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Current Debates in Corporate Social Responsibility: An Agenda for Research

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Abstract

Corporate Social Responsibility (CSR) has a particular prominence at this point in time, featuring heavily in the discourses of both academe and business. The understanding of what is meant by CSR continues to evolve as a consensus is reached. Nevertheless some important debates continue – or are commencing – which need to be resolved. It is the purpose of this paper to highlight these as some of the current debates within the CSR community – and hence form a significant part of an agenda for research in the area. Specifically we focus upon three key areas for the management of business, namely setting standards for reporting, identifying and implementing sustainable practice, and the management of risk.

Keywords: *corporate social responsibility, corporate reporting, sustainability, regulation, risk, accountability*

Introduction

Corporate Social Responsibility (CSR) is an important issue in contemporary international debates. In the past two decades, CSR appears to have become more difficult to escape from, being more relevant to corporations all over the world. Central to CSR is a concern for sustainability, particularly for environmental sustainability, as this is crucial for long term success and even survival – even in the financial terms by which firms normally judge their success. CSR however is more problematic as it is often perceived that there is a

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dichotomy between CSR activity and financial performance with one being deleterious to the other and corporations having an imperative to pursue shareholder value. Moreover there is no agreed upon definition of exactly what constitutes CSR (Ortiz Martinez & Crowther, 2005) and therefore no agreed upon basis for measuring that activity and relating it to the various dimensions of corporate performance. Consequently much of the previous research regarding CSR deals with this issue and the problems in development of standards for definition and reporting for such indeterminate activity (see Crowther, 2006).

Although this problem is widely accepted it is equally widely accepted that the impact of corporate activity upon society and its citizens – as well as all stakeholders including the environment – is considerable and has an impact not just upon the present but also upon the future. Moreover these stakeholders are increasingly exercising their power not just in their own interests but also in the interests of long term sustainability. So it is necessary to develop some methods of analysing and measuring sustainable CSR activity (see Aras & Crowther, 2007a) in such a way that it is universally understood, and can be evaluated by interested parties. It will therefore become of assistance to societal decision making.

Developing measures for CSR is an issue which is considered of great importance in many parts of the world. But such research as does exist is based upon the principles of the Anglo-Saxon tradition of corporate operational behaviour, accounting and reporting. Little such work is based in the traditions of other parts of the world – an obvious area for further research. The purpose of this paper is to both review the field of CSR and its current developments and to highlight areas where further research would be beneficial. This is addressed through the investigation of three areas which are key to the management of business as far as CSR activity and reporting are concerned, namely setting standards for reporting, identifying and implementing sustainable practice, and the management of risk.

Setting Standards for Reporting

When researching into corporate activity and the reporting of that activity in the 1990's it was necessary to acknowledge (Crowther, 2002[1]) that no measures of social or environmental performance existed which had gained universal acceptability. Good social or environmental performance was subjectively based upon the perspective of the evaluator and the mores of the temporal horizon of reporting. Consequently any reporting concerning such performance could not easily be made which would allow a comparative evaluation between corporations to be undertaken. This was regarded as helpful to the image creation activity of the corporate reporting as the authors of the script were therefore able to create an image which could not be refuted through quantificatory comparative evaluation. Instead such images could be created through the use of linguistic and non-linguistic means. Thus each company was able to select measures which created the semiotic of social concern and environmental responsibility and of continual progress, through

[1] This research was based the investigation of corporate activity included in their reporting between 1991 and 1997

the selective use of measures which support these myths. As a consequence of the individual selection of measures to be reported upon, a spatial evaluation of performance, through a comparison of the performance with other companies, was not possible and a temporal evaluation was all that remained. This temporal evaluation was of course determined by the authors of the script, through their choice of measures for reporting upon, in order to support the myth of continual improvement. Because any measure of such performance does not have universal acceptance as a measurement tool, each company must determine its own priorities for social and environmental performance and develop appropriate measures for reporting upon impact. It is convenient however that companies, all undertaking very similar operations, chose different measures of performance which all show their performance as being not just good but, by implication, the best that can be achieved.

