

ARE COMPANIES AS SOCIALLY RESPONSIBLE AS THEY CLAIM? AN ACCOUNTING APPROACH

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ARE COMPANIES AS SOCIALLY RESPONSIBLE AS THEY CLAIM? AN ACCOUNTING APPROACH

Globalization has introduced a lot of changes in production systems of companies at international level. The decentralization of production has ignited a debate in certain sectors of society about how companies act when they engage with their stakeholders. A large number of companies have implemented Corporate Social Responsibility (CSR) policies in order to respond to new challenges that arise. However, there is a commonly held opinion that these policies are sometimes used as a measure to preserve exclusively the image of those companies. This paper attempts to analyse, based on commonly accepted criteria, if the information supplied by the company Inditex regarding the CSR is sufficient to evaluate its market behaviour and to assess its level of sustainability.

1. INTRODUCTION

The decentralisation of production in advanced economies is the result of the costs reduction struggle in developing products. The reduction in maritime transport rates, tariffs and tax burdens on certain countries, along with the lower cost of wages, enable certain countries to produce at low cost and sell in other countries thousands of kilometres away. The labour and environmental legislation in certain countries where production is directed is vague and sometimes nonexistent. In addition, the advance of new technologies has enabled the international citizens interconnection and it is possible to know instantly abuses of certain international companies. The corporate social responsibility (CSR) is a tool for working correctly when there is no regulation in certain areas. However, CSR is sometimes used for the sole purpose of preserving the good image of the companies and to maintain their reputation when they are not operating correctly.

2. OBJECTIVES

According to generally accepted criteria, in order to analyse whether the information provided by the company Inditex relating to Corporate Social Responsibility is sufficient to evaluate its market behaviour and its sustainability, the following objectives will be addressed:

- Analyse what the social responsibility is and how it is measured. For this purpose, the concept of social responsibility and the different ways in which the companies are approaching such term will be reviewed. The compulsory accounting information that companies must provide will be revised. The conceptual framework of CSR at the international level will be reviewed and the tools usually used to measure sustainability will be analysed.
- Analyse how the Inditex company operates in the market. To this end, the information provided by the company (the annual accounts, the management report, the corporate governance report, the remuneration report, the company's code of conduct, the

sustainability report and the different standards to which the company is adhered) will be analysed and contrasted with alternative reports to the company, from distinguished NGOs and from press reports.

- It will be evaluate whether the company complies with the conceptual framework of social responsibility and the degree of compliance with different tools. The degree of compliance with both compulsory and voluntary information will be evaluated.

Finally, the conclusions drawn from the analysis will be explained.

Additionally, there will be a proposal to help evaluate in a better way the sustainability of the companies when operating in the market.

3. THE CONCEPT OF CORPORATE SOCIAL RESPONSIBILITY

According to Barañano (2009, p.34), “ CSR is now lacking a single definition, as its contents, design or implementation procedures and verification have not been accurately established”.

There are almost as many definitions as organisations dedicated to the study of this topic.

The European Commission Green Paper presents the following definition:

“companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis”.

It sets out “... corporate social responsibility means not only fulfilling legal responsibilities, but also going beyond compliance by investing more in human capital, environment and stakeholder relations”.

Moreover, the initiative of United Nations, “UN Global Compact”, states ten basic principles based on Universal Declarations and Conventions, they are linked to Human Rights, Environment, Labour Standards and Anti-corruption, and the perception of the term is limited to these principles.

The International Labour Organization defines CSR as:

“a way in which enterprises give consideration to the impact of their operations on society and affirm their principles and values both in their own internal methods and processes and in their interaction with other actors. CSR is a voluntary, enterprise-driven initiative and refers to activities that are considered to exceed compliance with the law.”

4. THE COMPANY AND THE CORPORATE SOCIAL RESPONSIBILITY

Garriga and Mele (2004) were raised why companies implement social responsibility measures or actions and this led them to make a map grouping the different theories or studies regarding CSR. Following their classification, four groups of explanatory theories can be distinguished: instrumental theories, political theories, integrative theories and theories on ethics and morality in business.

The authors included in the instrumental theories hold that the only valid activities related to social responsibility are those that help to create value or wealth for companies, social responsibility actions are used as a mere instrument for generating benefits. Milton Friedman (1970) is a principal author of this group of theories. He considers that companies have no responsibility towards society and that CSR actions should come only from individuals.

Political theories are those that emphasise the social power of companies. To the extent that corporations are embedded in society, they should accept the duties and social rights or participate in some social cooperation.

Integrative theories argue that CSR practices respond to the assumption by the company of the various social demands to which it is subject, as the company depends on society for its existence.

Carroll (1979, 1991) establishes a three-dimensional model for the analysis of social performance. The first dimension reflects the different attitudes of the company against CSR. Such attitudes can be: reactive, forced by environmental change; defensive, the company approaches CSR, yielding to social pressures; accommodative, that implements CSR actions following the stream of other companies but without assessing the effects of such actions; and proactive, that implements CSR measures, going beyond even the existing social demands.

The second dimension of the model refers to the type of obligations to be assumed by the company, distinguishing between economic, legal, ethical and discretionary (those that the company undertake on a voluntary basis, as the philanthropic actions).

The third dimension refers to the type of activities over which the company can influence, studying the different stakeholders affected.

The last group of theories are grouped under the name of ethical or moral theories. These theories influence that CSR actions should be aimed at achieving a better or more just society.

Freeman (1984) considers that companies should take into account the legitimate interests of all stakeholders who are affected by it, and it depends on those for long-term survival. All affected interests should be taken into account to develop the best company strategy.

Freeman considers two types of stakeholders. The first type would be those that are linked to the company in the capital and economic sphere. Those would be the owners, customers and suppliers. The second group would consist of those stakeholders who have power to influence the company. This power can be economic, such as the power of customers in their purchasing decisions, or political power, when a group has the capacity to force the company to perform certain actions.

