LUMES

Lund University International Master's Programme in Environmental Science

Communicating Responsible Business Practices

Case Study:

Atlas Copco AB

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Abstract

The last years have shown a new corporate trend oriented towards greater responsibility on environmental and social issues or as it is usually referred to "Corporate Social Responsibility" (CSR). Despite that CSR is not a new term, in recent times it has re-surfaced on the international arena due to mounting stakeholders' pressures and expectations. It is receiving even more attention as new types of Socially Responsible Investments (SRI) begin to make their way into the mainstream investment community. Companies that seek to capitalise on this rapidly growing market have yet to fully integrate environmental and social considerations into their daily operations. While this is being done, another challenge remains on how to communicate their CSR efforts to the stakeholder community. In order to analyze and contribute in the improvement of a company's communication strategy with investors, this research has selected Atlas Copco AB as a case study focusing mainly on shareholders due to their high influential role in a company's operations and governance. Taking this into account, the purpose of the research was based on "How can companies communicate the contributions of CSR work to investors in an effective manner in order to meet their information needs?" In order to answer this question, 27 interviews were carried out among Atlas Copco's main investors (20) along with NGOs, academia and international organizations. The research found that investors associate good environmental and social practices with an overall quality of management, which can help mitigate potential liabilities, related to risks and reputation. Although financial performance continues to take a primary role when considering investing in a company, -specially mainstream investors- the research found that more often than before, the company's environmental and social performance is also considered as an integrated assessment by investment analysts -especially SRI analysts.
Therefore, it is important that companies find ways to communicate their CSR work to investors together -and not restricted to- the financial performance. To this end it could be appropriate to expand the role of investors relations department. An important finding is that the interviewed investors regard direct dialogues with companies as the most effective way to evaluate their environmental and social performance, while sustainability reporting is considered useful source of information, it should be reinforced with direct dialogues. The research encourages companies to improve not only their communications with investors, but most importantly to improve their real global operational performance, in environmental and social terms, in order to have the substance behind the information they communicate.

Keywords: *Corporate Social Responsibility (CSR), Communication, Social Responsible Investment (SRI), Value of Corporate brand.*

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1. Introduction

The role of business has been a topic in big international conferences dealing with the environment and sustainability e.g. Rio Summit (1992), Johannesburg Summit (2002). The main reason behind this topic is that multinational corporations have substantial control over natural resource use, which can lead to intense or lower impact on the environment and its degradation (Elliott, 1998). However, as powerful international actors, the corporate sector with its economic strength must be encouraged to take responsibility of their actions for the benefit of the environment and society. In a recent speech (at the UN Global Compact meeting in New York, 2004), the Secretary General of the United Nations, Kofi Annan, took this baseline when he stated that "we now understand that both business and society stand to benefit from working together. And more and more we realise that it is only by mobilising the corporate sector that we can make significant progress."

Corporate Social Responsibility (CSR) is capturing the attention of international agendas and business leaders, mainly due to stakeholders' pressures and expectations on issues related to the environment and society. However, we must remember that CSR has been emerging since the 1980's when companies and researchers began to asses how the environment and society interact with a company's operations. For instance, Arlow and Gannon (1982); Ullman, (1985); and McGuire, Sundgren and Schneewis (1988) studies refer to how CSR strategies were considered the firm's way of incorporating social and ethical policies or actions into their corporate agenda.

In more recent years, the emergence of the concept of sustainable development in the business community is fostering a transition into best practices and techniques (e.g. Cleaner Production, Environmentally Sound Technologies) which in the long run can benefit all stakeholders and the environment.

The World Economic Forum (2003) states that pressures of "corporate competitiveness, corporate governance and corporate citizenship, and the linkages between them, will play a crucial role in shaping the agenda for business leaders in the coming decades." Barbara J. Krumsiek, President and CEO of Calvert Group, one of the largest asset management firms in the United States reinforces this statement by saying that "companies that treat governance and sustainability issues with importance are better positioned to deliver long-term, sustainable value to their shareholders." (UNEP, 2004)

As CSR continues to emerge there is growing evidence of a link between corporate social performance and long-term financial performance (Waddock and Graves, 1997; Orlitzky, Schmidt and Rynes, 2003). This evidence is a crucial step for CSR as it makes its way into the mainstream corporate sector. Therefore, companies must assess environmental and social issues and how they relate to society as a whole in order to maintain a sound financial performance over the long term (Cochran and Wood, 1984; McGuire et al, 1988).

Addressing long-term shareholder value and maintaining a healthy base of investors remains a company's main interest (Waddock et al, 1997). With most investors and their influential power within companies mainly focused on short-term financial performance to shareholder value, there is a barrier to include environmental and social issues. The main problem with this approach is that it can be considered short-sighted, because it does not take into account the potential risks related to environmental and social liability, nor the goodwill value of a company's good CSR principles which reinforces the value of the corporate brand.

It must be said though, that globally there is a growing pool of investors who are willing to take their interest and expectations of a company's performance well beyond its financial positioning a step further. This is the case for Socially Responsible Investments (SRI), a market that seeks to invest only in companies who have good social, environmental and financial performance.

Companies who have been able to incorporate environmental and social issues into their operations and have been effective in communicating these efforts to the SRI markets could benefit from new sources of investments. As a measure to the exponential growth of this market, UNEP (2002) identified that SRI markets have increased size by seven folds in the past 5 years and only in the United States it exceeds USD 2 trillion under portfolio management (2003 Report on Socially Responsible Investment Trends in the United States, as quoted in The Economist, 2004). Also, an additional sign of the rise in popularity of ethical investments can be appreciated in the recent launch of several SRI financial indexes, such as the Dow Jones Sustainability Index in the United States and the FTSE 4 Good Index in Europe (Boutin-Duffense and Savaria, 2004). This gives reasonable attractiveness to companies to draw these types of investors and to have access to new sources of capital, which are vital for a company's success.

From a sustainability perspective, as the SRI market growths and becomes mainstream there is great potential for more companies to adopt CSR practices, thus there will be a contribution from the industry sector towards sustainable development.

A challenge for companies already in the process of becoming more socially responsible is actually communicating these efforts to the SRI community. As Rugo (1999) explains, communicating confidence towards investors by expressing cohesive plans to navigate the company to future success is a key issue for retaining and enlarging shareholders' base. This is also applicable if a company wants to attract new sources of capital from SRI but these plans must be based on sustainability.

Environmental and social concerns can divert the mentioned confidence of investors and create potential risks to a company due to loss of brand value and liabilities. Communications can mitigate these risks, parting from the point that actions are taking place within a company to address these issues through best practices and CSR, but not necessarily being communicated in an effective manner.

With growing recognition of the need that all stakeholders must explore synergies and work together towards the common goal of protecting our environment (Mastrandonas and Striffe, 1992), for the corporate community, progressive environmental communications are a major step in this direction because they will allow addressing concerns of their stakeholders such as local communities and NGOs, and increasingly, shareholders.

1.1. Problem Definition

In understanding the necessity of changing and/or improving business strategies and addressing shareholder value, communication plays a crucial role. A challenge to be addressed is bridging the information gaps between the business community and their stakeholders, in order for them to become aware of their impacts and to satisfy expectations both in environmental and social terms.

Businesses as members of society play a crucial role. Acting in a socially responsible manner has emerged in recent years as an important expectation from civil society which to date must be addressed by businesses. This research perceives the importance for the corporate sector to communicate more effectively for two main reasons. The first refers to delivering long-term value to investors. Considering growing literature reviews which indicate that there is a link between sustaining long-term value and maintaining sound environmental and social performance, there is a great potential to explore in this research how to bridge the information gaps between what a company expresses to their investors and what their investors want to learn about the company. This brings us to the second reason, which refers to how a company can keep up with growing expectations of investors relating to environmental and social issues.

As Littlemore (2003) states, defining an effective communication is not straightforward, largely because the communication goals of a language user are likely to vary from context to context. This being the case, in this research we refer to effective communications as that which meets the growing desires from the investor community (specially SRI) for more and better information of a company's environmental and social performance.

Companies that can bridge these information gaps are more likely to reinforce the value of their corporate brand and at the same time become sensitive to growing concerns over environmental degradation.

Mastrandonas et al (1992) suggests that stakeholders desire information about the social performance of companies, which frequently does not match the information that is being offered. Setting out to seek a viable way of improving a company's communications with investors to reflect environmental and social issues paved the way for this research. A better communication can allow stakeholders to reach the desired information they are seeking about a company's performance and at the same time bring new opportunities from socially responsible investors.

Mastrandonas et al (1992) states, "a responsible corporation needs to evaluate the relevance of what it communicates, and then devise ways to close this communication gap". The importance of a transparent and clear communication also builds into a good strategy to improve internal and external corporate performance.

The above mentioned issues guided the research to find its purpose.

1.2. Purpose

The main purpose of this research is to look at how the corporate sector can improve communications related to their CSR practices with investors in order to meet their information needs regarding environmental and social issues. Thus the research aims to address the following question:

How can companies communicate the contributions of CSR work to investors in an effective manner in order to meet their information needs?

2. Methodology

The research has set a research question and objectives to guide the way into understanding potential areas of improvements within a companies' communication strategy, in order to assess more appropriately environmental and social issues.

2.1. Objectives

The main objective of the investigation was founded on the need to learn and expand on how a company can improve its communications regarding their CSR work in order to meet with the information needs of the investment community regarding environmental and social issues. Other objectives refer to reviewing trends in Socially Responsible Investments (SRI) and analysis of the implications, as SRI becomes integrated into the mainstream investment community.

2.2. Scope

The investigation has defined specific boundaries, which are used to clearly define the target zone that seeks to be studied, and which is considered relevant to obtain optimal results.

