interviewee. The process also includes revising different systems: HR, data, reporting, environmental management, et cetera to ensure the origin of the data. "The work includes very practical staff: printouts, screenshots, talking to suppliers on site, but also looking at how visible the company is to the

community, for example what kind of community engagement projects they might have”, said the interviewee.

The process includes a throughout communication with the reporting organization and their employees while investigating the issues, giving feedback and recommendations for improvement. The importance of the communication through the assurance process came up from the interviews: “Reporting organizations are expecting to get feedback on their work during process, so they can improve their report”. One of the interviews brought up the issue of motivation from clients. Some organizations see that they can benefit largely from assurance and are more engaged with the assurance where as some organizations merely see it as a necessary evil. The short assurance process was described as tight interactions and daily communication with the client, and most of all, with the data owners.

The communication was described as more like being a judge and making sure the reporting organization sticks to the rules. “An assurance provider can’t tell the company how they should say or do something - that is more of a consulting type of work”, said one of the interviewees.

Finally, the conclusion of the assurance and reporting to the client or reporting organization is conducted. Management letter was discussed as the main communication form to include recommendations to the management for improving their reporting as a process. Assurance statement is written on the basis of the standard used – quite narrow in the case of ISAE 3000 and more detailed in the case of AA1000.

5.2. Assurance provider

The lack of specific knowledge can limit the assurance. Assurers from financial background are operating on accounting principles and seem to highlight quantitative information where as non-financial assurers can have deeper knowledge of the subject. The lack of knowledge can be an issue because it takes a different set of skills and competencies to audit or assure human rights issues, as well as the environmental issues (compared to financial assuring), said two of the interviewees.

None of the interviewed experts said they use external experience in assuring. Rather, they were certain their team had acquired the people and knowledge needed to perform the assurance. The interviewees said that their teams have experts from different fields conducting the assurance. One of the interviews highlighted the importance of experience: their experts need to have extensive reporting experience before moving into the assuring part. All interviewees stated that their role in the company is both consulting companies about CSR issues and assuring the reports. Thus can be concluded that they all have quite extensive experience in the field and share the professional competency.

One of the interviews acknowledged the issue of smaller non-financial assurers that can cause problems with their lack of competence, however, all the assurers in Finnish market operate on high quality level, the interviewee added.

The diversity of CSR assuring was also acknowledged: “It could be very surprising for traditional accountants to go to CSR assuring since there are so many standards, frameworks, multiple areas and different materiality issues”.

As a conclusion, the challenges from the literature related to assurance provider were discussed and recognized. However, their impact seems to be very case specific, and clear conclusions cannot be made, as the literature suggests. It is clear that the CSR assurance provider needs extensive experience in many areas, but the importance of a qualified team was highlighted; thus the empirical study suggest using experienced companies with proven track records as assurance providers.

5.3. Quality of CSR reports

The quality of the CSR report sets limitations for the assurance: “You can’t assure on better level than the quality of the report”. One of the interviewee lists the quality of the report as the biggest limitation in assuring CSR information. **Transparency of information and processes** that produce CSR reports are the basis for assurance. “The report should reflect the processes and work, not just the results”, adds one interviewee, continuing: “By doing so, the value from assurance also increases; you’ll get insights on the whole process”.

When asked about the biggest challenge in assurance, one interviewee thought about the fact that it is quite a new subject and its role can be quite unclear to companies. Companies can have poor understanding and contradictory expectations. This means people who compose those reports are not used to being assured by a third-party, the processes are not necessarily that developed and the level of assurance normally is not that high if compared to financial assurance. The interviewee informed that this effects the quality of assurance perceived: companies do not understand what they want and that limited time gives limited results thus the assurance provider has difficulties to deliver.

Accuracy of information

Accuracy of information largely impacts on the quality of the reports. Interesting topics rose from the interviews: “Are companies actually doing what they’re saying, do they include all the materiality issues, and how do they manage data systems in multiple locations?”

One of the interviewees thought the most challenging part of assurance is figuring out the materiality issues and boundaries of each industry that should be included in the report.

The subject of **centralized data systems** came up when discussing about the accuracy of data. How the company has organized its data, do the systems function the same way, are they linked, or are the systems centralized, are key issues in inspecting the data sources. “If it is the same system, and they are identical, and linked, then it will increase higher degree of traceability and credibility”, adds one interviewee.