5. THE CURRENT STATE OF THE SOCIAL AND ENVIRONMENTAL INFORMATION IN SPAIN

5.1 COMPULSORY INFORMATION

5.1.1 SOCIAL INFORMATION IN THE ANNUAL ACCOUNTS

According to the article 260 of the Corporate Enterprises Act (LSC), the financial statements must contain:

- The average number of employees during the year, made by categories, as well as staff costs relating to the exercise, breaking down the amounts for wages and salaries and those referred to social charges, separated from those covering pensions, when they are not recorded in the income statement.
- The gender distribution at the end of the tax year of the company staff, broken down into a sufficient number of categories and levels, including those from senior managers and advisers.
- The amount of salaries, allowances and any other type of payment earned during the year by senior management personnel and the Board members for any reason, and the obligations for pensions or life insurance premiums for the former and present members of the Board and senior management personnel.

- Additionally, the rule provides that the above requirements will refer to individuals who represent them when board members are legal persons.
- This information may result for each category globally.

There is also the duty to report on the long-term benefits of staff and termination indemnities based on equity instruments.

In terms of information related to disabled people employed by the company, it is regulated in Note 29 of the Royal Decree 1159/2010, on 17 September.

The ICAC resolution of 29 December 2010, regulates the information that should be incorporated into the report related to compliance with the payments to suppliers.

5.1.2 ENVIRONMENTAL INFORMATION IN THE ANNUAL ACCOUNTS

The duty to report on the environmental impact of the companies is listed in Spain by the Royal Decree 437/1998, on 20 March, which approved the rules of sectoral adaptation of Spanish General Accounting Plan for electric power companies.

On 30 May 2001, the European Commission dictates the Recommendation on the recognition, measurement and disclosure of environmental issues in the annual accounts and annual reports of companies and it recommends that the Member States should take steps for companies to disseminate environmental issues.

The Institute of Accounting and Account Audits (ICAC) dictates the Resolution of 25 March 2002 on rules for the recognition, measurement and environmental issues in the annual accounts. In the resolution of 8 February 2006, the ICAC approves standards for recognition, measurement and information of the greenhouse gas emission rights, which is applied to all companies that have been awarded the emission rights through the national allocation plan.

The Spanish General Accounting Plan, approved by the Royal Decree 1514/2007 of 16 November, incorporates part of the contents of the above resolutions. Environmental

provisions (creating accounts for this purpose) and environmental information, which should be included on the notes to the annual accounts, are regulated.

In relation to the information that should be included in the report, three aspects should be reported:

Firstly, it indicates that among the registration and valuation regulations, the accounting principles applied in relation to the Assets of an environmental nature and emission rights of greenhouse gases will be included.

Secondly, the memory will contain a "Chapter 15", where we can find:

- The description and characteristics of the most significant systems, equipment and facilities incorporated into tangible fixed assets, whose purpose is to minimise the environmental impact and to protect and improve the environment indicating its nature, destination, as well as the book value and its accumulated amortization if it can be determined individually, as well as accumulated impairment losses, differentiating between the recognised in the tax year to the accumulated.
- The expenses incurred in the tax year whose purpose is to protect and improve the environment, indicating their destination.
- The risks covered by the relevant provisions for environmental actions, in particular regarding the current legal disputes, compensations and others, and, moreover, the information required generally for provisions recognised in the balance sheet must be observed for each provision.
- Contingencies related to the protection and improvement of the environment, including the information required in general for contingencies.
- Investments made during the tax year for environmental reasons.
- The compensations to be received from a third party.

Thirdly, it is created a "Paragraph 26" that should be included in the memory to collect information on emission rights of greenhouse gases, which, succinctly, shall provide the following information, among other:

- The amount of rights allocated during the National Allocation Plan and the annual distribution, and whether the assignment has been free or rewarded.

- The movement analysis during the tax year of the Balance sheet: "Allowance of greenhouse gases", and of the related impairment losses that could correct value, indicating the initial balance, tickets or acquisitions, retirements and disposals and final balance .
- The period expenses resulting from greenhouse gases, specifying the calculation.
- The amount of the "Provision for allowance of greenhouse gases", specifying the appropriate amount for allowances deficits.
- Future contracts relating to greenhouse gas emission allowance.
- Grants received for allowances of greenhouse gases and the amount for the ones allocated in results as revenues from the year.
- Contingencies related to sanctions or provisional measures, under the terms provided in the Law 1/2005.
- The fact to be part of a group of installations when the case is given.

Likewise, the company management must sign a declaration of environmental information, stating if there are any environmental items that should be included in the memory, according to the instructions of the Spanish General Accounting Plan.

5.1.3 SOCIAL AND ENVIRONMENTAL INFORMATION IN THE MANAGEMENT REPORT

Although the Management Report is not part of the financial statements, there are certain companies that are required to draft it. Its main function is to give a fair review of the business performance and the company situation, together with a description of the principal risks and uncertainties that are faced.

The Management Report is governed by the Commercial Code in its Article 49 and by the LSC in the Article 262 in almost the same terms. The LSC provides: "the analysis shall include both financial and, where appropriate, non-financial key performance indicators relevant to the particular business, including information relating to environmental and employee matters".

There is no standard model for the Management Report; however the CNMV (National Securities Market Commission) published in July 2013 a Guide for listed companies, which may also be used for a guide for those unlisted companies. This guide provides recommendations on the different information that the report should contain – situation of the organisation, development and business results, liquidity and capital resources, principal risks and uncertainties, important circumstances occurring after the end of the tax year, information on the development expected in the entity, R+D+I activities, acquisition and disposal of own shares and other relevant information-, in addition, specific recommendations for the banking sector and small and medium enterprises are established.

