AN EXAMINATION OF DETERMINANTS OF CORPORATE SOCIAL RESPONISBILITY DISCLOSURE STRATEGIES

J.M. Simmons, Kennesaw State University, United States

INTRODUCTION

An increasing number of companies are voluntarily disclosing their social, environmental and economic impact. These efforts have allowed corporate leaders to demonstrate to society that their companies are behaving in a socially desirable manner (Gray et al. 1988). The use of reporting standards like those produced by the Global Reporting Initiative have become an integral part of firms' CSR disclosure strategy (KPMG 2011). The GRI's G3 Guidelines provide firms an option to declare a specific application level based on what they choose to report. Firms also have the option of 3rd party assurance to assure stakeholders that requirements have been met. (Moneva et al. 2006; Gamerschlag et al. 2011; GRI 2011).

While corporate social responsibility reporting (CSR) has attracted some attention, scholars have called for additional research to assesses its use in different industries and in a broader, more representative sample of firms (Sweeney and Coughlan 2008). There has also been a suggestion for further investigation into the quality and depth of information disclosed in CSR reports (Holder-Webb, Cohen, Nath and Wood 2009). When these calls for research are combined with the changing business environment, one can question if the determinants researchers previously identified are still applicable today. More specifically, do determinants still hold true and can they now be used to predict the firm's GRI application level and its decision to pursue third party assurance. This research will seek to answer this key question.

LITERATURE REVIEW

While CSR reporting has become more common amongst large companies, researchers have tended to focus more on social and environmental performance (Ziek 2009; Chen and Bouvain 2008). Those who have chosen to examine the topic of disclosure have tended to be accounting scholars. This is not unexpected given their previous research focused on financial disclosure. However, the result has been a narrow range of research limited to three primary research questions.

The first area scholars sought to understand was the nature and practice of CSR disclosures. This research examined single companies over an extended period, multiple companies in a single country, and multiple companies across multiple countries. These studies revealed that both the volume and type of information reported tend to vary across countries, industries, companies and time (Chen and Bouvain 2008). The variance observed in these studies has led researchers to try and better understand the contributing factors. One area that has been suggested, as being worthy of further examination, is the contextual factors that may be present (Adams 2002).

Scholars also have sought to examine the impact CSR disclosures may have on corporate social and financial performance. The studies that followed often produced inconsistent results (Ingram & Frazier 1980; Wiseman 1982; Roman, Hayibor and Able 1999). One study of note is that of Ulmann (1985) who proposed a three dimensional model to help explain the relationship between social and financial performance and the quantity and quality of social disclosure. The determinants were clustered into one of three factors - stakeholder power, the firm's strategic posture with social demands and past and current financial performance. Ulmann's (1985) work not only helped provide a potential explanation for the relationship, it also led other scholars to examine the third primary topic, which is what determines the content and clarity of reporting (Reverte 2009).

Most of the research that followed failed to propose new models but instead focused on a small number of variables that would complement Ulmann's (1985) model. One notable exception was Adams (2002) who proposed a more simplistic model that suggested that certain contextual factors could also play a role. Variables were grouped into one of three factors - corporate characteristics; general contextual factors and internal contextual factors. Corporate characteristics describe variable such as size, industry membership, systemic risk and elements of strategic posture. General contextual factors represent a broad category of variables including stakeholder concerns, media pressure, culture and the regulatory climate. The final category, internal context, describes processes and structures for internal decision-making.

Since the introduction of these models, no other models have been proposed. However,it is of note that the business environment in which reporting now takes place is substantially different from when Ulmann (1985) and Adams (2002) first proposed their models. First of all, substantially more companies now engage in CSR reporting (KPMG 2011). Second, society has become increasingly more interested in corporate accountability. Concerns about corporate conduct, the depletion of natural resources, the impact of climate change and the overall environmental impact of business are now more widely discussed than in the past (Arvidsson 2010). Finally, the ways in which society now shares information and knowledge have changed with the growth in social media. Information is now available faster and to a broader audience that actively participates in the dissemination and prioritization of news and knowledge (Berthon et al. 2012).

