

Corporate Social Responsibility and Nonfinancial Disclosure: The Need for Reporting Guidelines to Be Based on Simplicity, Comparability and Accessibility, A Structured Abstract

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Introduction

The increasing interest in the wider societal responsibilities of the business community has highlighted the call for the employment of transparent and accountable commercial practices (Initiative for Responsible Investment 2014). This pressure for transparency in business activities has resulted in a growth of information disclosure methods. The most recent addition in the approaches used to convey the responsibility message has centred on the disclosure of nonfinancial information, involving both mandatory and voluntary actions taken by companies (BIS 2013). This focus has now entered an increasingly monitored period, with laws, directives and regulations being introduced at an international level. According to research headed by the United Nations Environment Programme (UNEP et al. 2010), this is aimed at strengthening compliance and comparability of corporate social responsibility (CSR)-related initiatives.

At the same time, the proliferation of the World Wide Web (WWW), as a communication tool, has supported the dissemination of CSR information. This is due to its capacity to store and manage graphic and textual material, both of which are increasingly being used by brands in their CSR disclosure (Ross 2014). Thus, the information increasingly has the potential to reach and impact on the behaviours of a wide variety of stakeholders, from those involved in the supply chain through to the consumer as the end user of the products.

However, despite the growth in reporting and dissemination, this research investigates whether CSR information transmitted through the communication process enhances the comprehension of the issues involved. Furthermore, it gives consideration as to whether the growing complexity in both content and mode of

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transmission is enhancing, or diminishing, the communication of the business responsibility message, enabling the information to reach, engage and motivate consumers' buying behaviour.

Background

Voluntary Versus Mandatory CSR

There has long been a debate over whether CSR should be voluntary, mandatory or a combination of both (Chaplier 2014). The traditionally favoured voluntary approach can result in companies choosing not to publically disclose whether or not they undertake CSR-related activities. To improve disclosure rates, CSR supporters have campaigned through the last two decades for the mandatory reporting of non-financial data to be introduced (Howitt 2014).

To determine the current rate of reporting across the international community, the UNEP et al. (2010) undertook a review of both mandatory and voluntary CSR initiatives. They found that '...the regulatory landscape has evolved substantially in all parts of the world', which had led to a strong evolution of '...international and national standards, codes and guidelines as well as legislation for sustainability reporting' (UNEP et al. 2010: 4). However, they assert that further work is needed in aligning international standards, to allow comparability across borders in a way that is relevant to a multitude of stakeholders.

As an example of this, the European Commission (EC) has adopted a directive on the disclosure of nonfinancial and diversity information (EC 2014a). This directive will require approximately 6000 EU-operated companies, with 500-plus employees, to make public in their annual management reports details of their '...policies, risks and outcomes as regards environmental matters, social and employee-related aspects'. It will also include the reporting of anti-corruption and bribery policies, with the identification of the diversity of their board of directors. After a 2-year transitional period, reporting by applicable companies will commence in 2017 (EC 2014a). This directive has the potential to represent an important step forward in nonfinancial reporting, with greater transparency and accountability in operations. Krishnamurthy (2014) described it as marking '...the most significant effort to date to mandate non-financial reporting on companies across all sectors of the economy'. As a result, Chaplier (2014) declared that CSR had now moved from being a voluntary action to a mandatory requirement. However, concerns have been expressed in regard to whether the directive would bring about meaningful change. This is because, under this new directive, companies will be permitted to choose the indicators, standards and guidelines they will employ (EC 2014a), allowing them '...a huge amount of flexibility in how they comply with the reform' (Chaplier 2014). Searcy and Ahi (2014) describe this flexibility as both the key challenge and an opportunity. However, Passant and Hewitt (2013) believe that this will make comparison between companies difficult. Furthermore, the EC (2014b) acknowledges that the current guidelines facilitating the

disclosure of nonfinancial and CSR-related information require further work. Therefore, at this time of development, it is essential to identify what impact such information currently has and how its disclosure can be improved.

Whilst the reporting landscape evolves, the Initiative for Responsible Investment (2014: 3) predicts that businesses will respond to what they believe to be ‘...a cultural shift of how individuals view the operation of corporations’, which is likely to influence how individuals perceive and interact with the business community. Blackwell et al. (2006: 70) identified the seven-stage consumer decision process (CDP) model. In the model’s initial stages, individuals identify needs, search for information and evaluate alternative offerings. During this time, brands communicate information to encourage action to be taken. This process of communication involves ‘...the transmission of a message from a sender to a receiver via a medium (or channel) of transmission’ (Schiffman and Kanuk 2010: 280).

Relating these theories to the communication of CSR, UNEP et al. (2010: 11) identified growing complexity, by observing that the growth in the number of reports required was occurring in parallel to ‘...an increasingly dense network of national and international standards for sustainability reporting’. However, they suggest that ‘integrated reporting’ combines business information disclosure and included that which is published via Web-based channels (UNEP et al. 2010). This was supported by Passant and Hewitt (2013) who claimed that a company’s website was one of the most important sources of CSR information.