The guidance states that when environmental and staff information is provided, it must reveal at least the following issues:

- The objectives, strategy and action plans in each of the areas, with reference to the principal risks assumed.
- Those performances carried out in the period, along with indicators containing the results of the management performed.
- The comparison with other periods or with the objectives to achieve, explaining the improvements made and the difficulties encountered.
- Future plans and commitments, as well as the probability of carrying out successfully.

On environmental issues, the guide recommends reporting on significant environmental aspects for the entity, and how the impact caused by the performance tries to be minimised, and in particular:

- The objectives of the entity in connection with the performance on environmental variables, as well as the policy that defines the general commitment of its performance, including a description of the environmental management systems in operation during the tax year. It recommends including details of operational environmental management systems, as well as of certifications obtained on them, stating the entity components to which they refer.
- Available resources to meet the above objectives, including the policy of attention to the demands and disputes that may arise.

- Procedures related to training and raise awareness on environmental issues, as well as those procedures of monitoring and measurement, and of the corrective and preventive action, including:
 - o The main policy implementation plans or achieving environmental objectives.
 - o Major successes and weaknesses, risks and opportunities related to environmental issues.
 - o Major changes occurred in the systems or structures made during the reporting period to improve performance.

Furthermore, government incentives for environmental protection used should be reported, such as subsidies and tax breaks. The guide recommends providing a description of the degree of implementation of those environmental protection measures, implemented or in progress, imposed by legislation modifications.

In social issues, the guide recommends to provide information on:

- Employment; total number of employees and its distribution by the relevant classes (categories, genders, people with disabilities, etc.) with an explanation of changes since last tax year and its causes. Procedures followed in the selection and, if relevant, preservation of staff.
- Company/employee relationship; data on work environment, employee satisfaction or motivation and identification with the organisation.
- Health and safety at work; statistics on injuries, diseases, etc., and the results of the action in relation to occupational risk prevention.
- Training and education; support for obtaining general and or professional qualifications, hours of training in general and related to job content, scholarships to employees and their families, support to cultural activities performed by employees, etc.
- Diversity and equal opportunities; data on the political inclusion of groups with difficulties in labour integration and on policies to promote equal opportunities between men and women could be provided, including the corresponding figures for the actions of the period and its effect on management.

However, it should be noted that the recommendations provided by the guide are not binding.

It should be noted that the companies which formulate balance and statement changes in equity abbreviated are not required to issue the report, and there are not required to issue non-financial information to companies that may present abbreviated profit and loss account.

5.1.4 OTHER COMPULSORY SOCIAL AND ENVIRONMENTAL INFORMATION

The circular 5/2013 of 12 June from the CNMV (National Securities Market Commission) establishes models of Annual Corporate Governance Report of listed companies, saving banks and other entities that issue securities admitted to trading on official securities markets.

The Annual Corporate Governance Report must report on the ownership structure, the functioning of the General Meeting or equivalent body, the management structure of the company, related transactions, risk control systems (indicating which occurred in the year), general meeting, the degree of compliance with governance recommendations and any other useful information.

In the society structure, the most significant shareholders of the company or unit holders of society, kinship relations existing between them, possible business relations performed with the company itself and any restrictions on voting rights are detailed.

The information to be provided about the General meeting is related to the quorum of constitution of the same, the adoption system of social resolutions, on agreements at meetings in the tax year and about possible meetings with unions and holders of the securities issued by the entity and any agreement signed.

Regarding the structure of the administration of the entity, it must be listed the members of the board or governing body, and the components of the different commissions and committees that exist in the company, such as the executive committee, the audit

committee, the nomination and remuneration committee, the strategy and investment committee, etc.

In the section on inter-group and related transactions is detailed between transactions carried out by the entity or entities of the group and its shareholders and other stakeholders, as well as transactions between managers and the company or companies of the group, to detect possible conflicts of interest.

In the section on risk management systems, it should be detailed the scope and level of tolerance for the risks the company has to face, the risk occurred and the level of response to, the agencies that have conducted risk policies.

In the section on internal control and risk management of financial information, it should be described the control environment of the organisation, the risk assessment of financial reporting, control activities (information to be supplied to markets, information on relevant transactions, control on information systems and outsourced activities), information and communication (accounting policies and accounting conflict resolution), monitoring of the system working (internal control and audit), and on the report of the external auditor.

Furthermore, if there is any relevant aspect of corporate governance in the entity or group companies that have not been collected in the remaining paragraphs shall be informed.

In addition, the Annual Report on Remuneration should inform about the remuneration policy of the Board and its senior management.

5.2 VOLUNTARY INFORMATION. SUSTAINABILITY REPORTS

The article 39 of the Sustainable Economy Act states in paragraph 3:

“Corporations may make public annually their policies and results in Corporate Responsibility through a specific report based on the objectives, characteristics, indicators and international standards mentioned in the previous sections. In any case, in this specific report must be indicated whether it will have been checked by third parties.

For corporations with more than 1,000 employees, this annual report on Corporate Social Responsibility will be reported to the State Social Responsibility Council that allows

monitoring adequately the degree of implementation of CSR policies in the major Spanish companies.

Likewise, any company may voluntarily request to be recognised as a socially responsible company, in accordance with the conditions established by the State Social Responsibility Council”.

It is highlighted in point 2 of article 39:

“...should pay particular attention to the objectives of transparency in management, corporate governance, commitment to the local and the environment, respect for human rights, improvement of working relationships, promotion of the women integration, effective equality between women and men, equal opportunities and universal accessibility for people with disabilities and sustainable consumption”.

On 3 May 2011, the State Company Responsibility Council publishes the document “Transparencia, comunicación y estándares de los informes y memorias de sostenibilidad”. This report provides in paragraph 7 the basic principles and approaches for developing sustainability reports, the topics (divided into topics and subtopics) and the recommended index to order the contents of the report.

The principles to be considered are the transparency and comprehensiveness. The use of the principle of transparency should allow a reasonable and informed person decision making, generating credibility to the company or organisation. The principle of comprehensiveness refers to the areas of influence of the company or organisation.