The difficulty that rises from gathering data in large companies came up in the interviews. One assurance provider included an example of multinational companies that gather data through different processes in different countries. These types of operations generate challenges for assurance.

Qualitative data or the claims stated in the reports can represent difficulties in assurance. Interviews are used to see that the issues stated in the report are going through the whole organization from senior management to employees. Those assurers that come from the accounting background seem to be stricter on assuring quantitative information. One interviewee

stated that they assure claims against the source materials; a company should state claims they can prove. However, “the level of presented claims effect: exact claims should be proven where as vague claims can pass the assurance”, added the interviewee. It came clear from the interviews with accountancy professionals that the basis for assurance is to assure against a framework and qualitative information is mostly discretionary, opinions, and do not have suitable criteria or framework to assure against. “The qualitative data must be in line with other data and it must meet the materiality requirement”, said one of the interviewee.

Data from suppliers are more and more reported. “In accounting, it is clear that the reporting is done on the whole group member companies”, reminded one assurance provider. Where as in CSR reporting, the boundaries are not set. “Supply chain is taken in consideration in CSR reporting nowadays more often, although it is quite challenging”, noted one of the interviewee.

One of the interviewee from a large multinational company said that the wide network is very useful in assuring supplier data. If there is a situation where a distant party needs to be assured as a part of the work, then a local professional from the company would be used; they have the inside expertise of the field and location.

One of the interviewee stated that they do not usually go to the suppliers; companies audit their suppliers and assuring only goes through the actions the company has done to audit their suppliers. The assuring is about finding out how the data is composed. The interviewee adds that in most cases the companies report about suppliers in the nature of ‘50% of our subcontractors have gone through auditing’ and here the assurance is about finding proof for these actions.

The supplier information assurance depends on the level of assurance that is chosen with the client or reporting organization: “When you do very high or broad scope of assurance you look at the suppliers as well”. Overall, the insights from the interviews seem to indicate that the quality of CSR reports and the accuracy of the information is the main indicator for quality of assurance.

5.4. Comparison of CSR reports and assurance statements

When interviewees were asked about the comparison of CSR reports, some answered that they had their own tools for this. Interviewees agreed that the comparison of CSR reports is difficult, especially for the reader who might not be too familiar with the subject. Some interviewees said they had company specific tools for comparison of CSR reports and all the interviewees did some following of the market in order to advise customers how to improve their reporting. One interviewee told that they have a tool that is based on five categories of GRI. The interviewee noted that the comparison is always somehow subjective, where the reports are quantified and ranked based on their success in the categories.

Based on the interviews, the comparisons are based on international standards as well as personal preferences. It came clear from the interviews that the goal of GRI is to help the reader to compare the reports against each other. “Essential parts recommended by GRI should be included”, said one the interviewees. One of the interviewee wanted to clarify the subject of different levels of GRI and the misleading notion that higher-level GRI report would directly mean better quality report.

“Sometimes companies don’t understand what the levels of GRI mean”, said one assurance provider. “I’ve seen a report stating that ‘We’re awarded as A+ GRI report’ when it actually only means how much they have applied GRI, not how good quality it is”, the interviewee added.

Comparing CSR reports was done mostly for internal purposes. Some interviews also mentioned they do this for their clients, in order to know the trends in the market. “The work is done by looking at the disclosure, relevance issues, and certain indicators that are on the rise that forecast a trend”, said one of the interviewee, and adding: “Basically, are they including the right issues; do they have materiality processes and know their priorities”.

The difficulty in comparing different CSR reports comes from the lack of single format and indicators. One of the interviewees discussed of all the different ways companies conduct the reports, calculate the data, and present it.

Comparison of CSR assurance statements was seen as interesting and also important subject. Most of the interest was about how and what kinds of things are done, and how they are expressed in international statements.

ISAE 3000 gives a certain model for the assurance statement that would enable the comparison of assurance statements. One of the interviewee thought that the methodology or scope and detail of assurance work could be something to compare in assurance statements.