While this research was being undertaken steps were being taken to change this and to develop some kind of standards for reporting. Thus in 1999 the Institute of Social and Ethical Accountability[2] published the AA1000 Assurance Standard the aim of fostering greater transparency in corporate reporting. AccountAbility, an international, not-for-profit, professional institute has launched the world's first-ever assurance standard for social and sustainability reporting. The AA1000 framework (http://www.accountability.org.uk) is designed to improve accountability and performance by learning through stakeholder engagement. It was developed to address the need for organisations to integrate their stakeholder engagement processes into daily activities. It has been used worldwide by leading businesses, non-profit organisations and public bodies. The Framework is designed to help users to establish a systematic stakeholder engagement process that generates the indicators, targets, and reporting systems needed to ensure its effectiveness in overall organisational performance. The principle underpinning AA1000 is inclusiveness. The building blocks of the process framework are planning, accounting and auditing and reporting. It does not prescribe what should be reported on but rather the 'how'.

According to Accountability the AA1000 Assurance Standard is the first initiative offering a non-proprietary, open-source Assurance standard covering the full range of an organisation's disclosure and associated performance (i.e. sustainability reporting and performance). It draws from and builds on mainstream financial, environmental and quality-related assurance, and integrates key learning with the emerging practice of sustainability management and accountability, as well as associated reporting and assurance practices.

At the similar time the Global Reporting Initiative (GRI) produced its Sustainability Reporting Guidelines have been developed through multi-stakeholder dialogue. The guidelines are claimed to be closely aligned to AA1000, but focus on a specific part of the social and environmental accounting and reporting process, namely reporting. The GRI aims to cover a full range of economic issues, although these are currently at different stages of development. The GRI is an initiative that develops and disseminates

[2] The Institute of Social and Ethical Accountability is probably better known as AccountAbility.

voluntary Sustainability Reporting Guidelines. These Guidelines are for voluntary use by organisations for reporting on the economic, environmental, and social dimensions of their activities, products, and services. Although originally started by an NGO, GRI has become accepted as a leading model for how social environmental and economic reporting should take place. It aims to provide a framework that allows comparability between different companies' reports whilst being sufficiently flexible to reflect the different impacts of different business sectors.

The GRI aims to develop and disseminate globally applicable Sustainability Reporting Guidelines. These Guidelines are for voluntary use by organisations for reporting on the economic, environmental, and social dimensions of their activities, products, and services. The GRI incorporates the active participation of representatives from business, accountancy, investment, environmental, human rights, research and labour organisations from around the world. Started in 1997, GRI became independent in 2002, and is an official collaborating centre of the United Nations Environment Programme (UNEP) and works in cooperation with UN Secretary-General Kofi Annan's Global Compact. The guidelines are under continual development and in January 2006 the draft version of its new Sustainability Reporting Guidelines, named the G3, was produced and made open for feedback. The GRI pursues its mission through the development and continuous improvement of a reporting framework that can be used by any organisation to report on its economic, environmental and social performance. The GRI has become the popular framework for reporting, on a voluntary basis, for several hundred organizations, mostly for-profit corporations. It claims to be the result of a permanent interaction with many people that supposedly represents a wide variety of stakeholders relative to the impact of the activity of business around the world.

GRI and AA1000 provide a set of tools to help organisations manage, measure and communicate their overall sustainability performance: social, environmental and economic. Together, they draw on a wide range of stakeholders and interests to increase the legitimacy of decision-making and improve performance. Individually, each initiative supports the application of the other – at least this is the claim of both organisations concerned; AA1000 provides a rigorous process of stakeholder engagement in support of sustainable development, while GRI provides globally applicable guidelines for reporting on sustainable development that stresses stakeholder engagement in both its development and content. Part of the purpose of this paper however is to question the need for these standards as all the evidence concerning standard setting suggests that standards are derived by consensual agreement rather than by the actions of a third party.

The regulation of standards

Much of the broader debate about corporate social responsibility can be interpreted however as an argument between two positions: greater corporate autonomy and the free market economic model versus greater societal intervention and government control of corporate action. There is clear evidence that the free market proponents are winning the argument. They point to the global spread of capitalism, arguing that this reflects recognition that social wellbeing is dependent on economic growth. Opponents concede this hegemony but see the balance shifting in their favour, through for example greater accountability and reporting. Some opponents suspect the corporate team of cheating on their environments, both ecological and social, while others object fundamentally to the idea that a free market economy is beneficial to society.

Resolving these arguments seem intractable if not impossible because they assume divergent philosophical positions in the ethics vs regulation debate as well as in more fundamental understandings of human nature. I don't propose to offer any definitive answers since any attempt to do so would itself involve make value judgements. It is possible though to highlight the terrain upon which these arguments roam. Moreover we can look for evidence of the relationship between economic growth, as manifest through corporate profitability, and socially responsible behaviour in an effort to resolve this seemingly dichotomous position. I have argued elsewhere (eg Crowther & Jatana, 2005) that the creation shareholder value is often not through the operational activities of the firm but rather through the externalisation of costs, which are passed on to customers, employees and other stakeholders including society at large. Examples of this practice are evidenced elsewhere and it seems that companies adopt a philosophy that any stakeholder does not matter in isolation.