Assessing empowerment through the provision of information via the Internet, Harrison et al. (2006) found that this channel was enabling, but that complexity of content diminished the full realisation of knowledge facilitation and acquisition. Thus, they suggested that there were two elements to consider when using the Internet to communicate with consumers: the first being their ‘...access to reliable information’ and the second the ‘...ability to understand that information’ (Harrison et al. 2006: 976). Applying this to consumer empowerment through access to, and understanding of, CSR information relates to the wider domain of consumer sovereignty and whether acquired knowledge effects purchase decisions. Therefore, as the complexity of information published via the Internet grows, consideration should be given to CSR disclosure and whether this channel enhances consumers’ ability to access, understand and act on related information.

Research Methods

This research was undertaken as a part of a larger study. It utilised a grounded theory strategy to establish primary data, by employing qualitative methods to identify patterns of behaviour and to determine ‘...the “why” of consumer behaviour’ (Evans et al. 2009: 426). Creating a framework for the data collection involved choosing a specific business sector upon which to concentrate the research. According to Storm (2014), the fashion industry has ‘...a history of issues with workers’ right and challenges around its polluting production processes’. Thus, this

was deemed to be a global sector with identifiable CSR interests, displaying constituent parts, for example, extended supply chains, which are applicable to a variety of other consumer good markets.

The opinions of fashion-buying consumers were elicited through face-to-face, focus groups, which were undertaken at UK-based locations. The participants were selected using non-probability snowball sampling, which involved contacting five known individuals and requesting that they convene a group of between four and eight participants (Saunders et al. 2009), leading to 26 respondents in total. A semi-structured focus group format was utilised, with the question schedule based on the information search and evaluation stages in the CDP, and focused on the nonfinancial CSR information published via the Internet as a medium of communication. This data collection strategy was aimed at eliciting information regarding the '...interviewees' own behaviour or that of others; attitudes; norms; beliefs; and values' (Bryman 2012: 209). The discussions were audiotaped and transcribed, with the data examined through thematic analysis.

Results and Discussion

The findings showed that the consumer groups demonstrated a lack of engagement with information published by brands relating to their CSR strategies. When asked if they had accessed relevant information via the Internet, typical replies were 'Not in your wildest...never', 'Nobody would bother to read all of that' and 'I don't think it enters your mind, to be honest'. Furthermore, there was a general agreement that CSR information was published for 'lawyers', 'the corporate world' and 'the government', with the participants believing it to be 'a disclaimer' rather than made public for their benefit.

The participants did acknowledge that they were aware of negative publicity regarding CSR, which they had acquired through media news stories, especially related to environmental and social issues in the supply chain. However, they felt its impact was limited, with one replying that 'It makes you think about it, but I don't think you think too deeply for very long' and another stating that this was because:

...you don't think where it has come from [a garment], the conditions they have to work in, the wages that are paid and things, you don't. It doesn't enter your head, you just think 'Oh there's the price ticket, that's how much it's gonna cost'...you only think of how it affects you, not how it affects other people.

Conversely, when asked what would encourage them to engage with published information, simplicity and comparability were seen to be key. Endorsing that, a participant said '...we're all mightily confused about what it means', with a second stating 'I want bullet-points'.

Therefore, the consumers did not perceive that the publication of nonfinancial data was for them, nor did they currently consider it as part of their information search behaviour. However, they reported that they would be more likely to take it into account in their decision-making if it was presented in a format that allowed them to compare and contrast the strategies adopted by a variety of different brands.

Conclusions and Implications for Theory and Practice

To increase transparency regarding CSR activities of the business community, the international regulatory landscape has been evolving (UNEP et al. 2010). This has included the development of reporting mechanisms, the most recent being the EU directive on nonfinancial and diversity information (EC 2014a). This initiative has been welcomed (Howitt 2014; Krishnamurthy 2014), but also criticised due to the high level of flexibility in its current reporting methods (Chaplier 2014). However, the EC (2014a) reported that they view the directive as a starting point for further work, which they suggest will involve the development of more detailed reporting guidelines in the future.

For the CSR disclosure to be meaningful, and to allow stakeholders to access relevant information, the disclosure mechanism needs a user-friendly communication channel. There was clear evidence from the primary research participants of an increase in Internet use. However, Harrison et al. (2006) found that to gain full benefit from this channel, information needed to be not only accessible but also reliable and understandable. The consumer participants, whilst reporting that they were aware of negative media news stories, believed that CSR information was published for the benefit of other stakeholder groups. Therefore, whilst relevant information was currently available via the Internet, they did not access it, and it was not considered to be a key component of their decision-making when purchasing items, including clothing.

The strongest message to come out of the primary research was the need for simplicity in reporting, with agreement that engagement would be enhanced by presenting CSR information in an uncomplicated format, via an accessible communication channel. Therefore, this research argues that the greater the complexity, the less effective the CSR message is, which stifles the potential for behavioural change to occur.

To move the business responsibility agenda forward, and encourage stakeholders to engage in CSR information, the development of reporting guidelines should focus on the key tenets of simplicity, comparability and accessibility. Hence, the current disconnect between the proposed mandated, but variable, CSR disclosure and what consumers desire in order to access and understand the information will now be explored by the research.

References available upon request.