5.5. Standards and quality of assurance statements

The assurance statement seemed to be very much linked to the standard used in assurance. One of the interviews discussed the absence of a single standard and that it is a limitation mainly for the reader of the report. The reader cannot be certain what kind of quality control the report has gone through although the operations are usually stated in the assurance report. However, the operations are usually stated on a high level (not including details) with volatile customs, which can be difficult for the reader to understand. Another interviewee was also concerned about the difficulty for the reader to understand the scope of the work related to assurance, which can limit the experienced quality.

Assuring in limited assurance level might not give the best outcome. The negative assurance statement in limited assurance ('nothing has come to our attention which gives the causes us to believe that the reported data do not accurate reflect the company's performance') offers less trust to the information compared to positive assurance statement (reasonable assurance) or financial assurance where the origin of the data is carefully examined. The scope of work differs with both the desired assurance level, and all of the interviewees agreed that limited assurance is the preferred; where as the nature of the information does not enable reasonable assurance at least for the entire report. Second mentioned reason was the cost of the assurance in reasonable level. One interviewee discussed how assuring in a reasonable level would increase the scope of work and thus the cost of assurance to the level of financial assurance. Companies are not possibly ready for this kind of investment, and limited assurance is 'good enough'. However, some CSR information, such as HR or financial information, is able to assure in reasonable level.

Currently, the accounting professionals use ISAE 3000 standard for assuring, while adding AA1000 if the client is reporting on its principles, too.

The use of different standards might be confusing for the report reader. The reader might be confused about which quality inspection actions the assurance has covered and how deep the scope of work has been. Also, the reader and even the reporting organization might be confused about the different levels of assurance (limited/reasonable).

One of the interviewee reminded that there is only one standard for non-financial assurance (AA1000). “The other standards can do the job, but they’re coming from different, financial, perspective”, added the interviewee. The discussion whether these other (financial) standards actually cover the quality issues, and how much they take responsibility in the limited, negative, assurance statements, is something the reporting organization should also think about when buying assurance. “Conducting the assurance statement using the AA1000 standard, the statement is more in-depth”, included the interviewee.

The AA1000 assurance statement is easier for the reader since the issues are explained in more detail. Due to the use of ISAE 3000 in the accounting profession assurance providers, the message in a negative limited statement is quite limited.

“For the issue to be recorded in the assurance statement, it needs to be drastic. Rather, the list of problems and shortages are given on the management letter”, said one of the interviewee.

Determining the **scope and level** of the assurance is based on the agreement with the reporting organization. Although level of work is determined on with the reporting organization, the assurance statement does not always include details about that thus the reader might find challenging to know the level and scope of assurance

5.6. Stakeholder involvement

The interviews were quite positive that stakeholders are well considered: “companies recognize that CSR reporting is done for the stakeholders and normally the material issues are well covered”. It came clear from the interviews that the assurance providers thought that GRI and

AA1000 take stakeholders well into consideration. “Companies should include a good overall picture of the company’s situation without leaking out business secrets but covering the relevant issues to stakeholders”, added one interviewee. The importance of reporting through those indicators that are important to stakeholders was considered. One interviewee added that without doing so, the company is risking its business.

“Reporting should be based on what is relevant in the business, what are the effects, risks, possibilities”, included one interviewee. If they are relevant in this way, then they also might affect the stakeholders’ decision making.

Stakeholder dialogues were also mentioned as the interaction between the assurance provider and reporter. “As an assurance provider, you can’t tell the company how they should do something, but rather help them set the boundaries”, said one of the interviewee.

5.7. Benefits and downsides of assurance

The interviewees naturally saw the assurance a positive part of the reporting process while also addressing the downsides of it.

“It increases the reliability of data, at least for stakeholders”, said one interviewee, adding: “Companies respect the feedback and comments during the assurance process; it’s all about continuous improvement, benchmarking and listening the trends”.

“It’s the best way to get a third-party perspective on where you’re doing well, where your gaps and improvement areas are”, says another, continuing: “it’s pretty much a reality check”.

Both internal and external benefits of assurance were mentioned: “assurance increases data credibility for stakeholders while improving internal processes and reporting”.

“The best thing in assurance is the increase in data credibility”, highlighted one interviewee, continuing: “Most of the assurance work is similar to consulting; improvement ideas to processes, models, outside opinions”. Negative outcomes from assurance were discussed: “The only downside to assurance is the time constrain – assuring has to be done at the same time as

reporting which can be challenging”, said one interviewee, adding: “also, if clients have unreasonable expectations, it can lower the perceived value of assurance”.