It must be stated that this research centres on the communications between a company and their investors, because it is considered that these have significant leverage to steer changes in the governance structure of a company, thus can lead to sustainable changes, as stated by Mastrandonas et al (1992), it is believed that "investors' views inherently represent the other 'hats' they wear: citizens of a community where a major plant is located, family to others working in an industrial company, and most of all, concerned citizens". Kaptein and Van Tulder (2003), also share the same views on investor when they state that "in particular, a growing group of shareholders and investors attach significant importance to the sustainability of a company. If this is not for ethical reasons then it is because the same shareholder is also part of society and benefits (indirectly) from sustainable development." And if this perspective is also missing, then there is also the insight that sustainable business practice is beneficial for the profitability of the company and therefore of direct importance to the shareholder (Kinder, Lyenberg and Domini, 2001; Hockerts and Moir, 2003).

In the wake of post Enron and WorldCom scandals related to transparency, governance and accountability issues in the United States, investors are increasingly becoming more aware of the actions of companies where they invest in (Smith, 2003), and also believe that corporate codes of conduct relative to social responsibility could act as "cutting edge corporate governance standards to effectively monitor the firm's financial soundness in the long term." (Boutin-Dufresne et al, 2004)

As for the investors (e.g. banks, asset managers, pension funds) the shareholders strive for such issues like responsible practices in social and environmental performance, then the changes are at the same time driven by the investors for the companies' point of view.

In order to have a holistic view of the research and the problem, other stakeholders were considered such as NGOs and international organizations, but the main focus was centred on investors given the above reasons.

The research has selected a case study that reflects the efforts of the corporate sector to integrate growing demands for more and better information about environmental and social concerns.

Selection of Case Study

The research builds on a case study from the industrial sector (engineering & machinery). A sector characterized for being natural resource intensive, with significant environmental and social impacts. This being the case, an industry leader was selected to view their efforts into integrating social responsibility into their operations.

The company Atlas Copco AB[1] fitted this profile due to their efforts in integrating CSR as an intrinsic part of their corporate culture, and thus was selected as a "Case Study". Furthermore, the researcher's working experience in the company and thereby closer observation at their policies,

[1] Atlas Copco AB refers to Atlas Copco Group. For the purpose of this research the company maybe referred to as Atlas Copco AB, Atlas Copco Group or simply Atlas Copco.

values, and codes of practice provided first hand knowledge about internal and external operations.

Finally, the company's interest and support to the research by facilitating access to relevant information and permitting lengthy interviews with top management were a determining factor to which Atlas Copco was chosen as the case study. More information about the case study is presented in Section 4.

Geographic: The research is performed in the company Atlas Copco AB, a global industry leader in engineering and machinery with headquarters based in Stockholm, Sweden. However, since the research intends to improve the company's communications with stakeholders, mainly investors, it is necessary to identify and interview the main actors. Atlas Copco suggested the sample of 20 shareholders as they compose a significant portion of the company's equity. These investors hold a broad portfolio of other investments apart from Atlas Copco, and for this reason it is thought that they remain a qualitative sample from the Swedish investment community. NGOs and international organizations dealing with environmental and social issues, although to a lesser extent, were also interviewed in order to have a holistic approach.

Time: Improving Atlas Copco's communication strategy builds into the past efforts to become more sustainable in its operations, both internally and externally. The research will focus on improving communications with investors allowing views of its CSR values. The time boundary has been set in the last 3 years, which enables to comprehend issues which have taken place across the company to be assessed, besides it captures the timeframe to which the company has made greater strives towards extending their CSR values at group level.

2.3. Limitations

One of the main limitations of the investigation is related to the terms of confidentiality[2] to which the interviews are carried out. The main reason for this limitation is related to the extent to which investors want their information to be accessed by peers. However this limitation was expected and should not affect the overall value of the research.

[2] The terms of confidentiality refers to an agreement between the researcher and the persons selected for an interview. In many cases the researcher was specifically asked not to quote a position from the interview as it could be privileged information which should not be divulgated to the public.

Another limitation to the investigation is the extensive number of investors which compose the company's equity base, thus a representative sample (defined in the geographic scope) had to be used due to time and financial constraints.

2.4. Research Phases

The investigation was separated into three phases to allow an efficient strategy to fulfil the objectives established. Each phase is constituted by two sections or steps designed to bring more insight and to dig deeper into the identified target of the investigation.

A diagram of the research phases is presented below. These phases show the steps taken to accomplish the objective and research questions, and the source of information used to fulfil them.

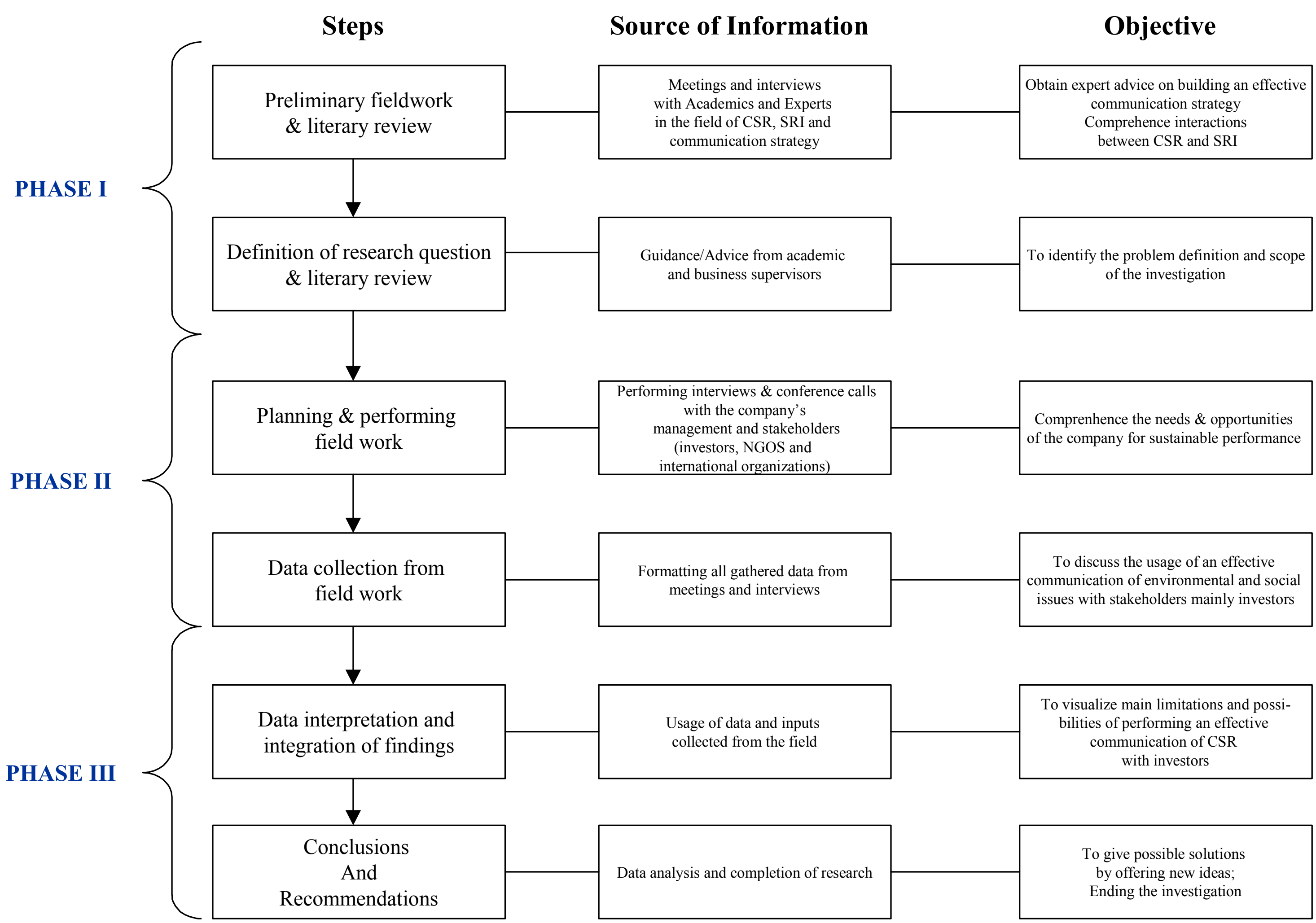

Figure 1: Diagram of Research Phases

PHASE I

2.2.1. Preliminary field work and literary review

In order to understand better the concepts of CSR, SRI and Communication Strategy among others, it was necessary to recollect material from academic and non-academic sources. The research found comprehensive information about the subject on literary reviews progressively/significantly more from recent years, as well as web-based literature (mainly on conferences and initiatives from various international organizations). Meetings with academics and experts on the field were of magnificent use at this stage to make better linkages of the referred concepts and be aware of the prominence of Corporate Social Responsibility (CSR) on the agendas of the corporate world.

2.2.2. Definition of the research questions and literary review

With the guidance and advice of both supervisors: academic and business, the problem definition was built formulating the research question centred on the communication strategy regarding environmental and social issues towards a selected group of the company's stakeholders: the investors. This process led towards establishing the problem definition and the scope of the research.

PHASE II

2.2.3. Planning and performing fieldwork

The second phase of the research focused on integrating the issues identified in the problem definition bringing them into the field. With the purpose of having a better comprehension of the needs of the company some interviews with the company's top management took place, followed by a list of interviews and conference calls with investors, NGOs and international organizations.

2.2.4. Data collection from the field

In order to maintain filed information, the interviews were recorded with the permission of every individual. The guidelines for the interview are shown in the Appendix I, as well as the list of interviewed organizations in Appendix II. These interviews were made in different parts of Europe, where most of the investors and related organizations have their headquarters or representations. The data collected from the field consisted in answers and views by existing and potential investors, as well as other stakeholders to discuss the usage of an effective communication of environmental and social issues.

PHASE III

2.2.5. Data interpretation and findings

The third phase of the research consisted in the systematic processing of the gathered data and its interpretation. These inputs were used to achieve the research's objectives and thereby answer the main purpose of the thesis:

How can companies communicate the contributions of CSR work to investors in an effective manner in order to meet their information needs?