There is however a growing body of evidence (eg Crowther & Caliyurt, 2004) which shows a link between corporate socially responsible behaviour and economic profitability which is reinforced by much of the research into socially responsible investment funds. This evidence however suggests that there is a positive relationship between the two if a longer term view of corporate performance is recognised.

Similarly there have been many claims (see Crowther, 2000a) that the quantification of environmental costs and the inclusion of such costs into business strategies can significantly reduce operating costs by firms; indeed this was one of the main themes of the 1996 Global Environmental Management Initiative Conference. Little evidence exists that this is the case but Pava & Krausz (1996) demonstrate empirically that companies which they define as 'socially responsible' perform in financial terms at least as well as companies which are not socially responsible. It is accepted however that different definitions of socially responsible organisations exist and that different definitions lead to different evaluations of performance between those deemed responsible and others. Similarly in other countries efforts are being made to provide a framework for certification of accountants who wish to be considered as environmental practitioners and auditors. For example the Canadian Institute of Chartered Accountants is heavily involved in the creation of such a national framework. Azzone et al. (1996) however suggest that despite the lack of any regulatory framework in this area a degree of standardisation, at least as far as reporting is concerned, is beginning to emerge at an international level, one of the central arguments of this paper.

Growth in the techniques offered for measuring social impact, and reporting thereon, has continued throughout the last twenty-five years, during which the concept of this form of accounting has existed. However the ability to discuss the fact that firms, through their actions, affect their external environment and that this should be accounted for has often exceeded within the discourse any practical suggestions for measuring such impact. At the same time as the technical implementation of social accounting and reporting has been developing the philosophical basis for such accounting – predicated in the transparency and accountability principles – has also been developed. Thus some people consider the extent to which accountants should be involved in this accounting and argue that such accounting can be justified by means of the social contract as benefiting society at large. Others have argued that sustainability is the cornerstone of social and environmental accounting and that auditing should be given prominence.

An examination of the external reporting of organisations gives an indication of the extent of socially responsible activity. Such an examination does indeed demonstrate an increasing recognition of the need to include information about this and an increasing number of annual reports of companies include some information in this respect. This trend is gathering momentum as more organisations perceive the importance of providing such information to external stakeholders. It has been suggested however that the inclusion of such information does not demonstrate an increasing concern with the environment but rather some benefits – for example tax breaks – to the company itself. One trend which is also apparent in many parts of the world however is the tendency of companies to produce separate social and environmental reports[3]. In this context such reports are generally termed CSR reports or Sustainability reports, depending upon the development of the corporation concerned. This trend is gathering momentum as more organisations realise that stakeholders are both demanding more information and are also demanding accountability for actions undertaken. Equally the more enlightened of these corporations are realising that socially responsible activity makes business sense and actually assists improved economic performance.

This realisation obviates any need for regulation and calls into question the standards suggested by such bodies as accountability. The more progressive corporations have made considerable progress in what they often describe as their journey towards being fully socially responsible. In doing so they have developed an understanding of the priorities for their own business – recognising that CSR has many facets and needs to be interpreted differently for each organisation – and made significant steps towards both appropriate activity and appropriate reporting of such activity. The steps towards CSR can be likened to increasing maturity as all organisations progress towards that maturity by passing through the same stages (see below), although at different paces. The most mature are indeed recognising that nature of globalisation by recognising that the organisational boundary is permeable (see Crowther & Duty, 2002) and that they are accountable also for the

[3] Originally these were called environmental reports. Now they are normally known either as CSR reports or as sustainability reports.

behaviour of other organisations in their value chain.

Identifying sustainability

Despite much of the rhetoric that is used, sustainability implies that society must use no more of a resource than can be regenerated. This can be defined in terms of the carrying capacity of the ecosystem (Hawken, 1993) and described with input – output models of resource consumption. Thus the paper industry for example has a policy of replanting trees to replace those harvested and this has the effect of retaining costs in the present rather than temporally externalising them. Similarly motor vehicle manufacturers such as Volkswagen have a policy of making their cars almost totally recyclable. Viewing an organisation as part of a wider social and economic system implies that these effects must be taken into account, not just for the measurement of costs and value created in the present but also for the future of the business itself.