All the interviewees included the financial cost and use of other resources as the downsides of assurance. These can be boarders especially for smaller companies. The maturity of CSR processes was mentioned: “For a company that is early stages of CSR reporting might not have established processes, so the assuring is not going to give any real push forward”. The assurance was seen as a logical step after the company decides to report about CSR issues.

5.8. Future of CSR reporting

“Currently there are companies who are in their early stages of CSR reporting, while others are pioneers with responsibility integrated to strategy and business”, reminded one interviewee. The future of CSR reporting was seen as positive with full of changes.

All the interviewees saw that the CSR reporting is going to increase, which is the trend that has been going on for some time now.

The risk of losing one’s reputation was mentioned in one interview. This concern has caused companies to include responsibility aspect in all parts of the process.

Some interviewees thought that even very **small companies** who have a global presence and deal with clients, suppliers and/or customers that are based in more than one country are going to report about CSR issues. “It’s very hard to keep that kind of secretive, conservative companies anymore; you’ll have difficulties in keeping customers as well as employees”, highlighted one interviewee.

One interviewee had a more negative view about SMEs reporting about CSR issues. It was seen as such a big issue about resources that smaller companies most likely will not start reporting about these issues unless it is made compulsory through regulation.

The interviewees saw that the **transparency** of CSR information is going to increase in the future:

“It’s not a trend, more coming into a necessity”, informs one assurance provider

“Transparent actions are sort of the ultimate goal of reporting that improve the operations”, added another interviewee.

Transparency across the ecosystem is also an issue. There are currently CSR reports that only report the issues that the company has direct authority over but it is probably going to decrease over time. “Extended enterprises are current issues in reporting as well as in other operations in corporations, for example in risk management”, states one interviewee.

“Your customers are more interested and placing more and more demands on transparency, especially into anti corruption, they’re also asking more about your environmental performance because it goes back to them”, stated one interviewee.

The importance of **code of conduct** came up in one interview. “It has risen to be an important factor in every company”, said the interviewee, adding: “the ethical principles in code of conduct will be emphasized even further in the near future; what is included in the company’s code of conduct and how well they are implemented are affecting the company’s reputation”.

Combined or integrated reporting came up as a subject from the interviews. It was seen as a natural step to move towards reporting about relevant issues regardless of what kind of information they are. One of the interviewees saw that there most likely will be more reports combining or integrating information but that it will not remove the need for separate CSR report. A total unification of financial and non-financial reports will not happen at least in the near future due to the legal requirements of financial statements.

One of the interviewees reminded how integrating CSR data into management systems would increase the quality of the data. Another interviewee had similar views about integrating: “The data would be as reliable as financial data”. Integrating would also mean shifting the role of CSR: “This would allow the CSR data to be seen as an integrated part of the business”, and: “Instead of necessary evil to boost company reputation towards more strategic part of the company”. Also the accuracy of data would increase: “Integrated reporting would most likely decrease the amount of data reported, but it would be more standardized and of higher quality”.

The difficulties came up when discussing about the subject. Different industries have different materiality and boundaries. “One thing is the reporting principles, and other the technical principles of how to calculate certain indicators”, reminded one interviewee, continuing about the current EU standardization about non-financial data: “There might become some sort of regulation about reporting non-financial information, which might include the technical protocols as well”. The interviewee also talked about the United States’ Sustainability Accounting Standard Board’s (SASB) list of materiality issues by industry: “These type of changes in CSR reporting would increase the comparability of reports”.

Novo Nordisk came up in the interviews as a forerunner. Novo Nordisk is a global healthcare company who has been reporting about its business performance in one, inclusive document, the Annual Report, since 2004. Novo Nordisk was honored as the Best Integrated Report at the CR reporting awards in 2012 (Novo Nordisk, 20.5.2013). “The idea behind is to have the CSR integrated on the management systems, and the final report representing all information ‘on the same line’ as an integrated part of the business”, said one interviewee

Amount of data seems to be increasing. All the interviewees seemed to agree that the amount of data and the amount of reports have increased during the past years. Also “the boundaries of reporting are moving towards the supply chain and those areas will be included in the reports increasingly”. The increasing amount of data is moving towards the report representing a more extended enterprise: “from last year, more and more competitors were reported as stakeholders”.