The interpretation of the data also helped to visualize the main limitations and opportunities of performing an effective communication of CSR and environmental issues with investors.

2.2.6. Conclusions and Recommendations

After the all above steps where completed, the research came to its conclusion gathering findings that lead to fulfil its purpose. These phases gave guidance to understand and integrate concepts such as CSR, Investors and Communication Strategies that show to be closely related and becoming more relevant parallel to the increasing market for Social Responsible Investments (SRI).

3. Theoretical Framework

3.1 Introduction

The theoretical framework is proposed to serve as a brief overview of how the concept of sustainable development is entering the corporate world. The value of the corporate brand is reviewed along with potential risks related to reputation. Special consideration is given to the concept and emergence of Corporate Social Responsibility (CSR) as it provides a framework by which companies can dynamically interact with growing stakeholders' expectations. Along the way, the growing market of Socially Responsible Investments (SRI) is briefly described, as it offers great potential to companies. Another important section in the theoretical framework is corporate communications building on environmental and social issues, which gives major reasoning for this research. Also, stakeholders are mentioned through their engagement and dialogues with the corporate world.

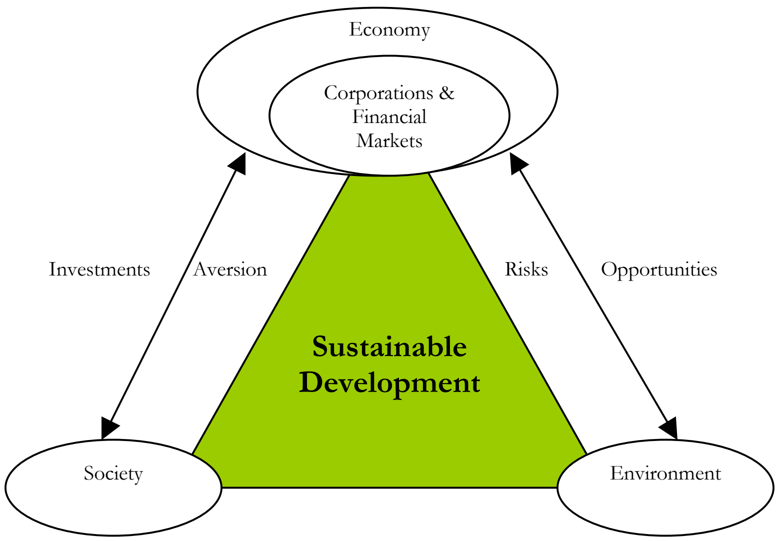

Figure 2[3]: Role of Corporations and Financial Markets in Sustainable Development

The graph above gives reference to the sensitive balance between the environment, society and economy in order to reach sustainable development. For corporations and financial markets, striking the right balance is commonly referred to as the triple bottom line, as it entails responsible environmental performance, respect for social issues while maintaining sound economic performance.

Several organizations such as the World Business Council for Sustainable Development and the UNEP Finance Initiative argue that the corporate sector and financial markets have much to contribute in the search of sustainable development, and more importantly that society as a whole will only benefit if they manage to successfully integrate environmental and social issues into their every day operations.

In the investment community, traces of sustainable development can begin to be perceived in such money movers as SRI funds. The potential empowerment of these funds as they tend to become more mainstream can steer companies into taking these issues seriously and begin to assess them if they want to remain up to date with best practices.

[3] Base on Jeucken (2001)

3.2. Value of Corporate Brand

The corporate reputation or value of the corporate brand is referred to by Fombrun (1996) as Reputational Capital, which is the excess market value of its shares. In other terms, the amount by which the company's market value exceeds the liquidation value of its assets (Ibid). Two different types can be found:

- Short-term reputational capital, calculated on the basis of its current market value.
- Long-term reputational capital, calculated on the basis of its average market value and book value over many years.

A good reputation constitutes a strategic asset; furthermore, it promotes trust, inspires pride and even empowers employees for example (Rugo, 1999). The benefits are many and varied, becoming all together a strategic advantage, which can also be used as an intangible obstacle for competitors. That competitive advantage is enough to guarantee stronger long-term returns to the company.

There has been extensive criticism to businesses mainly because of globalization, and because the business itself is more pervasive and more powerful, which makes the call for corporate social and environmental responsibility more urgent (Jenkins, 2004). This call is coming from all corners of society, as well as protesters at global meetings. Examples of that are the protests at global meetings of the World Trade Organization since Seattle in 1999 and the accounting and governance scandals associated with Enron, WorldCom, Arthur Andersen Consulting and other major corporations in 2002 have further damaged the public standing of business.

Therefore, a perception of a company as responsible, credible, transparent, reliable and trustworthy is a key element to build, enjoy and keep a good reputation. However, a company must always maintain a focus on potential risks that may rise to decrease their brand's value.

3.2.1. Reputational Risk

Brand value might be must vulnerable in this area, considering recent problems facing the corporate world, in terms of accountability, transparency and credibility. This risk, in terms of environmental and social issues is based on increased expectations from companies' stakeholders (e.g. government, regulators, NGOs, shareholders, customers, media, etc.), especially when providing goods in highly sensible environmental areas and developing countries (Brill, Brill and Feigenbaum, 1999). Failure to give careful consideration to environmental and social impacts arising from a borrower's operations can result in negative publicity for the company.

The potential outcome of negative publicity could lead it to miss out on attracting new investors or/and having existing investors leave. Nowadays, NGOs are playing a more significant role in keeping an eye on companies' impacts on the environment and communities (Gillis and Spring, 2001).

Jeucken (2001) states that if such campaigns receive widespread media attention and/or are taken seriously by the public, they can result in considerable damage to a company's brand value. Moreover, he continues by suggesting that such situations should be prevented but also if an environmental and social code is in place, the likeliness of such event to occur can be limited. Simply monitoring or requiring an environmental permit, especially in developing countries, is not enough. These developments are affecting how investors view companies as a integrate part of a system, and to which environmental soundness, social responsibility and financial performance are taking a central role when considering investment opportunities (Boyer and Laffont, 1995).

According to Fombrun (1996), corporate reputations are perceptions held by people inside and outside a company. It takes a grand effort and investment by managers on building and maintaining good relations and effective communication with the company's stakeholders.

Given reputational risk and other pressures of the contemporary business environment, many firms have given higher attention to CSR. For some corporations (e.g. in the mining and pharmaceutical industries) CSR are unavoidable and it assumed strategic significance (Smith, 2003).

To focus on a company's reputation is to determine how it deals with all of its stakeholders, to focus on its identity (Collinson, Lorraine and Power, 2003). This identity consists on what actions the company takes, how do they make decisions, how do they treat the employees, how it reacts to crisis. Identity is the backbone of reputation. If the mission and the purpose of the company is in line with good principles and ”the right thing to do” then they would have a better reputation and the process of CSR implementation and consequently, to communicate it will be much smoother (Sobnosky, 2001)

It has been proved that if a company has a good reputation and works on keeping it, it pays off even by producing tangible benefits: premium prices for products, lower costs of capital and labour, improved loyalty from employees, greater latitude in decision making, and caution of goodwill when crises hit (Rugo, 1999; Axelrod, 2000).

In the last years the business sector has faced the challenges of reputational risks which hamper the overall value of the corporate brand by taking a closer look at how they can alleviate ethical concerns coming from their stakeholders. This is done mainly through a Corporate Social Responsibility strategy.

3.3. Corporate Social Responsibility (CSR)[4]

There are many definitions of CSR found while conducting this research. A few examples could be Gillis and Spring (2001) concept, which states that "CSR refers to business decision-making based on ethical values, compliance with legal standards, and respect for communities, their citizens and environment." Another concept from Business for Social Responsibility (2004) defines CSR as "operating a business in a manner that exceeds the ethical, legal, commercial and public expectations that society has of business… a comprehensive set of policies, practices and programs that are integrated throughout business operations and business decision-making process." These definitions show advancement in the usage of the concept compared to others found written almost 20 years ago. For instance, CSR was defined as the firm's social and ethical policies or actions and its financial performance (Arlow and Gannon, 1982; Ullman, 1985, McGuire et al, 1988).

Although the basis of the current CSR were laid many years ago, we can appreciate how the business community have taken the core of these concepts and integrated them into their corporate values, addressing new challenges and capturing potential opportunities. Today, CSR has become an expectation of ethical business operations in the 21st century (Gillis et al, 2001)

[4] This research acknowledges the use of different terminology for what it refers to as "corporate citizenship," including "corporate responsibility," "sustainable development" and the "triple bottom line." Each can have nuances of meaning (e.g. the term sustainable development is often used to emphasize environmental impacts). In this research, the term corporate social responsibility (CSR) is used to be consistent with the established academic literature of the field.

and is enriched by constant interactions with stakeholders (The Economist, 2004). However, there is still much room for improvement from the business community and open dialogues with stakeholders offer windows of opportunities for addressing society's needs and expectations.

Some critics view CSR as a public relations exercise or a way for corporations to focus on risk and reputation management (Ite, 2004). Although this may be the case for some corporations, there is even higher risk of damaging a corporate brand if there are reasons or evidence of a company not living up to what they state (Ethical Corporation, 2004). There are several "watchdogs" organizations dedicated to checking and following corporate actions on an international level which makes it increasingly difficult for actions in developing countries not to be detected.

If we take for example Shell's CSR strategy in Nigeria in the 1990's, it was based on community assistance approach to development and was essentially "giving things" to the communities on one-off occasions rather than support for sustainable development programmes (Ite, 2004). This approach proved to be of no good as communities began to rely on the company to provide for their livelihoods. In other terms, "the communities became perceived as helpless victims of circumstances rather capable actors in the development process" (Ibid) and thus the company was heavily criticized internationally for its misjudgement.