The criteria to be followed by reports are: recognition of commitments and accomplishments, progression, comparability (distinguishing between contextualisation, evolution and methodology), relevance (coverage of the report, significant information, process of identifying stakeholders and its dialogue), accessibility and dissemination, and verifiability.

The topics and subtopics on which information should be provided are:

- Human rights; support and respect the protection of fundamental human rights; and avoid complicity in the violation of human rights.
- Environment, water consumption, electricity, gas and other raw materials, emissions, discharges, waste and recycling, environmental management, efficiency and biodiversity.
- Labour rights and policies. The right of freedom of association and trade unions, the respect and promotion of collective bargaining and the right to strike will be informed. Regarding labour policies, there will be information on non-discrimination; reconciliation of work, private and family life; health, safety and hygiene at work; training and remuneration.
- Governance. There will be information on the Council (and about senior management), on transparency in financial management, actions in relation to stakeholders, respect and commitment to the communities where the company is established and on corruption.

In all subjects must be provided compliance information, significant penalties or convictions to the company and/or its leaders in each of the material. Corrective measures of the detected breaches will be reported.

Concerning the structure of the report, it is advised to follow the following points:

- 1) Profile
- 2) Governance, commitments and stakeholders
- 3) Management and performance
 - a) Human rights
 - b) Environment
 - c) Labour rights
 - d) Good governance
- 4) Annexes: notes, verification, etc.

6. CONCEPTUAL FRAMEWORK OF SOCIAL RESPONSIBILITY

6.1 INTERNATIONAL REGULATORY INSTITUTIONS

UN

The first UN conference, which deals with environmental issues, is held in Stockholm in 1972. This conference marks a turning point in international politics in relation to the environment.

On 30 July 1968, the Economic and Social Council, in resolution 1346 (XLV) recommended the General Assembly consider convening a UN conference on problems of human environment:

” Noting the continuing and accelerating decline of the quality of the human environment caused by factors such as air and water pollution, erosion and other forms of soil degradation, side effects of biocides, waste and noise .

Concerned about the consequent impact of these factors for the human condition, his physical and mental well-being, dignity and enjoyment of basic human rights, both in developing countries as in developed.”

Moreover, in resolution 38/161 of 19 December 1983, the General Assembly decided to establish a special commission to report on the environment and the global issues to the year 2000 and beyond. This commission headed by Doctor Gro Harlem Brundtland, at that time she was Prime Minister of Norway, presents “Our Common Future” report, which will be known as the Brundtland report. The study was conducted over four years, and it establishes the definition of sustainable development as: “to ensure that it meets the needs of the present without compromising the ability of the future generations to meet their own needs”.

In 2003, “UN Norms on the Responsibilities of Trans-national Corporations and Other Business Enterprises with Regard to Human Rights” are approved by the Economic and Social Council of the UN. These rules provide a way for companies to act in this matter.

The United Nations is the promoter of the initiative A Global Compact. The aim of the initiative is to achieve the commitment of companies to align their strategies with the ten stated principles regarding human rights, labour standards, environment and corruption.

Furthermore, the International Labour Organisation, a specialised agency of the United Nations that deals with labour issues and labour relations, enacted in 1977 the Tripartite Declaration of Principles concerning multinational enterprises and social policy. This statement provides a way to guide companies and governments in labour.

OECD

In 1976 it is elaborated the OECD Guidelines for Multinational Enterprises, which are voluntary recommendations for governments and multinational companies on labour relations, human rights, environment, public reporting, anti-corruption, consumer interests, science and technology, market competition and taxation. As regards taxation, the guidelines set:

“It is important that enterprises contribute to the public finances of host countries ...”

It also establishes ethical or moral principles under the rubric of “concepts and principles” that it advises to meet. The document has been updated four times; the latest update is in May 2011.

In 1997, it is signed the OECD’s Convention on Combating Bribery of Foreign Public Officials.

EUROPEAN UNION

The European Union has adopted various initiatives and communications with respect to issues related to CSR since 2000. At the Lisbon Summit of that year, the next strategic aim was set for the next decade: “to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion.”

In its Communication on a community strategy for sustainable development, 15 May 2001, the Commission invited all companies that quoted on the stock exchange and with at least 500 employees to publish in their annual reports an assessment of performance against economic, environmental and social yardsticks.

In 2001, the “Green Book” (promoting a European framework for corporate social responsibility) is published, which sets the policy to be followed by Europe on CSR issues. In July 2002, it is issued the statement “The corporate social responsibility”, which guides inter alia on codes of conduct, standards of management, measurement, reporting and verification processes, labelling and socially responsible investment, and it proposes the creation of an European multi-stakeholder forum on CSR. In that year, the Multi-stakeholder Forum on CSR is created.

In 2004, it is issued the report “National Public Policies in the European Union”, where the CSR state is discussed in the various countries of the European Union. This report was extended to 2007.

In 2006, it is issued the report “ Report on corporate social responsibility: a new partnership”, also known as Howitt Report (reporter for the report). This report highlights aspects of competitiveness in relation to CSR, recognises the current limitations of the CSR “area” in relation to the measurement of corporate behaviour, social audit and certification, in particular regarding the cost, comparability and independence; it encourages the Commission to increase the liability of directors of companies with more than 1000 employees, it asks to regulate the joint and several liability on the part of the general or major companies to address abuses in subcontracting and outsourcing of workers and it requests that the European Union also acts responsibly in its trade policies, among many other aspects.

In October 2010, the Commission published a study on the legal framework for human rights and environment applicable to European enterprises operating outside the European Union, and in 2011 it is issued the communication “A renewed EU strategy 2011-14 for Corporate Social Responsibility”. This latest report redefines CSR as “the responsibility of enterprises for their impacts on society”, affects compliance with the law and the need for co abandoning the idea of voluntary CSR, it also collects the requests for NGOs in extension of liability of the subsidiaries to their matrix.