Such concerns are pertinent at a macro level of society as a whole, or at the level of the nation state but are equally relevant at the micro level of the corporation, the aspect of sustainability with which we are concerned in this work. At this level, measures of sustainability would consider the rate at which resources are consumed by the organisation in relation to the rate at which resources can be regenerated. Unsustainable operations can be accommodated for either by developing sustainable operations or by planning for a future lacking in resources currently required. In practice organisations mostly tend to aim towards less unsustainability by increasing efficiency in the way in which resources are utilised. An example would be an energy efficiency programme.

Sustainability is a controversial topic because it means different things to different people. Nevertheless there is a growing awareness (or diminishing naivety) that one is, indeed, involved in a battle about what sustainability means and, crucially, the extent (if at all) it can be delivered by MNCs in the easy manner they promise (United Nations Commission on Environment and Development (Schmidheiny, 1992). The starting point must be taken as the Brundtland Report (WCED, 1987) because there is explicit agreement with that Report and because the definition of sustainability in there is pertinent and widely accepted. Equally, the Brundtland Report is part of a policy landscape being explicitly fought over by the United Nations, Nation States and big business through the vehicles of the WBCSD and ICC, (see for example, Beder, 1997; Mayhew, 1997; Gray & Bebbington, 2001).

There is a further confusion surrounding the concept of sustainability: for the purist sustainability implies nothing more than stasis – the ability to continue in an unchanged manner – but often it is taken to imply development in a sustainable manner (Marsden, 2000; Hart & Milstein, 2003) and the terms sustainability and sustainable development are for many viewed as synonymous. Ever since the Bruntland Report was produced by the World Commission on Environment and Development in 1987 there has been a continual debate concerning development (Chambers, 1994; Pretty, 1995) and this has added to the confusion between sustainability and sustainable development. For us we take the definition as being concerned with stasis; at the corporate level if development is possible without jeopardising that stasis then this is a bonus rather than a constituent part of that sustainability.

Most analysis of sustainability (eg Dyllick & Hockerts, 2002) only recognises a two-dimensional approach of the environmental and the social. A few (eg Spangenberg, 2004) recognize a third dimension which is related to organisation behaviour. We argue that restricting analysis to such dimensions is deficient. One problem is the fact that the dominant assumption by researchers is based upon the incompatibility of optimising, for a corporation, both financial performance and social / environmental performance. In other words financial performance and social / environmental performance are seen as being in conflict with each other through this dichotomisation (see Crowther, 2002). Consequently most work in the area of corporate sustainability does not recognise the need for acknowledging the importance of financial performance as an essential aspect of sustainability and therefore fails to undertake financial analysis alongside – and integrated with – other forms of analysis for this research[4]. Aras & Crowther (2007b) however argue that this is an essential aspect of corporate sustainability and therefore adds a further dimension to the analysis of sustainability. Furthermore they argue that the third dimension sometimes recognised as organisational behaviour need to actually comprise a much broader concept of corporate culture. There are therefore 4 aspects of sustainability which need to be recognised and analysed, namely:

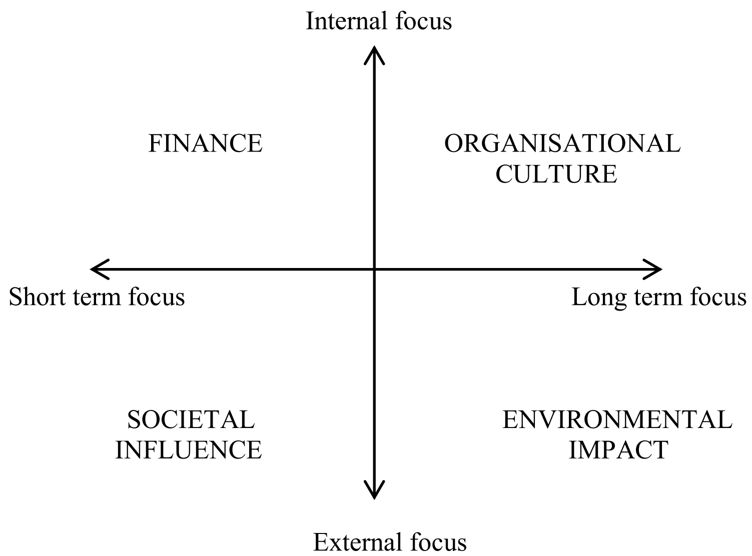
- ***Societal influence***, which we define as a measure of the impact that society makes upon the corporation in terms of the social contract and stakeholder influence;
- ***Environmental Impact***, which we define as the effect of the actions of the corporation upon its geophysical environment;
- ***Organisational culture***, which we define as the relationship between the corporation and its internal stakeholders, particularly employees, and all aspects of that relationship; and
- ***Finance***, which we define in terms of an adequate return for the level of risk undertaken.