After years of criticism and learning, Shell is managing to evolve its corporate culture to integrated CSR into their core operations and values. Their new CSR approach focuses on integrating sustainable development in its general business principles (Boele, Fabig, and Wheeler, 2001) which results have been clear indicating improvements in socio-economic development in the Niger Delta. This development is considered positive as it entails a concrete action which moves a company away from a public relations exercise (Clark, 2000). Clark (2000) goes on to explain that enhancing the quality of the relationship of an organization with their key stakeholder groups through CSR generally makes good business sense.

Another example, GlaxoSmithKline (GSK) one of the world's largest pharmaceutical companies had their CEO come under attack after making this statement, "The pharmaceutical industry today sell 80% of its products to 20% of the world's population. I don't want to be CEO of a company that caters only to the rich… I want those medicines in the hands of many more people who need them." (Smith and Duncan, 2000) The problem with this statement is that it was scrutinized by CSR critics who suspected pursuing personal vision of a better world using shareholder's money and often with insufficient regards for the likely effectiveness or possible ill consequences of their initiatives (Smith, 2003).

When assessing GSK's ability to provide access to medicines for the least developed countries (LDC), the results were contradicting with the CEO's statements due to their high pricings and intellectual property protections making it very hard for LDC governments to even buy a license for producing such medicines, specifically HIV/AIDS. Particularly enough, 95% HIV/AIDS sufferers live in the world's LDCs, thus are really the ones who need the medicines delivered. The business model by which the company ruled itself made it nearly impossible to bring effective access to LDCs (Tickell, 2003) thus there needed to be a major reform if actions were to be taken seriously.

In 2001, GSK rolled out a detailed access strategy through newly thought CSR values, to bring these drugs to LDCs by committing to continue research and development into diseases which affect these countries, particularly HIV/AIDS, offering preferential pricing arrangements (not for profit) and to be active in community activities that promote effective healthcare (Smith, 2003), putting to rest harsh protests upon the company, and actually the new policy was well received among NGOs (Tickell, 2003).

Both examples make the point that what is at stake are a company's reputation and brand name, along with public scrutiny to act as you suggest you are/will act. In other terms, companies must make sure that actions take the place of words.

3.3.1. Prominence of CSR

Historically, CSR has never been more prominent on the corporate agenda. It has been one of the leading topics at recent World Economic Forum (WEF) meetings. A report from the WEF (2003) observes that the three key pressures of "corporate competitiveness, corporate governance, and corporate citizenship, and the linkages between them, will play a crucial role in shaping the agenda for business leaders in the coming decade."

Similarly, the World Business Council for Sustainable Development (WBCSD), a coalition of 120 international companies, refers to the increasing calls for business to assume wider responsibilities in the social arena and claims that CSR "is firmly on the global policy agenda." Among the many other organizations that are advocating greater attention to CSR are the International Business Leaders Forum (IBLF), Business for Social Responsibility (BSR), and Business in the Community (BITC), among others.

Two years ago, in July 2002, the European Commission (EC) adopted a new strategy on CSR, which offered a set of corporate guidelines to best CSR practices. An EC spokesperson mentioned the following when announcing the launch of this policy paper:

"Many businesses have already recognized that CSR can be profitable and CSR schemes have mushroomed. However, the EU can add value in at least two key ways: by helping stakeholders to make CSR more transparent and more credible, and by showing that CSR is not just for multinationals—it can benefit smaller businesses too."

It is common nowadays that more than 80% Fortune 500 companies issue some kind of sustainability report on their web-sites (Sen and Bhattacharya, 2001). Although there is long way to go before creating a system similar to the accounting principles as the Generally Accepted Accounting Principals (GAAP), there are efforts in the standardization of such guidelines like the Global Reporting Initiative (GRI). GRI seeks to develop a set of guidelines which can help companies report their efforts and impacts in environmental and social terms (GRI, 2004).

3.3.2. Developing the Right CSR Strategy

Clearly, a company's social responsibility strategy, if genuinely and carefully conceived, should be unique, despite the similarities of the growing number of corporate reports on CSR (Gillis et al, 2001; Sen et al., 2001; Smith, 2003; Jenkins, 2004). As well as a fit with industry characteristics, it should reflect the individual company's mission and values and thus be different from the CSR strategy of even its closest competitors. Many companies' CSR statements do not seem to be reflective of a deep commitment to CSR or, at least, they suffer from a failure to identify the issues that matter most for measurement, management, and reporting.

Gillis et al (2001) defines different models of CSR, which will be quickly mentioned. These models are reinforced by similar proposals by Smith (2003).

- Corporate philanthropy: activities may include organized volunteering, fund-raising events, cause-related marketing, social investments and donated advertising. Companies that tend to be largest givers are those that are achieving results in their communities and adding value to their corporate reputation.
- Corporate partnership: these partnership are links between a company and any or all sectors of society – corporate, government or civic. Through a partnership these actors work together to benefit mutually and act strategically on an issue of local or global significance such as the environment.
- Strategic business interest activities: Corporations support issues or partnerships using their resources and talents in a way that benefits the business bottom-line and the community culture or environment.

Again a company must self examine its activities and choose a CSR strategy which adapts to its needs and which can provide better benefits for them and their stakeholders. Also, there is growing interest within companies to enforce their CSR strategies in order to be eligible to growing funds dedicated to select companies, which are considered to be socially responsible (SRI).

3.4. Socially and Sustainable Responsible Investment (SRI)

In basic terms, investors make investments and consumption decisions as to optimize their welfare within the boundaries of portfolio returns and its assumed risk (Boutin-Dufresne, 2004). A growing number of investors (socially responsible) are adding a new element before investing in a company: their ethical behaviour (Travers, 1997; Markham, 2002; Hallerbach, Ning, Soppe, and Spronk, 2004).

In SRI, investors typically look at a company's internal operating behaviour (such as employment policies and benefits) and external practices and policies (such as effects on the environment and indigenous people), as well as its product line (such as tobacco or defense equipment) to determine whether they should become owners of the firm (Guay, Doh and Sinclair, 2004). However, there are still many critics who claim that SRI funds still lack the methodology and performance to clearly make a difference for sustainability without leaving financial achievement behind (Travers, 1997) however, these critics still acknowledge the fact that these funds are rapidly growing globally and that methodologies are getting better and performance are adjusting to satisfy many investors (Ibid, Boution-Dufresne et al, 2004; Hallerbach et al, 2004).

Although there are several figures that define the actual size and rapid growth of the SRI global market, there is a common understanding that it is an emerging market with big potential for companies to attract investors. For instance, UNEP Finance Initiative estimates that the SRI market has increased size by seven folds in the past 5 years (UNEP, 2002) and solely in the United States there is over USD 2 trillion under management (2003 Report on Socially Responsible Investment Trends in the United States, as quoted in The Economist, 2004). Also, the recent launch of several new SRI financial indexes, such as the Dow Jones Sustainability Index in the United States and the FTSE 4 Good Index in Europe, is an additional sign of the rise in popularity of ethical investments (Boutin-Duffense et al, 2004).

Most recently, there is another SRI asset management firm on the market, which gives more insight on how fast it is growing. In November 2004, Generation Asset Management was founded with its partners none other than, Al Gore, Former Vice-President of the United States, David Blood, Former CEO and Managing Director of Goldman Sachs, along with other partners from major mainstream investment banks. Gore was quoted saying that “companies most assess sustainability issues if they want to maintain shareholder’s value over the long-term”. A recent interview with the UNEP Finance Initiative, revealed a clear perspective on what this move could signify. When you have the big investment banks and high level officers looking into the SRI markets, there is surely something valuable about to happen. Goldman Sachs, Merrill Lynch, Morgan Stanley Dean Witter, Bear Stearns, Schroders, Prudential, have all already or are looking to launch their own SRI funds which sends a clear signal to the financial community. Moreover, the UN Global Compact meeting this year (2004) on Investors provided an international platform to gather the investment community into dialogues surrounding these issues.

The main problem with SRI is actually defining the parameters or restrictions that apply since they are individual measures. There is no common revision or standard that applies evenly across all asset classes. Certain organizations allow companies that manufacture tobacco; others do not. Religious organizations have certain restrictions, while endowments and foundations have a series of others (Travers, 1997; The Economist, 2004). These problems could be resolved as fund manager and investors interact and become more familiar with these types of investments.

There are actually three ways that an investor can go about investing in a socially responsible manner (Travers, 1997):

- To invest in firms on the basis that greater responsibility will lead to higher value (best in class approach or positive screening)
- To avoid investment in specific industries – e.g. arms manufacture, tobacco – or firms with particular irresponsible management style (negative screening)
- To be active shareholders committed to stimulating change for the better through a number of engagement techniques (shareholder engagement)

After reviewing the potential market opportunities for companies which act in a responsible manner, it is important to view how a company can communicate more effectively to these new types of investors.

3.5. Corporate communication on environmental and social issues

As CSR evolves and becomes more prominent in the corporate sector, there is a challenge to overcome the information needs of different stakeholders, particularly investors, environmental and social stakeholders, and furthermore to improve the actual performance of the company, rather than just the ways to communicate that information (Fombrun, 1996)

However, some may argue (Mastrandonas et al, 1992) that in the past some companies did not produce information which met different stakeholders' expectations simply because there was corporate reluctance to expand communications with "outsiders" beyond legally mandated reports. In other words, those stakeholders requesting information about the company operations outside its four walls were considered "intrusive".

At present times, moving towards a sustainable communication that reflects stakeholder's concerns is a key element for an organization wishing to improve its sustainable performance over time (Harrison, 1992) and can bring opportunities to those who can integrate environmental communications to the overall corporate communications efforts (Axelrod, 2000). Moreover, the term "sustainable communication" is considered a results-driven process to be used by the organization wishing to benefit from the creation of long-term relationships with the firm's stakeholders (Harrison, 1992; Sobnosky, 2001).