6.2 GUIDELINES, RULES AND GUIDES

The management models of social responsibility in all three of its dimensions-social, economic and environmental- can follow four steps:

- Policy-making to be followed by the company.

- Accounting. Identify indicators to measure and how to measure them
- Assurance, supervision or monitoring of the performance of the company related to RSC.
- Communication

The different tools available on the market implement one or more of the above stages. Then, without any pretensions to being exhaustive, we mention some of the most important:

GLOBAL COMPACT (policy-making)

The United Nations Global Compact,(Global Compact ,2000), is an international initiative to promote the implementation of ten core principles that must focus the performance of the company in terms of RSC. These principles universally accepted are derived from:

- Universal Declaration of Human Rights.
- The International Labour Organisation (ILO) Declaration on Fundamental Principles and Rights at Work.
- The Rio Declaration on Environment and Development.
- The United Nations Convention against Corruption.

The principles are:

- Companies should support and respect the protection of internationally proclaimed human rights within their sphere of influence.
- Companies have to ensure their companies are not involved in any human rights infringement.
- Companies have to support the freedom of association to trade unions and accept in actual practice the collective bargaining process.
- Companies must support the steps to eradicate forced or coerced work.
- Companies have to support actions to eliminate child labour.
- Companies must support the elimination of discriminatory practices in employment and occupation.

- Companies have to apply a preventive approach that helps upgrade the environment.
- Companies have to encourage initiatives aimed to increase environmental accountability.
- Companies have to foster the development and dissemination of environment-friendly technology.
- Companies have to fight all corrupt practices, and enclosed blackmailing, racketeering and bribery.

The actions taken by the company are reported through the Annual Report on Progress.

SA 8000 (accounting, assurance)

It is a certifiable standard developed by Social Accountability International (SAI), a non-governmental, international, multi-stakeholder organisation dedicated to improving working conditions and implementing standards of corporate social responsibility. The standards were developed in 1997. It defines a number of terms in order to unify criteria, such as the definition of a child, child labour, sub-supplier, etc. The rule states that the company must also respect the principles set out in the following international instruments: Universal Declaration of Human Rights, United Nations Convention on the Rights of the Child, United Nations Convention on the Elimination of all forms of Discrimination against Women. It must also comply with the following Conventions and Recommendations of the International Labour Organisation (ILO): Conventions 29 and 105 (forced labour and slavery), Convention 87 (freedom of association), Convention 98 (right to collective bargaining), Conventions 100 and 111 (equal pay for male and female workers for equal work; discrimination), Convention 135 (on workers' representatives), Convention 138 and Recommendation 146 (minimum age), Convention 155 and Recommendation 164 (health and safety at work), Convention 159 (vocational rehabilitation and employment of disabled persons), Convention 177 (work at home) and Convention 182 (worst forms of child labour).

The requirements of the standards are set on: child labour, forced labour, health and safety at work, freedom of association and right to collective bargaining, discrimination, disciplinary measures, working hours, compensation and management systems.

GLOBAL REPORTING INICIATIVE (reporting)

Global Reporting Initiative (GRI) is a non-profit organisation with multiple stakeholders. It was founded by CERES and the United Nations' Environment Program (UNEP) in 1997 in the United States. Since 2002, GRI has offices in Amsterdam, where the Secretary is located; it has regional offices in Australia, Brazil, China, India and the United States, and has a network of 30,000 people worldwide.

The organisation develops guidelines for preparing sustainability reports most commonly used in the world. In 1999, the first guide G1 appeared, updated in 2002 with the G2 version, in 2006 with the G3 and the last revision G4 is just edited.

As in this paper the sustainability report of the company Inditex will be analysed, and that memory was developed with the G3 format, the key points required for the preparation of reports with this format are set out below, remembering that from December 2015 it will be required to adopt the G4 format.

As indicated in the Guide to drawing G3 Sustainability Reporting, developing a memory comprises measuring, reporting and accountability to internal and external stakeholders in relation to the performance of the organisation with respect to the objective of sustainable development. Reports should provide a balanced and fair view of the company's performance in terms of sustainability and it should include both positive and negative information of the company.

The correct development of the guide will be determined by the compliance with certain principles, guidelines and contents:

a) The principles for preparing reports are:

- Materiality, report on relevant issues.

- Stakeholder inclusiveness, it should be included in the report, which the stakeholders of the company are and how to respond to their expectations or reasonable interests. To be a verified report, the process of involving stakeholders must be documented.
- Sustainability context, it should be analysed the performance of the organisation at sectorial, local, regional or global level, reporting not only on the evolution of indicators but contextualising this information.
- Completeness, this principle essentially encompasses the scope, coverage and time.

Additionally, certain principle must be met to define the quality of the reports:

- Balance, the positive and negative aspects of organisational performance should be reflected. The memory contents must show an unbiased image of the company.
- Comparability, the information provided in the report should allow the company to analyse over time and with respect to other companies.
- Accuracy, it must be reported quantitative and qualitatively.
- Periodicity, punctuality is required in the preparation of reports and to follow a regular schedule.
- Clarity, the information should be presented in an understandable and accessible way to stakeholders.
- Reliability, information and procedures followed in the preparation of the report must be gathered, recorded, compiled, analysed and presented in ways that may be subject to examination and that establishes the quality and materiality of information.

b) The guidelines are intended to point out what should be the coverage of the information supplied. The reports shall include in its coverage all entities that generate significant sustainability impacts, real or potential, and all entities over which the organisation exercises control or significant influence (with respect to the operating and financial policies and practices).

c) In terms of context, the company must explain what the strategy is going to follow regarding sustainability, it should be described the profile of the company (countries where