New standards. GRI G4 guidelines that are published soon and the assurance providers are eager to see how this is going to change the reporting. One interviewee saw that if organizations notice G4 to be too heavy then they might turn into using other standards.

As a conclusion, many different future directions were brought to attention. The interviewees discussed the possible highlights and challenges related to moving to new direction, although the future seemed unclear.

5.9. Future of assurance

All the interviewees saw that companies are beginning to assure more, being more transparent and open. The importance of well functioning processes was highlighted in one interview. “Qualitative issues are becoming more important and processes are the only way to find out the real condition of the issue”, included one interviewee, adding: “Assuring quantitative data is just the basics and assuring processes and qualitative information is becoming more important”.

One interviewee was in favor of one standard, which would determine the reporting and another for assurance. “The purpose of the subject is not going to be fulfilled with the use of all these different standards”, said the interviewee, adding: “the level of assurance would increase with the use of only one standard”.

Another saw the difficulty in underlining materiality issues across industries: “One standard wouldn’t entirely remove the problem of comparison because each industry has its specific indicators”.

The discussion about future changes such as integrated reporting and regulation of materiality issues were seen as cost beneficial for all parties and increasing clarification.

As a conclusion, the importance of assurance was highlighted in the assurance provider’s opinions. There were discussion about the future directions, but it seemed to follow the trends of CSR reporting and client preferences.

6. RESULTING FRAMEWORKS

Resulting frameworks are presented in this chapter. Next chapter provides conclusions of the research.

6.1. Challenges in assurance

The first version of the framework was done on the basis of literature review that was also the basis for the empirical study. From the empirical study certain factors rose to a higher level while other factors did not seem to be of a high importance. The challenges are explained on table 1 (p. 48) and visualized on figure 9 (p. 49). This chapter provides the discussion of the revised framework.

Issues related to CSR reporting

The unique nature of CSR reporting sets limitations to assurance. Main issue to affect the quality of assurance was the actual **CSR report quality and reporting organization's processes**. The report has many individual challenges (related to different standards) while CSR processes are currently in the formative stages; integrating CSR into data management systems is the next step for many companies. The company should consider stakeholders and the materiality of information when conducting the report. Also, the empirical research highlighted the importance of boundaries within CSR reporting.

Suppliers and extended enterprises came as an ever-increasing topic in CSR reporting. The issue seems to be on the credibility of this type of information that travels not only own, multiple data systems, but also extends to the supplier's. Supplier information is gaining visibility in reports, thus this represent a real challenge for the assurance providers and client organizations.

Stakeholder involvement did not seem to be too much of a factor in assurance; rather, it is a factor affecting the overall quality of CSR reports. Although the quality of CSR report contributes to the quality of assurance, the actual actions assurance providers take towards stakeholders seem to be a low factor in deciding the quality of assurance.

Issues related to assurance

The actual challenges related to assurance are discussed below.

The quality of assurance statement is largely dependent on the use of a standard, according to the empirical research. If used the ISAE 3000 standard, the assurance statement that is done on the limited assurance (limited assurance dominated the market according to the empirical study) is very limited with negative assurance statement. Where as in the case of AA1000AS the assurance statement includes more details about the recommendations and the quality of the report, thus the statement will be easier for the reader to understand and might affect the perceived quality although the work conducted for the assurance might be of same quality. Also, the scope and level of assurance was indicated as a limitation from the literature. The empirical study suggest that these, like the use of a standard, should be clearly stated in the assurance statement and when understood, they provide little challenge.

The lack of single standard and existence of multiple guidance's about CSR reporting and assurance were major topic in the empirical part. It came clear that if the assurance expectation and delivery gap existed among the assurance provider and the reporter, which would largely consist from not understanding the standards, then the issue would gain more importance as a challenge. However, if all parties had clear understanding of the underlying standards and guidelines, then the issue would not affect the assurance.

Assuring process and assurance provider was seen as a low impact element of the study. Of course, the fact that the interviewees do not see or want to discuss their own limitations has to be taken into consideration. However, the study subjects were presenting the Big Four audit companies with one exception of certified CSR consulting and auditing, that all are of high quality assurance providers.