Some comparative characteristics of sustainable and unsustainable communication are presented in the table below just to exemplify the different approaches:

Sustainable	Unsustainable
Manages expectations.	Manipulates emotions.
Acknowledges poor past performance as a serious matter to be improved	Ignores or denies mistakes, or treats them lightly.
Looks for options that make sense to all stakeholders.	Looks out fro their sole interest only.
Presents evidence to support positions and ideas.	Does not disclose.
Support positions and ideas.	Closed to new ideas unless relevant data and back-up work supports it.
Asks and tries to answer questions. Looks for feedback.	Disseminates 'news' and decisions.
Focuses on meeting with information requirements from stakeholders in order to create relationships/partnership.	'Does PR' to 'the public'.
Treats stakeholders as customers who need to be understood.	Denies or ignores stakeholder's perspectives.
Interacts with stakeholders at their respective levels of awareness, with a consistent commitment.	Delivers a variable' message' to various publics
Is always open	Is open when convenient

Table 1: Comparing Sustainable and Unsustainable Communications

Source: Harrison (1992)

3.5.1. Building an effective communication strategy

Literature and case studies point out that it could be advisable to produce a table indicating the different stakeholders, the objective and the mechanism of the communication.

The communication objectives should be very specific and aimed at increasing knowledge, influencing attitudes, and changing practices of intended beneficiaries with regard to particular actions.

According to Fomburn (1996) and Roberts (1998) it is important that the communication plan addresses the following questions:

Who is the target group? See stakeholder section	**Why** do we communicate? Could be to present improvements in performance, processes or products.
What is the content of the message? Environmental and social performance (CSR work)	**How?** How the message should be delivered.
When? Annually, bi-annual, quarterly.	**Which** channels should be used for communication? In this case through reporting, meetings/direct dialogues, and website to reach the target group.

Table 2: Components of a good communication plan

It is also valuable to look into another proposed corporate communication strategy brought forward by ConNexiS Strategy Consultant (2001). Three key elements are outlined and refer to:

- **Strategic objectives**: What does a company want to achieve?
- **The process** (the way investors/analyst collect the information): Through what means does the investors/analyst get insights into CSR?
- **The content**: How does investors/analyst get insight into CSR?

3.6. Sustainability Reporting

Sustainability reporting usually refers to reports that inform stakeholders of a company's CSR efforts relating environmental and social matters or performance such as ethical labour practices, training, education, diversity of workforce, corporate philanthropic initiatives and environmental impacts, among others. It is useful in communicating a company's activities beyond the financial bottom line by broadening its scope to include how a company performs socially and environmentally, Triple Bottom Line (WBCSD, 1999). It is considered an essential part of a company's communication with its stakeholders, referred to as stakeholder dialogue (Kaptein et al, 2003).

A generic concept found by the American Institute of Certified Public Accountants states that "sustainability reporting is designed to provide information on an entity's environmental, social and economic performance and impacts and their initiatives for improving their performance in these areas. It should be noted that the term "sustainability" does not mean that a corporation or other entity is "sustainable" or that it will continue in existence for any specified period of time.”

Reports allow revisions to be carried out into whether all the relevant perspectives are involved in the dialogue. Reporting also allows each stakeholder involved in the dialogue to be informed. (Kaptein et al, 2003)

Many consider sustainability reporting as an interactive process between the company and stakeholders which evolves over time.

Among one of the most successful guidelines for sustainable reporting is the Global Reporting Initiative (GRI), which sets a multi-stakeholder process within an applicable framework for reporting an organisation’s sustainability performance. The framework presents reporting principles and specific content indicators to guide the preparation of organisation-level sustainability reports. The framework guidelines are for voluntary use by organisations for reporting on the economic, environmental and social dimensions of their activities, products and services. A recent outreach in terms of GRI Guidelines is the adoption of sector specific guidelines which meet with the growing expectations of stakeholders from a specific industry.

Companies web-site are also a good way of communicating sustainability issues with relevant stakeholders, as some point out that web-site can sometimes provide more detailed and up dated information than just a sustainability reports.

3.7. Stakeholders

Modern stakeholder’s theory (Cornell and Shapiro, 1987) points out that the value of a company depends on the cost not only explicit claims but also implicit claims. To this end, companies not only rely on shareholders and employees for its success, but also need to interact in different manners with the other interest groups which surround its environment. It is therefore argued (Gillis, et al 2001) that companies are expected to benefit financially from strengthening their relationships with key stakeholders groups.

In simple terms, stakeholders are interest groups which constantly interact with an organization at different levels. Freeman (1994) goes on defining a stakeholder as “any entity that influences or is affected by a company.”

Many companies identify their stakeholders by taking a holistic view at their operations. Although there are many variations, companies usually have many stakeholders to address, especially if they are a big multi-national company (Atlas Copco, 2003). Companies tend to identify stakeholders which are crucial to their long term business sustainability. These groups are presented below, as an example:

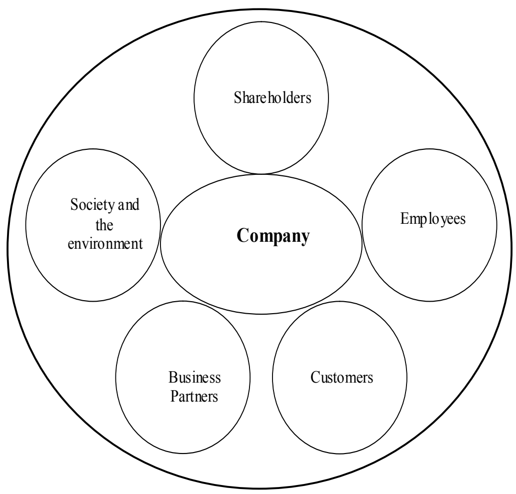

Figure 3: Companies’ Stakeholders

3.7.1. Stakeholder Engagement

Stakeholder’s trust in a company is usually achieved by involving them in the dilemmas the company is constantly faced with (Kaptein et al, 2003). This process is generally referred to as stakeholder engagement, by where a company interacts with its stakeholders to find solutions to different issues which affect particular interests.

The benefits of such an approach are shown in the ability of a company to answer potential questions coming from a dynamically changing environment and issues from stakeholders, to which they could be held accountable.

Stakeholder Dialogue

Companies can communicate with stakeholders in two major ways (Kaptein et al, 2003; Hockerts et al, 2004), by informing stakeholders, for example, by means of an annual report, and also by communicating with each other. In this context, the stakeholder dialogue made its entrance in the mid-1990s. It was first initiated by NGOs like the World Wildlife Fund (such as in the context of the Marine Stewardship Council), but also to an increasing degree later by individual companies, like the Body Shop, and coalitions of companies, such as the World Business Council for Sustainable Development.

In the dialogue with stakeholders (both primary and secondary) opinions are exchanged, interests and expectations are discussed, and standards are developed with respect to business practice (Kaptein et al, 2003). Ultimately, a proper dialogue not only enhances a company's sensitivity to its environment, but also increases the environment's understanding of the dilemmas facing the organization.

"Stakeholder dialogue is a powerful catalyst for change. It promotes greater transparency, information sharing and inspires society to work together," according to the World Business Council for Sustainable Development.

3.7.2. Shareholder engagement and activism

Shareholder engagement and activisms refers to direct approaches from investors to a company's management with regards to their numerous concerns over diverse matters, such as environmental and social issues, human rights violations in developing countries, improving wages and working conditions, financial issues, such as overpaid executives (viewed in the recently filed resolution by shareholders against the Walt Disney Company), among others. Passoff (2001) explains that shareholder activism uses the power of stock ownership to file resolutions, raise awareness, build coalitions, exert pressure, and effectively create change - from the inside.

According to O'Rourke (2003), shareholders have been effectively engaging with companies since the 1960s and 1970s. An example given by O'Rourke refers to how shareholders managed, supported by a US court, to have the company Dow Chemicals cease the production of napalm during the Vietnam war of the 1970s. This example is one of many thousands which have been filed in order to make a company more responsible over their actions.

Moreover, in recent years there seems to be a trend by shareholders to engage with companies over environmental and social issues (Passoff, 2001; UNEP 2004; Social Investment Forum; CERES). With growing literature reviews which indicate that there is a link between long-term shareholder value and dealing with environmental and social risks (Waddock et al, 1997), companies must become more aware on how to mitigate these risks. On the other hand, it must be said that there are growing cases where investors have been willing to take actions against companies who fail to do so.

3.8. Analytical Framework

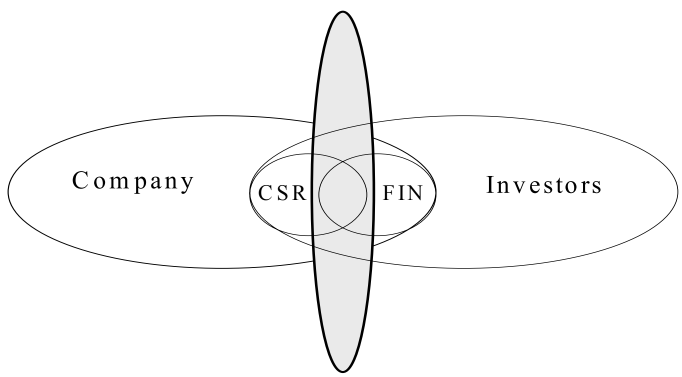

Figure 4: Analytical Framework[5]

The research gathers a list of concepts and theories that constantly interact with the corporate world, represented in the first element of Figure 4: the *Company*. The second element, also illustrated in Figure 4 refers to *Investors,* as a potential representative of the mainstream investment community or the SRI community. A third element presented refers to *Communication*, which is meant to reflect both internal and external dimensions to stakeholders.