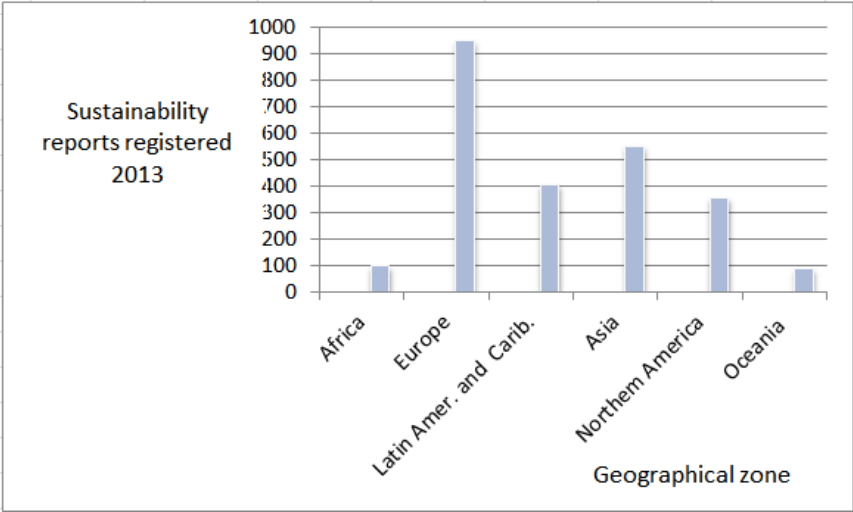
it operates, brands, operational structures, joint ventures), it also should include a description of the government of the corporation.

The company must communicate how it addresses a specific set of issues (management approach) to provide a certain context and to understand which the performance on a particular point is.

Performance indicators are divided into economic, social and environmental aspects, they must report on matters considered material and should provide comparable memory.

The report can be made with three levels according to three levels of information and each of the levels can be verified by an external verifier, obtaining the qualification “+”. Level C should report a minimum of 10 performance indicators from each dimension: economic, social and environmental. Level B must report a minimum of 20, and level A on all major indicators, including of sector supplements. Moreover, reports may be reviewed by the Global Reporting Initiative.

In 2013, there were 2246 recorded memories (G1 to G4) in the database of the Global Reporting Initiative.



Source: Compiled from the GRI database (accessed on June 1, 2014).

7. INDITEX CASE

In order to analyse the degree of responsibility of the company Inditex we have taken into account the annual accounts, the management report, the corporate governance report, the remuneration report, the company's code of conduct and the sustainability report – all of them correspond to the year 2012.

Furthermore, we have taken into account the different initiatives and standards that the company claims to follow or respect: Uni Global Union, The United Nations Global Compact, Ethical Trading Initiative, International Framework Agreement, action protocol with International Textile, ILO Better Work programme, the CEO Water Mandate, Sustainable Apparel Coalition, Textile Exchange, Better Cotton Initiative and the Good Practices Tax Code.

In order to try to understand how the company operates in the market, we have used the following reports: “Puntadas Tóxicas: el oscuro secreto de la moda” by NGO International Greenpeace in 2012, the reports “La moda española en Tánger: trabajo y supervivencia de las obreras de la confección” of the year 2012, and “Salarios dignos”, of 2014. Both reports are issued by the Setem organization. In addition, the following newspaper articles: “Trabajo esclavo en la India: tres empresas españolas están incluidas en la lista negra” written by José L. Cobo and published in the online journal ElConfidencial.com on 23/03/2012, the press article called “Ortega’s Zara Fashions Tax Avoidance by Shifting Profits to Alps” published in the online journal bloomber.com written by Jesse Drucker on 26/02/2014, and, finally, the article “V de viaje fiscal en las tecnológicas” published in ElConfidencial.com, written by Ruben J. Lapetra, dated January 29, 2012.

In the following two sections, general aspects of the company Inditex concerning the corporate social responsibility are described and there is a brief description of the reports and information considered for the analysis.

7.1 INFORMATION PROVIDED BY THE COMPANY

Inditex is a fashion retail group that was born in 1963 as a women's clothing factory. It currently has more than 6,300 stores in five continents.

Its brands are Pull&Bear, Massimo Dutti, Bershka, Stradivarius, Oysho, Zara Home and Uterqüe. The organization covers all the manufacture processes of the product, from

design and manufacture to distribution and sale in its own stores. At present, it has 120,314 employees.

The company is a member of the FTSE4Good for ten tax years. EIRIS (Ethical Investment Research Service) granted the company an overall grade of 4.3 points out of 5 in its latest valuation.

Dow Jones Sustainability Indexes (DJSI) awarded Inditex with the Bronze Class in its assessment of 2012, positioning the company as the second best within General Retailer's sector, which comprises more than 80 companies.

Inditex follows the Global Reporting Initiative (GRI) criteria since 2002. The memory is verified by the company SGS ICS Ibérica SA, which declares correct the application level A+.

The company has a commitment with stakeholders, declares that the dialogue with them is the key to determining the issues to be considered as relevant in the company's strategy. In order to map the relevant issues of the stakeholders, it follows the principles set out in the AA1000 Accountability Principles Standard de Accountability.

As the sustainability report states, Inditex's internal auditors were accredited as auditors in the SA 8000 standard by the Social Accountability International (SAI) organization.

It has an Ethics Committee, a Social Council and an Audit and Control Committee, which is dealing with CSR policy. It also has a Patronage and Sponsorship Committee.

The Social Council is composed of independent people from the group and they are designated by Esade Business School, Fundación Lealtad, Universidad de los Andes, Ecology and Development Foundation, Médecins sans Frontières and University of Santiago de Compostela (USC).

The company has a Code of Conduct and Responsible Practices for employees. The general principles of the Code include that the Group's operations are carried out under an ethical and responsible perspective. It also states that all natural and legal people who maintain, directly or indirectly, any economic, social and/or industrial working relationship with Inditex Group, will receive a fair and decent treatment. Moreover, all the Group's activities are conducted in an environmentally-friendly way, promoting biodiversity conservation and the sustainable natural resources management.