These four must be considered as the key dimensions of sustainability, all of which are equally important. Our analysis is therefore considerably broader – and more complete – than that of others. Furthermore we consider that these four aspects can be resolved into a two-dimensional matrix along the polarities of internal vs external focus and short term vs long term focus, which together represent a complete representation of organisational performance this can be represented as the model as follows (see the next page). This model provides both a representation of organisation performance and a basis for any evaluation of corporate sustainability.

The Conflation of Financial, Social and Environmental Performance

One view of good corporate performance is that of stewardship and thus just as the management of an organisation is

[4] Of course the fact that many researchers do not have the skills to undertake such detailed financial analysis even if they consider it to be important might be a significant reason for this.



MODEL FOR EVALUATING SUSTAINABILITY
From Aras & Crowther (2007b)

concerned with the stewardship of the financial resources of the organisation so too would management of the organisation be concerned with the stewardship of environmental resources. The difference however is that environmental resources are mostly located externally to the organisation. Stewardship in this context therefore is concerned with the resources of society as well as the resources of the organisation. As far as stewardship of external environmental resources is concerned then the central tenet of such stewardship is that of ensuring sustainability. Sustainability is focused on the future and is concerned with ensuring that the choices of resource utilisation in the future are not constrained by decisions taken in the present. This necessarily implies such concepts as generating and utilising renewable resources, minimising pollution and using new techniques of manufacture and distribution. It also implies the acceptance of any costs involved in the present as an investment for the future.

Not only does such sustainable activity however impact upon society in the future; it also impacts upon the organisation itself in the future. Thus good environmental performance by an organisation in the present is in reality an investment in the future of the organisation itself. This is achieved through the ensuring of supplies and production techniques which will enable the organisation to operate in the future in a similar way to its operations in the present and so to undertake value creation activity in the future much as it does in the present. Financial management also however is concerned with the management of the organisation's resources in the present so that management will be possible in a value creation way in the future. Thus the internal management of the firm, from a financial perspective, and its external environmental management coincide in this common concern for management for the future. Good performance in the financial dimension leads to good future performance in the environmental dimension and vice versa. Thus there is no dichotomy (Crowther, 2002) between environmental performance and financial performance and the two concepts conflate into one concern. This concern is of course the management of the future as far as the firm is concerned.[5] The role of social and environmental accounting and reporting and the role of financial accounting and reporting therefore can be seen to be coincidental. Thus the work required needs be concerned not with arguments about resource distribution but rather with the development of measures which truly reflect the activities of the organisation upon its environment. These techniques of measurement, and consequently of reporting, are a necessary precursor to the concern with the management for the future – and hence with sustainability.

The management of risk

It is recognised in the financial world that the cost of capital which any company incurs is related to the perceived risk associated with investing in that company – in other words there is a direct correlation between the risk involved in an investment and the rewards which are expected to accrue from a successful investment. Therefore it is generally recognised that the larger, more established companies are a more certain investment and therefore have a lower cost of capital. This is all established fact as far as finance theory is concerned and is recognised in the operating of the financial markets around the world. Naturally a company which is sustainable will be less risky than one which is not. Consequently most large companies in their reporting mention sustainability and frequently it features prominently. Indeed it is noticeable that extractive industries – which by their very nature cannot be sustainable in the long term – make sustainability a very prominent issue. The prime example of this can be seen with oil companies – BP being a very good example – which make much of sustainability and are busy redesignating themselves from oil companies to energy companies with a feature being made of renewable energy, even though this is a very small part[6] of their actual operations.