The interactions between these elements paved the way for this research. Understanding the close connections and interdependence between companies and investors, where communication on environmental and social issues (*CSR*) plays a critical role. There are benefits, if these issues are managed in an effective manner or they can be harmful if poorly managed. On one hand a

[5] Figure 4 is based on views brought forward by the researcher. It also serves as a mental model that guided this research.

company can benefit by keeping the information needs of investors satisfied and furthermore attract new potential investors from growing SRI markets. On the other hand, a company could face severe consequences (e.g. disinvestments, damaged reputation /reputational risk and its effects on the value of the corporate brand) if they fail to do so.

Communication is understood as a flow of information that travels in both directions between two or more parties, but in the strictest sense, it is to highlight that the real, clear and transparent message contained is what matters. For the purpose of this research, the message to be transmitted should build upon the company's *CSR* work and efforts that deal with environmental and social issues. Although investors tend to focus on the financial information (*FIN*), it should be noted that depending on the type of investor (e.g. mainstream or SRI) different types of communications should be applied in order to meet with their information needs.

4. Case Study: Atlas Copco Group

4.1 Company Description

The Atlas Copco Group is a global industrial group of companies that develops and manufactures electric and pneumatic tools, compressed air and gas equipment, generators construction and mining equipment, assembly systems and offer related service and equipment rental. It operates through a number of divisions within four business areas: Compressor Technique, Construction and Mining Technique, Industrial Technique and Rental Service.

• Revenues for 2003 totalled SEK 44 619 millions. • 51 production sites in 17 countries on five continents. • The Group sales and rent products under different brands in 150 countries through a worldwide sales and service network, half of which are served by wholly or partly owned sales companies. • The Group employs about 26 000 people.

Table 3: Basic facts about Atlas Copco

Communicative strategy of CSR

The company in the last years[6] has carried out efforts in providing information to stakeholders and investors, in order to satisfy progressively their growing information needs.

Based on the different types of CSR models presented in the theoretical framework (Section 3.3.2.) by Gillis et al (2001) and Smith (2003) this research perceives that Atlas Copco could be classified as "strategic business interest activities". The main reason for this perception is that the company has become more involved as they have been affected by stakeholders' concerns in the past. Wanting to be prepared and active in delivering the information needs to their stakeholders in a way that is good for their bottom-line seems to be a main concern for the company.

In the year 2000, the company issued their first sustainability report that built into the growing concerns within the business sector in reporting beyond financial performance e.g. environmental and social performance. This was a first attempt to capture the efforts of the company in past years and to expose them to their main stakeholders.

In the following years the company continued their efforts to improve their communications through their web-site but also by improving the way they reported sustainability issues. In this context, the company began reporting based on GRI Guidelines and in the year 2003 they launched their sustainability report as an integrated part of their annual report.

It must be stated that probably a major call for the company to integrate CSR as an intrinsic part of their operations came from a damaging blow which occurred in Ghana during year 2002 (Herd, 2003). In this case the company was linked to a cyanide run-off into the waterways of the local communities, affecting over 10,000 people.

Since mining companies are usually linked to suppliers (Herd, 2003), as was the case in Ghana, this perhaps gave an added push to Atlas Copco to revise their policies of business ethics, and social and environmental performance, which they had been doing for the previous years. In the year 2003 Atlas Copco launched its Business Code of Practice, with the objective of

[6] Refers to the years identified in the scope of the research. These observations are compiled from the researcher's perception and some of the persons interviewed within Atlas Copco.

communicating to all the Group's stakeholders, the basic business principles which have been developed over its long operating history.

To this end, Atlas Copco efforts to improve their environmental and social performance and openly communicating with stakeholders, makes it an interesting and challenging company to analyze. Besides, the researcher had the opportunity to witness this transition at first hand that creates a good opportunity to offer some personal insights through academic observation.

According to Atlas Copco, a viable reporting framework which adds "value" to the company should entail four critical blocks of information:

Market Overview: Specifically, the macro-economic, regulatory and competitive environments.	**Strategy:** Goals and objectives, organisational design and governance.
Value creating activities: Customers, innovation, brands, supply chain as well as environmental, social and ethical.	**Financial Performance** Specifically, financial position, risk profile, economic performance, segmental analysis and accounting policies.

Table 4: Information Blocks

Linking those elements together facilitates the evaluation and comparison of a company's performance and the differentiation of a well-managed company from one that takes no action. In this context, financial performance can be assessed in the framework of total corporate activity.

Lastly, the company perceives the SRI market as a good opportunity to access new sources of capital. They have already been rewarded with the inclusion of its stocks on sustainability indexes like the FTSE4Good, due to their growing stance on social responsibility. However, as SRI markets grow and investors become more selective in identifying "*good*" companies, the challenge for Atlas Copco is to maintain its focus on making valuable information (with substance) available for these investors. In this area, the research intends on shedding new light as to what are the growing expectations and information needs of investors.

5. Results

The study encountered diverse answers on how environmental and social issues are being addressed by investors.

The following results are based on interviews carried out to a sample of 20 investors, although 4 were not available (abroad). Also interviews were carried out to NGOs and international organizations in order to have a broader perspective on the issues being investigated.

It must be stated that interviewed investors were suggested by Atlas Copco due to their influential role as shareholders in the company. Although this element could have an impact on the results, it is argued that the interviewed institutions are sizeable investors within the Swedish economy with a broad investment portfolio. The incorporation of environmental and social issues goes beyond what Atlas Copco as an individual company does, but it entails a global shift and interest from some investor to assess these issues.

90% of respondents consider environmental and social issues relevant but not considered before investing.	75% of respondents do not have formalized screening on environmental and social issues.	Compliance with local and national legislation on environmental and social issues are the elements mostly viewed by investors.
Business partners and customers must contribute to a company's sustainable objectives.	Some respondents monitor environmental and social performance after investment as they relate them to risks.	80% of respondents relate quality of management with CSR, environmental and social involvement.
Disinvestments or unable to capture potential investors might occur if bad reputation are linked to a company.	The major source of information comes from a company itself and not from stakeholders.	Respondents admit environmental and social issues could affect shareholder value, although not clear in what terms.
	Direct dialogues between the company and investors are thought to be an effective way to communicate sustainability issues.	

Table 5: Summary table of results[7]

The research found that environmental and social issues surrounding businesses in Sweden have been around for a much longer period of time when compared to developing countries therefore, most companies are accustomed to dealing with these issues as an integral part of their

[7] When referring to percentages of respondents it is meant to be the percentage of investors interviewed in this research. This must be stated, as these percentages do not necessarily have any predictive value for the investment community as a whole.

operations. A possible reason for this difference could relate to stricter environmental legislation in developed countries and changing economic and political priorities in developing countries, reducing to some extent protection on the environment.

90% of respondents to the interviews carried out in this research answered that their organization does deem important environmental and social issues as they relate to a company's reputation, management and could affect financial performance. Although most admitted that they do not have a formalized process towards screening these issues, they confirmed that CSR is well received as it relates to overall good quality of management. Perhaps an answer to this high level of interest could be because there are concerns related to environmental liabilities and potential financial losses which would hamper their investments over a period of time. Short-term thinking is one of the key areas that limits the incorporation of environmental and social criteria into investment screening, and thus is an area which must be explored to establish its links to sustained long-term value.

The interview asked what environmental and social elements are considered before investing. 50% of respondents answered that their main concern is that the company complies with local and national legislation in all countries where they operate, in the case of multinational corporations. Some even went further as to require that the company should behave in a responsible and ethical manner in all their activities, and expect them to adhere to international conventions related to the environment and human rights. In that sense, business partners (e.g. suppliers, clients/customers, employees) should be encouraged in order to contribute to a sustainable goal.

Business partners and customers were considered an important element if the company is striving to become more sustainable. An answer specifically pointed that customer's actions do affect the results of the company and there should be greater efforts to engage with these stakeholders in order to seek viable and sustainable solution to any occurrence. Bad reputations linked to "bad" customers do have an effect on a company's image. Although an isolated event could pass, repeated offenses might actually influence the company's value and how they attract and maintain investors, in worst cases disinvestments might occur and damage the reputation of the corporate brand.

An example of this can be viewed a couple of years back when Atlas Copco was linked to the risks of bad reputation due to the environmental and social impacts of customers in Ghana. However, it must be stated that the case was brought to light by (as regarded by an interviewed) sensationalist media and was quickly cleared by the company with open and sincere dialogues with their stakeholders. These actions allowed the company to preserve the value of their corporate brand, but also gave them an important call for preventive measures.

Although this percentage of investors looking for environmental and social elements before investing could be considered low, it should be clarified that some investors actually look at these issues after they have already invested in the company. Therefore it becomes more of a monitoring process rather than actually seeking those companies with high ethical values.

The research identified that the types of information gathered or used for the analysis of companies to invest in, are mainly focused on profitability, financial stability, potential growth and quality of management. As to quality of management, 80% of the respondents mentioned that CSR, environmental and social issues should be considered. This shows a growing consensus that being aware and dealing with environmental and social issues within a company's operations is being equated with good and sound management and governance.

Another result of the research is that currently there are mixed signals when dealing with external and internal pressures to take sustainability elements before investing in a company. 35% answered that the main concerns are related to profitability and that customers usually do not consider these elements if it compromises their potential returns. 33% responded that internal drivers from management were incorporating these issues in the due diligence process. 20% answered that both external and internal forces were driving these elements into the organization, while the remaining percentage said they have no pressures.

Growing public awareness is quite likely to influence these results in the future. A surprising finding is that in the current year SRI funds are noticeably performing at very high yields, one of them actually being the top performer of all investment funds in Sweden. Perhaps realizing that investing in an ethical manner can offer good returns then more clients will ask for these elements to be considered. However it must be stated that performing SRI funds do vary from one year to the next and even if it is performing extremely well at present time, the next year could see a downfall, although this can be applicable to all types of investments.