Reporting practices have also evolved. Normative reporting standards have helped create more uniform CSR disclosures across geographic boundaries. The most widely used of these is the GRI G3 Guidelines, which suggest what the firm should report and how it should be reported. Firms who follow the Guidelines must make three strategic choices. They first must determine whether to declare a specific Application Level in reporting CSR activities or merely reference the principles from the GRI framework. Firms who choose to declare an Application Level must determine which one best describes their level of reporting. Finally, firms must decide whether they will have their CSR reporting assured by a third-party. This can ultimately help demonstrate to their commitment to stakeholders and help communicate CSR disclosures may have more legitimacy because they have been reviewed and assured by a third party (Moneva et al. 2006; Gamerschlag et al. 2011; Holder-Webb et al. 2009; GRI 2011). Taken together, these strategic decisions ultimately make up the firm's disclosure strategy.

Multiple scholars have called for additional research in order to assess CSR reporting in a broader and more representative sample of firms and industries (Sweeney and Coughlan, 2008). Previous research has been limited by the methods used to analyze the past reporting efforts. It has also been suggested that the evolving patterns of disclosure be assessed over time through the use of longitudinal studies (Brammer and Pavelin 2008). Finally, calls have also been made for further investigation of both the quality and depth of information disclosed in CSR reports (Holder-Webb, Cohen, Nath and Wood, 2009).

These gaps in CSR reporting research are amplified when you consider the changing business environment and evolution in reporting practices (Holder-Webb, Cohen Nath and Wood, 2009). Research must be done to understand how the determinants proposed by Ulmann (1985) and Adams (2002) has evolved since they were first introduced. We must also understand the relationship between these determinants and the firm's CSR disclosure strategy.

PROPOSITIONS

The combination of the firm's chosen GRI application level and its level of assurance reflect the firm's CSR disclosure strategy. Taken together, these provide a simple and more uniform way to describe both the volume and quality of a firm's CSR disclosure. Based upon the work of Ulmann (1985), Adams (2002) and others, this study suggests a four-dimensional model to help explain the determinants of the firm's CSR disclosure strategy. The model includes the following constructs -- corporate characteristics, the firm's economic profile, the power of the firm's stakeholders and environmental turbulence.

The first dimension of the model is corporate characteristics. This dimension is consistent with the construct in Adam's model that has been most frequently studied. Based on past research industry membership (Cowen et al. 1987; Patten 1991; Roberts 1992; Hackston and Milne, 1996); corporate age (Roberts 1992); corporate size (Cowen et al. 1987; Patten 1991; Hackston and Milne, 1996, Adams et al 1998); business complexity as demonstrated by number of business units in each company (Boesso and Kumar, 2007); country of origin (Adams 1999; Cowen et al. 1987; Guthrie and Parker 1990) and the percentage of ownership held by management and shareholders who hold more than 5% of shares (Roberts 1992; Cormier, Magnan and Van Velthoven 2005; Brammer and Pavelin 2008) would be appropriate to exam. Consistent with legitimacy theory, large companies typically receive more public attention. This leads to increased expectations of socially responsible behavior and for disclosing their CSR activities (Arvidsson 2010).

Proposition 1: There is a relationship between corporate characteristics and the firm's disclosure strategy

The second dimension of the model is the firm's economic performance. This is consistent with Ulmann's model, which specifically called out the firm's past and present economic performance. Adam's also makes reference to performance but it is included in corporate characteristics. Just as with Proposition 1, legitimacy theory supports inclusion of this construct. Prior research has examined the impact of return on assets (Patten 1991, Hackston and Milne 1996); one year lagged ROA (Patten 1991); change in net income from the previous period (Patten 1991); systematic risk –Beta (Roberts, 1992) and the firm's annual stock market return (Cormier, Magnan and Van Velthoven 2005) on the volume and quality of CSR disclosures. This research would propose to examine the relationship between the firm's performance and its disclosure strategy.

Proposition 2: There is a relationship between the firm's economic performance and the firm's disclosure strategy

The third dimension is stakeholder power, which was introduced by Ulmann (1985). The variables that have previously been tested include the number of public affairs staff members (Roberts 1992); the level of corporate philanthropy; corporate sponsor of a philanthropic foundation (Roberts 1992); government fines (Neu et al. 1998; Huang and Kung 2010) and print and online media exposure (Neu et al. 1998; Cormier, Magnan and Van Velthoven 2005). Given the international nature of the companies who subscribe to the GRI guidelines, the number of public affairs staff members corporate may no longer be an appropriate variable. Corporate reputation, however, has been described as an important factor in maintaining legitimacy and as a factor related to CSR reporting (Bebbington et al. 2007). As a result, this variable will be included.