Role of assurance and the fact that it is such a new service came up from the empirical research. Although the literature also recognizes the formative stage of non-financial assuring, the role of it in reporting organizations is less discussed in the academics.

The resulting framework

Table 1 lists the challenges related to assuring CSR information. The challenges related to assurance are divided into two categories: issues related to CSR reporting and issues related to assurance. The importance of each challenge is determined case-by-case; all factors mentioned on table 1 are important but their relevance is determined individually on each case.

Table 1: Challenges in assuring CSR information

Issues related to CSR reporting	Issues related to assurance
Report quality and CSR processes <ul style="list-style-type: none"> • Reliability, transparency, and comparability of information • Connection to financial reporting and assurance 	Standards and quality of assurance statement <ul style="list-style-type: none"> • Understandability and detail of assurance statement • Expectations and understandability of standards
Supplier information and extended enterprises	Assurance process <ul style="list-style-type: none"> • Quality of work
Stakeholder involvement <ul style="list-style-type: none"> • Lack of stakeholder involvement • Managerial capture 	Assurance provider <ul style="list-style-type: none"> • Competence
	Role of assurance

Figure 9 presents the revised framework. The differences from original framework (figure 8 on page 27) here the suppliers and stakeholders are separated from the actual reporting and called a ‘Back end’ side of CSR. Also, the extended enterprises are added to the revised framework due to the nature of CSR reporting according the research. The actual reporting is based on the reporting company’s CSR processes. Role of assurance determines the direction and expectations towards assurance provider and assurance process. The guidelines and standards that used to determine CSR report quality and assurance are now separate entities. Guidelines and standards for CSR reporting represent the back end of reporting. Standards that determine the assurance and partly the quality of assurance statements are on the assurance side of challenges.

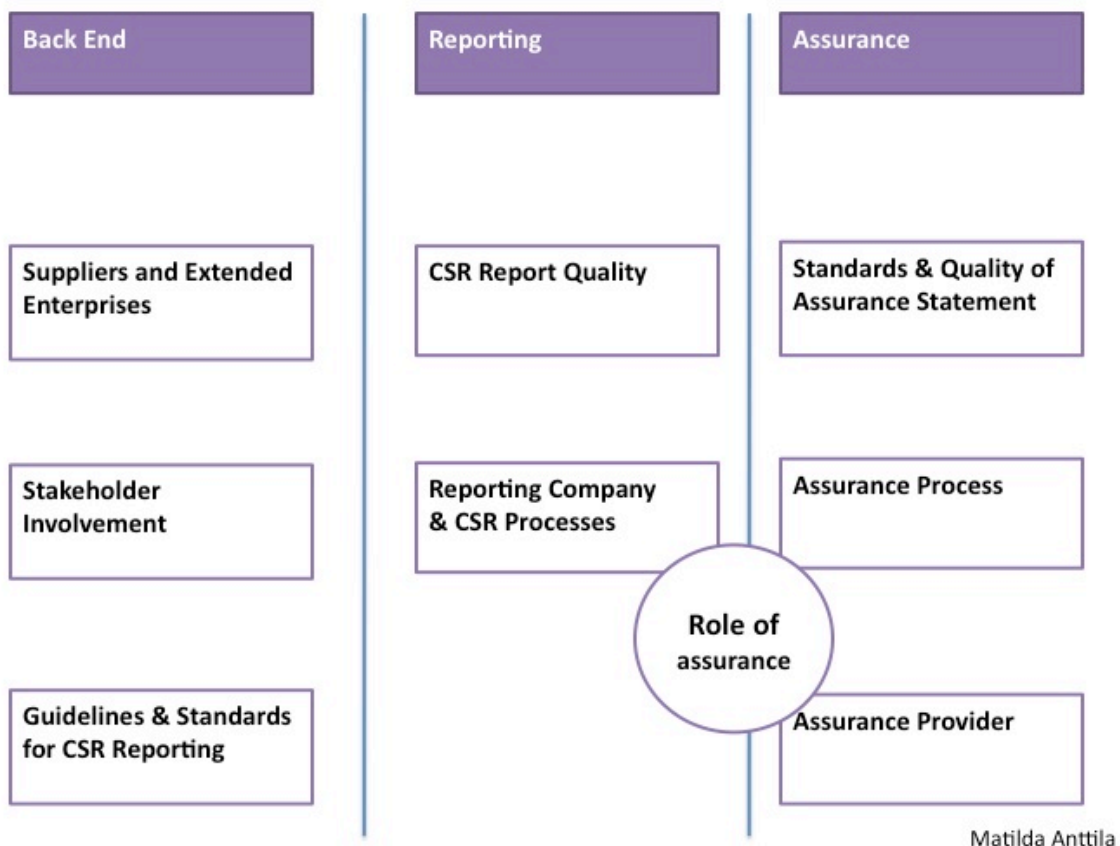
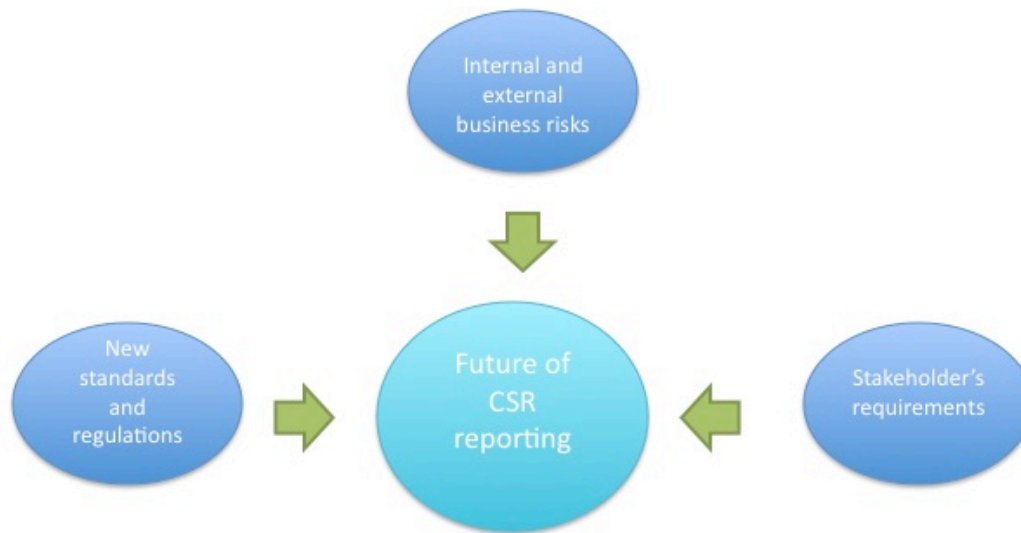