Over 1,400 suppliers of the company (the company has other 2,878 subcontracted suppliers) are scattered around the world and they are subject to a Code of Conduct for Suppliers and Manufacturers. As the company states, more than 40 professionals advise

technically suppliers to follow the Clear to Wear and Safe to Wear. These programmes are designed to meet certain standards of equality and safety of the product.

The Supplier Code is grouped in: prohibition of forced labour, no child labour, non-discrimination, respect for freedom of association and collective bargaining, prohibition of abuse or inhumane treatment, safety and hygiene at work, salary payment (it must meet basic needs and those to be considered reasonable additional needs of the workers and their families), regular work, product traceability, environmental commitment, confidentiality of information and implementation of the Code.

The company states that all providers who are part of the Inditex production chain are subject to regular social audits formed by company personnel and external teams. Audits are developed according to a methodology designed jointly with the International Federation of Trade Unions, the Cambridge Centre for Business and Public Sector Ethics, and Inditex. Audit teams are composed of over 400 professionals around the world. The company has offices of permanent CSR in Spain, Portugal, Morocco, Turkey, India, China, Bangladesh, Vietnam, Argentina and Brazil.

The company has designed policies for utilising animal tissues, for no water pollution (Zero Discharge of Hazardous Substances programme), it claims to have commitment to reducing energy consumption and reducing emissions of greenhouse gases and it states its commitment to the protection of biodiversity. The company declares that the reuse of materials and recycling are entrenched obligations in both logistics centres and shops, offices and factories.

All Inditex logistics centres have an environmental management system certified by ISO 14001.

7.2 INFORMATION NOT PROVIDED BY THE COMPANY

The report “Puntadas Tóxicas: el oscuro secreto de la moda” published in November 2012 by International Greenpeace accused Inditex of using dangerous chemicals that can cause cancer or hormonal disorders.

The report published by Setem in March 2014 “Salarios dignos” states that, although the company makes significant efforts to ensure that minimum wages are respected in negotiations with unions, wages paid by the suppliers in certain countries are a fourth part of what they should be to comply with what the company states in its CSR policy.

Setem also presented on January 12, 2012 a report called “La moda española en Tánger: trabajo y supervivencia de las obreras de la confección”, which alleged that workers of workshops producing for Inditex accumulated up to 65 hours a week working seated at their sewing machines and that some workers were not paid even the minimum Moroccan wage (178.72 per month).

José L. Cobo describes in the article “Trabajo esclavo en la India: tres empresas españolas están incluidas en la lista negra” published in the online journal ElConfidencial.com dated 23/03/2012 how girls and adolescents work without a contract, deprived of freedom and in unhealthy conditions for more than 72 hours per week for a daily wage of 0.88€ per day. They can only get in after three to five years, and it will be used to pay her dowry. These events occur in the state of Tamil Nadu, southern India, and the textile companies in which they work supply products to companies such as El Corte Inglés, Cortefiel and Inditex. As noted by the article, the information is extracted from the report “Captured by Cotton” published in May 2011 by the Centre for Research on Multinational Corporations and the India Committee of the Netherlands.

Jesse Drucker reports in the article “Ortega’s Zara Fashions Tax Avoidance by Shifting Profits to Alps” published in the online journal Bloomberg.com, dated February 26, 2014, that the reason why the profit margin in Inditex is the best in the industry is because “the company employs loopholes in payment of taxes”. The agency cites that over the past five years, Inditex has moved 2,000 million in benefits to a unit operating in Netherlands and Switzerland. This subsidiary uses only about 0.1% of the global workforce of the company and yet it accounts for 20% of the overall benefits of the matrix. The effective tax rate in these countries is 16%, half the percentage paid in Germany, France, Italy and the UK, countries of origin in terms of transfers.

Ruben J. Lapetra explains in the article “V de viaje fiscal en las tecnológicas” - published on January 29, 2012, in the online journal ElConfidencial.com - how the company was taxed in Ireland for their e-commerce sales. According to this article, taxation in Ireland is 12%.

8. ANALYSIS AND RESULTS OBTAINED

The results obtained are presented in two blocks, the first block (block A) will explain the deficiencies found in taxation, wages, pollution and safety. In addition, possible failures are included in the compulsory information of the company, in the rules or conceptual framework of social responsibility, and verification. The block B will explain possible failures in the sustainability report.

a) Block A

Tributes

The tax code of good practices for large enterprises states in paragraph 1.2:

“Companies will avoid the use of opaque structures with tax purposes, taken to be those in which, by interposing holding companies through tax havens or non-cooperative territories with tax authorities...”

The following companies appeared in the annual accounts, without any information provided about them and all of them established in a low-tax area:

Zara Mexico, B.V domiciled in Amsterdam. Netherlands; Zara Financién B.V. (Dublin .Ireland); Zara Holding B.V (Amsterdam . Netherlands) ; ITX Financien, B.V (Amsterdam . Netherlands) ; Zara Taiwan, B.V (Amsterdam . Netherlands) ; ITX Holding, S.A. (Freiburg . Switzerland) ; Massimo Dutti Taiwan, B.V (Amsterdam . Netherlands) ; ITX Merken , B.V. (Amsterdam . Netherlands); Pull&Bear Taiwan, B. V. (Amsterdam . Netherlands); Bershka Taiwan, B,V (Amsterdam. Netherlands); ITX RE (Ireland); ITX Trading. S.A (Freiburg. Switzerland); Zara Building II B.V (Amsterdam. Netherlands); ITX Financien II, BV (Amsterdam. Netherlands); Tempe Trading . (Freiburg .Switzerland); Tempe Trading Asia Limited. (Hong Kong. China).

Furthermore, according to the OECD Guidelines for Multinational Enterprises (conceptual framework) in its point 10 indicate:

“It is important that enterprises contribute to the public finances of host countries...”

The report in the newspaper Bloomberg.com accuses the company of tax avoidance by not taxed in the countries where it sells clothes. These practices are legal but unethical.