Proposition 3: There is a relationship between stakeholder power and the firm's disclosure strategy

The fourth dimension of the model is environmental turbulence. This dimension represents a subset of the general contextual factors described by Adams (2002). The factors include social, political and economic factors. Environmental turbulence is commonly defined as the loss of stability created by difficult to predict changes in the environment (Haleblian and Finkelstein, 1993; Berthon et al. 2008). This has been categorized as either economic or political turbulence and a variety of variables have been used to measure these constructs. While these factors can be difficult to measure, a variety of variables have been described in the literature by management, economics and political science scholars that would be appropriate.

Economic turbulence has been measured by assessing performance risk and demand instability. Performance risk is measured as the average coefficient of variation of firms' return on assets. Demand instability measured as the average coefficient of variation of firms' sales. The values of both indicators varied between industries (Haleblian and Finkelstein1993). Additional factors that have been examined include GDP Growth and changes in unemployment (Aiginger 2005). GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products (www.data.worldbank.org)

Political turbulence has been examined using indices developed by the Political Risk Services Group (PRSG) to assess political risks in over 110 countries. Adsera et al. (2003) included several indices that would be appropriate to include. The Corruption Index measures the demand for bribes by political leaders. The Rule of Law Index assesses the strength and stability of the legal system. The expertise, quality and stability of both elected officials and their administrative counterparts are measured using the Bureaucratic Quality Index. The one index that would not be included is the Risk of Expatriation.

Other indices have been included in assessments by Transparency International (TI). Like PRSG, their indices also include the Corruption Perceptions Index and the rule of law. TI also measures judicial independence, the level of global competitiveness as well as voice and accountability.

Proposition 4: There is a relationship between environmental turbulence and the firm's disclosure strategy.

METHODOLOGY

Sample

A stratified random panel sample of global public firms will be created from a reporting registry maintained by the Global Reporting Initiative, a secondary data source. While the registry lists firms that have utilized the reporting framework since it was first introduced, only those firms who have reported since the launch of the G3 Guidelines in 2006 will be included in the panel. The period from 2006-2012 has been chosen because prior to 2006 the GRI Guidelines had fewer requirements and required the firm make fewer strategic choices.

This study will deviate from past CSR disclosure research in that it will rely on secondary data derived from the GRI registry, Capital IQ and public databases and business press to acquire information on publicly traded firms. Past studies have relied upon primary data developed through the use of content analysis. This limited the number of firms that could be examined and limited the generalizability. Like other studies that rely on secondary data, private firms have not been included in the analysis (McGahan & Porter 1997).

IMPLICATIONS FOR THEORY AND PRACTICE

This research has implications to both theory and practice. First, the study introduces the concept of a CSR disclosure strategy. Previously, researchers have examined the volume and quality of reporting. However, comparing reports was difficult because of the lack of uniform measures. With the development of the GRI G3 Guidelines, firms could communicate both the volume quality of their reporting through the use of the Framework's Application levels. While reports were not completely uniform, the Guidelines were a marked advancement for companies who disclosed their CSR activities and the stakeholders who read their reports. Third party assurance is also introduced as an element of CSR disclosure strategy and is included as an equal element along with Application levels. To date, third party assurance has received substantially less attention than either volume or quality.

This research also contributes to the advancement of theory. CSR disclosure strategy and the use of uniform reporting standards are introduced as means by which to reduce incongruity between the actions of the firm and the interests of society. As a result, they provide another means not previously described in the literature of demonstrating legitimacy. By determining the most appropriate disclosure strategy, the firm may be able to reduce the risk of reporting by using Guidelines developed with stakeholder support. The firm is also able to further reinforce its legitimacy by meeting the needs of multiple stakeholders. The use of third party assurance is also included as a means by which to further demonstrate legitimacy. The CSR disclosure strategy represents an intentional, well thought out approach to meeting stakeholder needs and reinforcing the legitimacy of the firm.
!

References available upon request.