Just as a company which is sustainable is less risky then one which can claim sustainable development is even less risky and many companies mention this concept and imply that it relates to their operations. Such a company has a rosy future of continued growth, with an expectation of continued growth in profitability. An investigation of the FTSE100 for example (see Aras & Crowther, 2007c) shows that 70% make a feature of sustainability while 15% make a feature of sustainable development. So the cost of capital becomes lower as the certainty of returns becomes higher. We have shown in this article that the concept of sustainability is complex and problematic and that the idea of sustainable development is even more problematic. It is our argument that companies are not really addressing these issues but are merely creating an image of sustainability[7]. The language of the statements

[5] Financial reporting is of course premised upon the continuing of the company – the going concern principle.
[6] It needs a very careful reading of the annual report to discover this.
[7] See Crowther 2002 for a full discussion of image creating in corporate reporting.

made by corporations tends therefore to be used as a device for corrupting thought (Orwell, 1970) by being used as an instrument to prevent thought about the various alternative realities of organisational reality. Significantly it creates an image of safety for investors and thereby reduces the cost of capital for such corporations. Such language must be considered semiotically (Barthes, 1973) as a way of creating the impression of actual sustainability. Using such analysis then the signification is about inclusion within the selected audience for the corporate reports on the assumption that those included understand the signification in a common way with the authors. This is based upon an assumed understanding of the code of signification used in describing corporate activity in this way. As Sapir (1949: 554) states:

> … we respond to gestures with an extreme alertness and, one might almost say, in accordance with an elaborate and secret code that is written nowhere, known by none and understood by all.

It is our argument that the methodologies for the evaluation of risk are deceived by this rhetoric and are deficient in their evaluation of risk – particularly environmental risk. In order to fully recognise and incorporate environmental costs and benefits into the investment analysis process the starting point needs to be the identification of the types of costs and revenues which need to be incorporated into the evaluation process. Once these types of costs have been identified then it becomes possible to quantify such costs and to incorporate qualitative data concerning those less tangible benefits which are not easily subject to quantification. The completion of an environmental audit will enhance the understanding of the processes involved and will make this easier. In considering environmental benefits, as distinct from financial benefits, it is important that an appropriate time horizon is selected which will enable those benefits to be recognised and accrued. This may imply a very different time horizon from one which is determined purely by the needs of financial analysis.

Once all the data has been recognised, collected and quantified it then becomes possible to incorporate this data, in financial terms, into an evaluation which incorporates risk in a more consistent manner. It is important to recognise benefits as well as costs, and it is perhaps worth reiterating that many of these benefits are less subject to quantification and are of the less tangible and image related kind. Examples include:

- Enhanced company or product image – this in itself can lead to increased sales
- Health and safety benefits
- Ease of attracting investment and lowered cost of such investment
- Better community relationships – this can lead to easier and quicker approval of plans through the planning process
- Improved relationship with regulators, where relevant
- Improved morale among workers, leading to higher productivity, lower staff turnover and consequently lower recruitment and training costs
- General improved image and relationship with stakeholders

Many of these benefits are not just intangible but will take some time to realise. Hence the need to select an appropriate time horizon for the evaluation of the risk and associated effects. This time horizon will very likely be a longer one than under a traditional financially based evaluation. Obviously cash flows need to be considered over that period and an appropriate method of evaluation (eg a discounted cash flow technique) needs to be used in the evaluation. None of this will change with the incorporation of environmental accounting information, except for assessment of risk and its associated impact upon the cost of capital, which can be expected to rise as the true extent of the environmental impact is fed into the calculation.

The steps involved in the incorporation of environmental accounting into the risk evaluation system can therefore be summarised as follow:

- Identify environmental implications in term of costs and benefits
- Quantify those costs and incorporate qualitative data regarding less tangible benefits
- Use appropriate financial indicators
- Set an appropriate time horizon which allows environmental effects to be fully realised

Conclusions

In this paper we have highlighted a number of areas of interest for CSR research, and our views contrasts with a lot of published work. Much of the literature – particularly of the "greenwash" variety – imputes a cynical intention to deceive through the images portrayed in corporate reports. We do not assume such cynicism, although we note that the effects are beneficial for corporations and, in the short term at least, for investors. Instead part of our argument is that the concept of sustainability is insufficiently understood and therefore any evaluation is flawed and simplistic. Thus there is an opportunity for further research in this area.

One further tentative conclusion from our research is concerned with the extent of disclosure manifest through the reporting of such things as sustainability, and is more in the nature of a prognosis. Crowther (2000b) traces an archaeology of corporate reporting which shows that, over time, the amount of information provided – first to shareholders, then to potential investors (Gilmore & Willmott, 1992), then to other stakeholders – has gradually increased throughout the last century, as firms recognised the benefit in providing increased disclosure. Similarly the amount of disclosure regarding CSR activity has been increasing rapidly over the last decade, as firms have recognised the commercial benefits of increased transparency. Therefore it is reasonable to argue that the amount of information regarding sustainability will also increase, not just as firms gain a clearer understanding of its implications but also as they understand the benefits of greater disclosure in this respect.

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