Figure 9: Challenges in assuring CSR information, revised framework

6.2. Future challenges

Subjects that affect the future of CSR reporting according to the empirical research are new standards and regulations, business risks and stakeholder requirements (figure 10).



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Figure 10: Future of CSR reporting

New standards and regulations that came up from the interviews were:

- International Integrated Reporting Council (IIRC)'s Integrated reporting that integrates financial and sustainability strategy and results (Globalreporting, 24.5.2013)
- EU proposal: disclosure of non-financial and diversity information by certain large companies and groups (European commission, 2, 24.5.2013)

- GRI G4 guidelines that is the next version of previous GRI guidelines with improved clarity and technical standards (Globalreporting, 24.5.2013)
- SASB materiality map that presents relative priority of sustainability issues on an industry-by-industry basis (SASB, 23.5.2013), although it's for US, something similar is expected to the EU in the near future also

These are factors that are coming up this year or the following years. There is a lot of uncertainty about the future of CSR reporting and assurance, but the key issue was that it is going towards financial reporting and assuring. Meaning that there will be more standardization, integration, and it will be more widely used. Also, there were discussion about law legislation that would force small and medium sized companies to report about their CSR issues, and standardizing the reporting principles.

From the empirical results, it was clear that businesses are taking extended enterprises into account when planning their risk management. Internal and external risks represent possibilities for the loss of reputation. Reporting is always done for the stakeholders, so their interests and requirements should always be taken into consideration.

All in all, the future seems for CSR reporting and assuring seems to be full of challenges. In the field of CSR, on always must be on top of the regulations and requirements.

7. CONCLUSIONS

The aim of this study was to understand the challenges that relate to CSR third-party assurance. Chapter 6 provided the resulting framework and discussion of the challenges. This chapter provides the theoretical and managerial implications, limitations and suggestions for further research.