At the beginning of 2012, the company still held the offices of online sales in Ireland, the company had reported that it was established in Ireland by technical and non-tax issues, but it has changed the address to Spain.

In our opinion, the company would comply neither with the tax code of good practice to which it is attached, nor with the OECD guidelines on taxation, if we accept as valid the alternative analysed information.

Wages

Based on the reports “Salarios dignos”, “La moda española en Tánger: trabajo y supervivencia de las obreras de la confección”, and the article “Trabajo esclavo en la India: tres empresas españolas están incluidas en la lista negra”, we understand that the company would violate the SA8000 standard by the low amount of wages as the basic needs of the staff are not covered, it would not comply with the Code of suppliers or the Ethical Trading Initiative (ETI) in the same terms, “In any event wages should always be enough to meet basic needs and to provide some discretionary income”.

Work hours

It would not comply with the internal code of conduct nor the Ethical Trading Initiative for the excessive hours. The overtime worked do not have exceptional character, according to the reports mentioned in the previous paragraph.

Health

According to the report issued by Greenpeace (quoted in paragraph 7.2), the company would not meet the SA8000 standard, using toxic products in the manufacture of garments.

It would also be in breach of section V.4c. of the OECD guidelines:

“Take appropriate measures to ensure, in their activities, health and safety in the workplace”.

Environment

The report “Puntadas tóxicas: el otro lado de la moda” indicates that certain toxic substances used in the manufacture of clothing contaminate water.

The company would be in breach of section VI of the OECD guidelines, which aimed “... the need to protect the environment and public health and safety...”

Management report

It does not report on certain activities of society, such as: real estate activities, investment activities, insurance activities, etc.

Verification

According to the Guide for the development of G3 sustainability reports, to be a verifiable memory, it will document the process of participation of stakeholders. In our opinion, this process is not explained sufficiently and this would prevent an external review .

b) Block B.

In this section, we find the assessment of the sustainability report at two different point, the first one describes errors in the GRI principles and in the second point sustainability indicators are evaluated.

Materiality

In our opinion, this section does not explain enough which has been the participation of stakeholders in determining the material subjects. Moreover, the point 25 of the materiality matrix, “Desarrollo de la comunidad”, is located in an area not considered as the most important. Considering the amount of manufacturing employment that the company employs and the areas where it operates, we think it should be a matter of greater significance for the company.

Stakeholders

As indicated in the previous point, the memory does not explain sufficiently which has been the process of involving stakeholders in the development of memory. Such an explanation is needed for a verifiable memory, as the guide points for the preparation of reports GRI G3 .

Completeness

The company does not report sufficiently the level of disaggregation about taxes paid, or on tax rates by country. There is no information reported where online stores tax. It only reports the total taxes paid by geographical area.

It does not explain the wage paid by countries; neither reference to wages subcontractor nor suppliers is done.

There are no reports on the activities of the company that have nothing to do with their core business, such as investment firms, real estate, insurance, etc.

This lack of information would be a failure in the scope of the report.

Clarity

It is not possible to understand clearly what the overall strategy of the company is in relation to corporate social responsibility.

Balance

The memory does not collect information unfavourable to the company.

We obtain the following results from the analysis of the indicators:

Indicators	CRÍTQUES
Profile	
1.1	It is not clear what the strategy of the company is in terms of CSR
Report parameters	
3.5	It is not sufficiently explained
3.6	Practically inexistent information on the pages to display

Governance, commitments and stakeholders	
4.15	It is not reported
Economic indicators	
EC4	The company attributed 1,047,000 Euros in operating subsidy. It appears as not relevant. There is no information of the total subsidies received.
EC5	It is not reported
EC9	It is not reported
Environmental indicators	
EN 21	No reports on total discharges of antimony, arsenic, cadmium, chromium, cobalt, cyanide, lead, mercury, nickel and zinc (clothing and footwear).
EN 30	It is not reported
Labour indicators	
LA1	There is no information provided to employees from outside of Spain.
LA2,LA6,LA7,LA14	It is not reported
LA8	On the basis of the Greenpeace report, the answer is questionable
Human rights indicators	
HR8,HR10,HR11	It is not reported
Society performance indicators	
S010,S06,S07	It is not reported
Product responsibility indicators	
PR7	It is not reported
PR8	It is not reported

9. CONCLUSIONS

The company complies when it has legal obligation with report, such as the annual accounts. However, there are many deficiencies in relation to conceptual framework compliance and the assessment tools in sustainability. Moreover, the company is attached to certain codes (including the own) that are not fulfilled.

On the sustainability report, it is significant the contrast between the highly detailed information on the social or philanthropic actions, and the insufficient detailed information regarding salaries, health or safety. Many deficiencies are found in both the principles and the indicators, particularly in labour issues. An improvement in the clarity and balance of information would be appreciated. There is insufficient information on the main indicators: LA1, LA2, LA7, LA14, HR10, HR11, and SO10. In addition, it would not be complying with the requirement to report all main indicators to declare the A level of information. We understand that it could not be verified externally because there is not information about the process of involving stakeholders in the elaboration of the memory.

The conclusions drawn lead us to believe that the company is closer to an “instrumental” CSR use, moving away from its ethical commitments to society, to some extent.

Finally, answering the question posed by the title of this work, our answer is that companies are not as responsible as they claim.

10. PROPOSAL FOR A BETTER EVALUATION OF CSR

Sustainability reports show as an annual balance how the performance of the companies has been at the end of each year. However, it is difficult to expect to find in them negative company information. A viable way to contrast the information which appears in the report by external users would be to have alternative reports from each interest group at their disposal. A valid representative from each interest group could make a small report with its annual valuation of the company, and these reports could be attached to the sustainability report. As this information would not pass through the filter of the company, relevant information that would help to measure the level of compliance of the company in terms of CSR would be visible.

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