Information related to Atlas Copco is presently obtained from mainly annual reports, sustainability reports, web-sites, broker firms, NGOs (lowest account) and media related information. All respondents identified that the main source of information comes from the company itself through regular dialogues and meetings, although all mentioned that they would like to see more efforts into communicating performance in a fast and efficient manner, perhaps using more of their web-site to disseminate this information. While more information based on risk management was thought, investors acknowledged that they like to see environmental and social issues mentioned as they give a positive perspective that the company does care about these elements. As one interview puts it "we like to invest in 'good' companies, and usually these (companies) take care of such elements as the environment and social issues".

An element that strikes a harsh tone is that related to short-term investments. Although all investors mentioned that in the case of Atlas Copco their intentions were long-term investment, they pointed out that one of the reasons environmental and social issues are not considered is because of short-term perspectives. An overwhelming majority revealed that in the short term these elements make no difference at their investment value, unless there are visible risk elements such as environmental liabilities.

In order to mitigate potential risks related to the environment, investors look for information regarding these issues but as mentioned before, only to cover their potential exposure to risk elements. Respondents wanted good risk analysis and to know the main issues that could affect the company coming from the company. An important thing they want is to know what the company is doing and how they are doing it and also to communicate the progress of what they do.

When addressed with the question whether they considered environmental and social issues can affect shareholder value, must admitted that it could, and other pointed out that it is not really clear. Reputation seems to be the element, which determines whether it affects, or not shareholder value. This is recognized as investors like stable investments and if 'bad' actions are exposed then they will affect the relationships with stakeholders.

Lastly, the research found that the respondent investors like to 'talk' with the company (direct dialogues) about exposed environmental and social actions as they believe that at times bad media coverage or NGO actions could be biased. It is therefore very important for a company to keep their investors informed about such developments. Moreover, sustainability reports are considered by investors as a useful tool for companies internal/external processes, although the respondent investors admitted they do not thoroughly revise these reports. Nevertheless, the respondent investors stated that sustainability reports are a good communicative tool which value can be enhanced if re-enforced by direct dialogues between the company and its shareholders.

Integrating results into Atlas Copco

It is important to this research to be able to propose action areas to the company as to how it can improve their communication strategy, assess investor's information needs and potentially attract SRI funds. Blending the gathered literature review and the results from the interviews, this section will focus on three basic areas through which the company can improve their communications.

- Direct dialogues
- Sustainability reporting
- Web-site with focus on sustainability

As seen in the interviews, investors value companies who communicate in a timely manner questions relating to environmental, social and corporate governance issues, along with the accustomed financial information. In this sense, Atlas Copco needs to continue their efforts to improve how it communicates through direct dialogues (as shown in the Ghana case). Various responses from the interviews point out that investors/analyst are being overloaded with information from companies, thus there is a growing trend to ask for better and more direct dialogues with the companies where they invest in.

In the area of sustainability reporting, the company can facilitate investors/analyst their assessments by adapting to sector specific GRI Guidelines that offer better means for comparability. The current trend shows that the company is basing its sustainability reporting to GRI Guidelines, however it is perceived that there is a certain reluctance to comply fully with them. Perhaps a reason for this is that the company shares some of the views of the guidelines but feels that they must report in areas to which they have already an improved performance to report. Complying fully with sector specific guidelines could enhance the company's credibility with investors.

It can be appreciated that the company has made efforts into making their web-site more compatible with growing information needs relating to environmental and social issues. However, the company can further explore how to make their sustainability reporting more interactive in their web-site. As stated before, investors/analyst desire timely and straightforward information without being overloaded with sustainability information. A suggestion to the company is to make their web-site complement and extend on the information presented in their sustainability reporting, and to constantly monitor and update it with information.

It is important to suggest that these improvements should be done in an integrated manner as all the elements presented above are complementary, one can enhance the effectiveness of the other.

Implications of SRI into mainstream investments

The implications that SRI could have on the corporate sector as it moves closer to the mainstream investment community seems relevant to be reviewed because it will require actions from Atlas Copco in order to keep up to date with its development and take advantage of its opportunities.

As stated before, the growth of SRI funds globally is being mentioned by professionals and academics alike. In Sweden, for example, SRI funds have been forming over the last couple of years, even within large financial institutions such as Robur (Föreningssparbankens) and Folksam, both interviewed by this research. To this end, it is important to realize that in the words of an SRI analyst at Robur, this market segment is gaining considerable attention from individual investors who want to invest in an "ethical" manner.

For a company to be included into SRI funds they must pass a series of "tests", being among the first, what environmental and social impacts does the company create in its operations. This is not an easy task to answer right away because some companies do not even know what is the life cycle of their product. This being the case, these companies are missing out on potentially valuable investments.

As SRI funds strengthen their screening of companies and grow in size, there could be a shift towards sustainability in the corporate sector in order to accommodate this trend and comply with new information needs. In other words, as dynamic members of society, corporations must be alert to growing concerns over environmental and social issues and act accordingly to alleviate these burdens, which in many cases are being created by them. The point is that companies must move beyond merely complying with information requirements and assess internally how best to integrated sustainability issues into all aspects of their operations.

It is believed that SRI could encourage companies to disclose more information about their operations especially about issues that relate to the environment, something that could have been considered almost impossible in the 1980's where companies kept their institutional information amongst themselves.

For Atlas Copco this trend could entail certain changes in order to fully keep up with SRI market development. For the moment the company could be considered to be informed and up to date with this growing trend. However, belonging to a resource-intense industrial sector, the company needs to be more transparent with how it discloses its information and that of its business partners. Special efforts should be made on expanding their CSR policies on a global scale, this means knowing how their operations are affecting local communities in developing countries, even if local legislations do not require them to do so.

6. Towards an Effective Communication

Communicating environmental and social performance is still a relatively new area of exploration for the corporate world. However, in the last years there has been a high number of companies willing to explore communicating these issues as they are realizing the potential consequences of not becoming fully engaged with stakeholders and furthermore the attractiveness of capturing new socially responsible investors.

6.1. Challenges for building an effective communication

A challenge for the corporate world is to generate increasing value added to their main stakeholders, which includes the presented group in this research: the investment community, through effectively communicating sustainability issues.

As stakeholders learn about previously undisclosed "inside" information from companies, a new window is being opened which to some companies are a bit fearful because they can be held accountable for what they communicate. This of course can be said about companies how have taken communicating sustainable issues as a public relations (PR) exercise instead of truly taking these issues into the heart of the organization and fomenting a sustainable corporate cultural change.

Another challenge for companies is how to select which stakeholders they should target or address as in some case big companies have many stakeholders and addressing all their concerns at times might be over mounting. However, as tough as this process can be, it is important to determine which stakeholders are crucial to the company's sustainability efforts and how they relate to the overall value of the brand.

For instance, sustainability reports which are considered to be an effective tools to communicate environmental and social performance and a valuable source of information, are often not even read by stakeholders. Investors often admit that they do not thoroughly review sustainability reporting despite the fact that they are a company's primary stakeholder. How to break this barrier on reporting is a major challenge for companies to effectively communicate sustainability issues. In the opinion of the research, and as stated times before, it is important to break these communicational barriers but must importantly it is important to have the "substance" to actually communicate. This is considered very important because many authors are seen indulging into bridging the communicational gaps but as seen as well, some companies remain focused on a "PR" exercise which must be changed into real actions.

6.2. Incentives for building an effective communication

Reinforcing the value of the corporate brand, is perceived to be an outcome of more communications between a company and its stakeholders. Narrowing the scope, it is positive for shareholders as the value of their stock may rise from better brand positioning. However, let us look at the big picture. Communicating sustainability issues is still in its infancy but more resources are being dedicated to "sustainable" departments within companies. The big picture comes from actually seeing companies act on their codes of conducts relating to the environment and to society for the benefit of sustainable development and not solely thinking on the financial bottom line.

Avoiding potential risks related to environmental liability is another incentive for companies because it can be said that companies who effectively communicate with their stakeholders are more likely to be aware of their impacts and thus could set strategies to avoid them. By acting on these good strategies companies remain able to create and continually increase shareholder value, as well as added value that a good reputation brings.

Quality of management is also a crucial issue for companies to consider as there is growing views among investors that CSR issues must be within the territory of “good” management. As investors become aware of accountability scandals, they want to be assured that the company strives in setting strict conduct guides which can relate to sustainability issues across their stakeholders. Communicating at all levels with stakeholders, including customers can ensure that company policies can be enforce or at least communicate to groups who can damage the environment and break company efforts in this regards.

Another incentive to move in this direction is the growing market possibilities in this “green market”, as SRI funds are currently gaining more and more prominence. As Axelrod (2002) has recorded, emerging investment trends, and growing supply-chain management and customer demand all indicate that communicating environmental and socially responsible practices are opening up opportunities- opportunities that are proving lucrative for companies and highly beneficial for stakeholders and society as a whole.

Moreover, these opportunities bring along competitiveness, which traditionally has fuelled businesses into new areas, products and industries, as the potential gains can be rewarding. Companies can continuously improve their environmental and social consciousness to contribute more to the community and in this way give more value to their shareholders.

Finally, another incentive for moving towards integrating environmental and social issues as well as its effective communication is to meet with the requirements coming from major stakeholders to assess these issues.

In other words, it is of great incentive for a company to improve and seek to maintain their stakeholders satisfied with potential information requirements and also to preserve current investors and to attract other potential ones.

6.3. Sustainable Communications

The importance of communicating sustainability issues is clear. Companies who fail to effectively communicate with investors are losing out on an important organizational change and opportunity powered by sustainable development. If we take a statement by Mastrandonas et al (1992) who reminds us that, “a responsible corporation needs to evaluate the relevance of what it communicates, and then devise ways to close this communication gap.”, then we realise that the gaps needed to be closed at the present time between the corporate world and civil society are considerable.

Sustainable actions must be communicated if companies are to benefit themselves and their greater audience by steering sustainable practices within an industry sector. However, what is deemed extremely important is for companies to inform **what** they are doing and **how** they are doing it, in order to promote better dialogues which improve the communicative process.