7.1. Theoretical implications

Studying the challenges or limitations in CSR third-party assurance is in the beginning and the aim of this study was to develop knowledge about the subject. The findings suggest that the challenges in assuring CSR information can be drawn into two categories: challenges related to the CSR reporting and challenges related to the actual assurance. Due to the fact that assurance is done on the basis of the report, it cannot be of higher quality than the report is.

The literature suggests that the managerial capture (managerial and professional interest dominate CSR reporting so that the public accountability is not adequately served) is a big problem in the field. The empirical research indicated that while it is assurance providers job to monitor that the report covers all areas that affect stakeholders, it is not too much of an issue due to the fact that companies are reporting for stakeholders and their interest is in serving them. Stakeholders should be in the beginning and end of CSR reporting and thus, no company want to deliberately dismiss them. According to the empirical research, companies are actually quite good in taking stakeholders into consideration and thus, the managerial capture, or ‘reporting about the material issues’ is overemphasized in the literature.

The literature also suggested that the lack of a single agreed guideline would determine challenges to assurance. According to the empirical research, these are issues only when the reporting organization or report reader does not understand the standard or when the assurance statement is of limited detail. Also, the scope and level of assurance was indicated as a challenge from the literature. From the basis of the empirical research, the scope and level is determined with the reporting organization. Although these factors are not always clear to the reader of the

report, and sometimes not even to the reporting organization, the factors do not seem to be too much of a challenge when both of the parties (reporting organization and assurance provider) understand and agree about the desired scope and level of assurance.

Otherwise, the empirical study explored the challenges even further, proving them existing and producing important insights. For example the accuracy of information in CSR reports represent a real challenge and the empirical research gave more insights about the issue.

7.2. Managerial implications

Reporting companies should remember the importance of the quality of the report and processes behind it. Thus, they should use reporting as a part of the process of communicating their CSR activities to stakeholders that are the beginning and ending of CSR activities (see figure 2 on page 10). Assurance is giving the best value when the processes are in order and the reporter knows what they are getting from assurance. This lowers the expectations gap while getting the external feedback from processes and report.

Assurance providers should be aware of existing and future challenges while educating their customers (reporting companies) about these. Also, the importance of explaining the different standards and their effect on the assurance to the customer gained importance in the research.

Risks and managing company reputation was an important underlying topic in the interviews. It is necessary for companies to manage their own actions, and even their supplier's actions to maintain success. By honest discussion and reporting about their CSR activities, they are able to manage their reputation, tackle risks and gain business opportunities. Assuring can play a big part in this since the company gets an independent view about their actions and communications.

The role of assurance came up from the empirical research. Reporting organizations should consider the role and benefits of assurance against their own performance so that they can invest the required time and money to get what they need from assurance. When they are aware of the assuring standards and benefits, they minimize the expectations gap as well.

7.3. Limitations and further research

Only the assurance providers were used to gather the empirical evidence of the study. The complexity and dynamics of different parties suggest that this subject could be tested on other parties as well (for example the view's of reporting organizations or readers of the assurance statements). Because of the chosen method, the research could not verify the amount of effect the specific challenges have on the assurance.

The objective of this study was to describe the challenges of the assurance, explaining the phenomena. Although the study was of limited scope, it can be used to describe the phenomena as a whole.

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APPENDIX 1

Semi-structured interview structure

Interview structure used as a guide for the interview, not a as a strict structure.

Corporate Social Responsibility (CSR): Used as a synonym for corporate responsibility (CR), sustainability and sustainable development.

1. Current work: title and job description
2. Experience & background with CSR
3. Typical assurance process
 - a. Team
 - b. Standardization
 - c. Complex information
 - d. Difficulties
4. Relationship and interactions between assurance provider and the company that buys the assurance
5. How much effect the reporting company has on the assurance?
6. Biggest limitations in CSR assuring?
7. Opinion about the absence of an agreed set of standards?
8. Inconsistencies regarding the scope of assurance and levels of assurance provided
9. Limitations derived from the assurance provider: assurance provider personally or the company?
10. How to improve the evaluation and comparison of CSR information?
11. Overall opinion in the pro's and cons of assuring CSR reports?
12. How do they see the future of CSR and assuring?