As companies adapt to these new challenges, by taking actions they can separate themselves from “bad” industry perceptions which could apply to their peers. Effectively communicating their actions can bring further progress into bridging existing gaps between what civil society expects and what companies can actually deliver. The aim is to create a sustainable environment where civil society and the business sector can dynamically interact and seek ways of fomenting a sustainable path. Moreover, by fostering better communication of business ethics, and environmental and social performance with real substance and actual progress, the company will assure the open affluence of information that contributes to constant improvements and willingness to satisfy the needs of all involved parties, or stakeholders, for the benefits of business and sustainable development.

Although this discussion has focused on the corporate world as a whole, Atlas Copco AB is encouraged to take notice since most is based from observing and analysing this case study.

7. Conclusions and Recommendations

7.1. Conclusions

- It is highly advisable for companies to address CSR work in their communication with investors. This can provide a good communicative base, which can potentially attract new investors.
- Different investors (e.g. mainstream or SRI) require different information, thus a company must adjust strategies to comply with their information needs in order to maintain and attract new investors.
- The mainstream investors still do not consider environmental and social before investing in a company. However, these issues become an integrated part of the monitoring process once they have already invested. It is also observed that these elements are being related to or linked with good reputation and quality of management.
- Investors could disinvest in a company with repeated environmental and social offences, and they perceive these issues as damaging to reputation and shareholder value. That means for the company that they should rapidly address these issues and make all efforts possible to prevent such offences. Furthermore, the companies could proactively communicate the way they are handling some situations and what are their efforts in case that the industry is being questioned.
- Companies should continue their efforts on reporting (in accordance to GRI guidelines) and to address the relevant issues of their specific sector.
- In accordance to the interviews carried out in this research, we should mention that the development of a company's web-site can be also used to expand the information on CSR works.
- Open and direct dialogues with investors should be improved to be able to address potential questions related to environmental and social issues. Moreover, sustainability reports are useful communicative tools which value can be enhanced when reinforced by direct dialogues.
- The role of the investor relations department could be enhanced to include environmental and social issues as they already have the experience to deal with investors but mainly on financial performance.

7.2 Recommendations

Atlas Copco must find ways or strategies to overcome potential challenges by continued improvement of their productivity and development of new and better ideas as well as products. They must develop and manufacture new products with progressively lower environmental impacts during their life cycle, as well as reduce the use of resources in the production process. Moreover, the company must deliver innovative and competitive solutions to customers to better satisfy their needs and lesser impacts on the environment, in other words, to be more sustainable.

Another suggestion refers to actively seek feedback through surveys or regular stakeholder dialogues which can relate to information requirements of different actors such as investors but also to the greater civil society.(e.g. customers, suppliers, NGOs, Government, etc).

Also, the company may take advantage of being ahead of many other companies in the world related to these issues, by having headquarters in Sweden and all that it implies such as the legal environmental and social framework to which it has to comply with. Furthermore, the values and policies of the company could be greatly extended to all levels and parts of the world where it is present, in order to help enforce sustainability efforts. Continuing efforts to expand the knowledge and application of the company's Code of Practice should be enforce, for example, that it contains clear rules with no double interpretations and give no paths to confusion. The simpler, the better. Moreover, this could help mitigate potential environmental liabilities or negative impacts on the brand's value.

The real challenge can be found on having the substance behind a good message to be transmitted or communicated. In other words, real progress in sustainable issues is a must which can then be reported to stakeholders, mainstream investors and the growing SRI community.

In general, companies must become aware of their environmental and social responsibilities with their stakeholders as they can ultimately influence their company's financial performance, thus they should seek open and direct to ways to effectively communicate with them. The corporate world must come to terms that sustainability can benefit not only their stakeholders and society as a whole, but it is also good business sense for them to do so.

7.3. Further Research

The research has offered insight into why and how companies should communicate more effectively with their shareholders and stakeholders in a broader sense. Further research could be done to quantify the actual opportunities in SRI funds for proactive sustainable companies. The potential of this "green" market, it is argued, can provide sufficient incentive for companies to become more sustainable. Another area that could be looked at closer is the role of investor relations professionals within a company in establishing direct dialogues with investors regarding sustainability issues.

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Global Reporting Initiative (www.globalreporting.org)
Social Investment Forum (www.socialinvest.org)
United Nations Environment Programme Finance Initiative (www.unepfi.org)
United Nations Global Compact (www.unglobalcompact.org/Portal/Default.asp)
World Economic Forum (www.weforum.org/corporatecitizenship)
World Business Council for Sustainable Development (www.wbcsd.ch)
Ethical Corporation Magazine (www.ethicalcorporation.com)

Appendix I

Interview:

Communicating Social and Environmental Responsibility with Investors

The aim of this interview is to explore how your organization views environmental and social issues as a component to consider before investing in a company. The valuable inputs of your organization will build into identifying these environmental and social elements, which investors' look for before investing in a company in order to improve their approach towards sustainability. Open and frank dialogue between companies and investors could help bridge communication gaps, which are of interest to both parties.

While there have been no studies which conclusively indicate that there is a positive correlation between environmental/social performance and financial performance, there are no indications that this correlation is non-existent, thus investors need to become aware of where and how their investments are embedded. The overall quality of risk management and reputation added to the ability to identify and respond to the marketplace are however key components in investment analysis and how companies should deal with environmental and social issues relates to this.

We as an independent research institution assure that your answers will be used for the purpose of the research and furthermore will contribute towards bridging the gaps by improving how companies strategically communicate Corporate Social/Environmental Responsibility issues to investors adding both honesty and incentive to respond. The opinions elaborated during the interview will be possibly published as a master's thesis and academic articles, and the names of the respondents will not be identified unless expressed permission is given. If you should have any inquires regarding this interview, please contact Ms. Tatiana Romero at the Lund University International Master's Programme in Environmental Science (Email: Tatiana.Romero.147@student.lu.se, Tel. +46 70 824 1588)

Thank you for sharing your valuable inputs.

Section 1. Background Information about your organization

1. What sectors / industries does your organization usually invest in?
2. What type of information does your organization gather/use for the analysis of industries and/or companies to invest on?
3. What is the usual timeframe (or maturity) for investments in your organization? (Short term: < 1 year; Medium term: 1 – 5 years; Long term: +5 years)
4. Does your organization perceive any potential benefits of investing in companies with high environmental and social ethics (e.g. long-term shareholder value)?
5. How important does your organization consider information on environmental and social issues from a potential company to be invested in?
6. Does your organization consider environmental and social issues before investing in a company?

Section 2. About the internal processes of your organization

7. What environmental and social elements are considered before investing?
8. How does your organization identify these elements? And since when?
9. Why are these elements deemed important to your organization? Are they satisfactory?
10. Through which channels do you receive this information (e.g. sustainability reporting, web site, media, shareholders/ investors briefings, meetings, external research, etc.)?
11. Do you think these channels are effective? If not, can you suggest others?
12. Within your organization, is there any monitoring process of environmental and social issues in companies you invest in and potential companies to be invested in? If so, who performs that?
13. Does your organization have any internal CSR initiatives in place?
14. Does your organization have any environmental initiatives in place (e.g. energy saving schemes, paper recycling, etc.)?

Section 3. Perceptions, pressures and experiences of your organization

15. Are there internal and/or external pressures (from NGOs, civil society, shareholders, employees, government, etc.) to take these elements into consideration before investing in a company?
16. Does your organization take into consideration any environmental and social information about a company from the following sources?
    - Consultants/ SRI research firms
    - Industry analysts
    - Financial media
    - Independent Panel
    - Independent experts in specific subject
    - Media
    - NGOs
    - Government
    - Other
17. What information do you get from each source?
18. What would you consider the most effective way of communicating these issues in order to facilitate comparative analysis?
19. How useful do you consider a third party assurance (verification)?
20. Do you consider that environmental and social issues affect the shareholder value of a company?
21. What would be an incentive for your organization to consider ethical investments/ SRI?
22. In your opinion, how important is an open and transparent communication of social and environmental issues with companies?
23. How important is a good stakeholder dialogue/ good relations for a company's management of risks and reputation?
24. Would you consider it valuable if additional information on social and environmental issues and how they affect the company was integrated into he investor relations activities?

Appendix II
List of Interviews

Name of Contact	Institution	Country
Åsa Carlsson	Investor Group	Sweden
Mikael Sens	SHB/SPP Group	Sweden
Bo Selling	AMF Pension /Fonder	Sweden
Olof Jonasson	Allm Pensonsfond 1	Sweden
Claes-Göran Lyrhem*	Allm Pensonsfond 2	Sweden
Per Colleen	Allm Pensionsfond 3	Sweden
Pernilla Klein	Allm Pensionsfond 3	Sweden
Viktor Henriksson	Allm Pensionsfond 4	Sweden
Claes Folkmar	Folksam Group	Sweden
Arne Karlsson	Alecta	Sweden
Anna Nilsson	Robur/Föreningssparbankens Fonder	Sweden
Patrik Naeslund	Nordea Group	Sweden
Mikael Garton*	SEB Group	Sweden
Tony Little	Gartmore Money Management	England
Viktor Anderson	Banco	Sweden
Daniel Nachoem	ABN AMRO	The Netherlands
Mirjam Herzog/ S. Joly	Ethos Investment Foundation	Switzerland
Hans Kallenius	East Capital Fund	Sweden
Paul Clements-Hunt	UNEP Finance Initiative	Switzerland
Jacob Malthouse	UNEP Finance Initiative	Switzerland
Alberto Pacheco Capella	UNEP Finance Initiative	Switzerland
---	Government of Norway*	Norway
---	Government of Singapore*	Singapore
James Griffiths	WBCSD	Switzerland
Marianne Hamilton	Atlas Copco	Sweden
Anna Brandshorst-Satzkorn	Atlas Copco	Sweden
Mattias Olsson	Atlas Copco	Sweden

* were not available