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# Moral Discourse and Corporate Social Responsibility Reporting

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ABSTRACT. This paper examines voluntary corporate social responsibility (CSR) reporting as a form of moral discourse. It explores how alternative stakeholder perspectives lead to differing perceptions of the process and content of responsible reporting. We contrast traditional stakeholder theory, which views stakeholders as external parties having a social contract with corporations, with an emerging perspective, which views interaction among corporations and constituents as relational in nature. This moves the stakeholder from an external entity to one that is integral to corporate activity. We explore how these alternative stakeholder perspectives give rise to different normative demands for stakeholder engagement, managerial processes, and communication. We discuss models of CSR reporting and accountability: EMAS, the ISO 14000 series, SA8000, AA1000, the Global Reporting Initiative, and the Copenhagen Charter. We explore how these models relate to the stakeholder philosophies and find that they are largely consistent with the traditional atomistic view but fall far short of the demands for moral engagement prescribed by a relational stakeholder perspective. Adopting a relational view requires stakeholder engagement not only in prescribing reporting requirements, but also in discourse relating to core aspects of the corporation such as mission, values, and management systems. Habermas' theory of communicative action provides guidelines for engaging stakeholders in this moral discourse.

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## Introduction

Throughout this paper, we use Habermas' theory of communicative action (1984, 1987, 1990) as a means through which to critique current approaches to corporate social responsibility reporting in terms of the degree to which these reports embody requirements for moral discourse. We provide a brief introduction to key elements of the theory and ground it in social theory. We then discuss the details as they apply to CSR reporting.

Our analysis is conducted in two stages, relying on different portions of Habermas' theory. In the first part, we examine the conditions that allow for basic communicative understanding. These conditions are the unspoken assumptions underlying communication. In normal communication, four basic universal assumptions are made: that the speaker is telling the truth, that he means what he says, and that what he says is appropriate in its context, and that it is understandable to the listener. In the first part of the paper, we show how models or frameworks for CSR reporting, taken together, address these assumptions and contribute to the effectiveness of CSR reports as a form of communication.

In the second part of our analysis, we rely upon the ethical aspects of Habermas' theory as a means through which to provide a normative critique of the body of CSR reporting frameworks. The theory of communicative action suggests that social progress can be accomplished through rational discourse under specific conditions. The discourse must be inclusive, democratic, and free of power asymmetries. Apel (1980) has suggested that the ethical nature of an agreement derives from the process used to arrive at that agreement (rather than universal or externally-imposed ethical standards). We use Habermas' principles as a means to examine the extent to corporate communication is reflective of moral discourse. We find that while the frameworks generally promote stakeholder consultation, they fall short of providing other conditions needed for moral discourse. In particular, they fail to provide mechanisms that allow stakeholders with differing resources to participate democratically in discourse.

The paper is organized as follows. First, we introduce social responsibility and corporate disclosure concepts related to CSR reporting. Next, we explore widely-used frameworks associated with corporate accountability in the CSR realm. Then, as noted above, we provide a 2-part analysis of how concepts from Habermas' theory of communicative action are currently realized in guidance provided by CSR reporting models. We close with concluding remarks.

## Background: social responsibility and corporate disclosure

Corporate social responsibility is addressed in current business, accounting and ethics literature. The issue was widely discussed in the seventies and early eighties and then dropped out of sight. The current re-energized focus includes social, environmental and ethical reporting by corporations. The notion of corporate social disclosure arises from a view of social theory which holds that the corporation owes a duty to the society; or has a social contract. One widely cited quotation comes from Shocker and Sethi (1974, p.67):

> "Any social institution – and business in no exception – operates in society via a social contract, expressed or implied, whereby its survival and growth are based on:
>
> 1. The delivery of some socially desirable ends to society in general and,
> 2. The distribution of economic, social or political benefits to groups from which it derives its power.
>
> In a dynamic society, neither the sources of institutional power nor the needs for its services are permanent. Therefore, an institution must constantly meet the twin tests of legitimacy and relevance by demonstrating that society requires its services and that the groups benefiting from its rewards have society's approval."

Carroll and Bucholtz offer a four-part definition of corporate social responsibility, "The social responsibility of business encompasses the economic, legal, ethical, and discretionary (philanthropic) expectations that society has of organizations at a given point in time (2006, p. 35)." This definition reflects current thinking on corporate social responsibility and acknowledges the need to note shifts in social environment, these may be social, legal, or political.

The past decade has also seen a call for environmental accounting and reporting, one subset of social responsibility reporting (see for example the Accounting Horizons, Beets, 1999, as well as the British and European literature reviewed by Bebbington et al. 1999; Gray et al., 1995; Gray 2002; Mathews, 1997). Elkington (1997) has made popular the notion of the triple bottom line, combining economic, social and environmental reports. With the debate on type, direction and verification of environmental information actively joined there has also been a return to the earlier, broader discussion of social responsibility and it's reporting. Corporate social performance measurement is called for in the business and society literature (for a review see Wood, 2000). Investment decisions are now made by both individual and institutional investors who demand CSR information as part of the decision criteria (Sparkes and Cowton, 2004). This reporting takes a variety of forms and is voluntary on the part of corporations, thus implicitly defining the stakeholders as outside the corporation and dependent on corporate willingness to disclose. This view demonstrates the underlying assumption that the stockholder is in fact the stakeholder of importance.

This position has been challenged by Kelly (2001) in *The Divine Right of Capital: Dethroning the Corporate Aristocracy* the author advances a perspective with corporations as another player in the social context and not necessarily one entitled to a priority position. The author states,

> "The notion that stockholders *are* the corporation is of course a legal fiction. That stockholders must be endlessly acquisitive is a related fiction. However generous and productive stockholders might be as individuals, in the system design they are an absent, passive, largely unproductive body of shifting speculators whose sole aim is to extract wealth. The corporation, by contrast, is a relatively stable community of persons engaged in making things and meeting human needs. That we equate stockholders with the corporation is thus clearly a fiction, a fiction so bold as to be breathtaking (Kelly, 2001, p. 87)".

This novel view sets the stage for a different perspective on the relationships of individual, society, and the corporation.

A further challenge arises from Buchholz and Rosenthal (2005) who offer a philosophical framework for the discussion. These authors note that some of the concerns that plague CSR arise from the underlying assumption of an atomistic view of the individual. Pragmatism is proposed as an appropriate theoretical framework for the ongoing discussion. This approach builds on stakeholder theory which itself arises from notions of social contract and is traced back to political economy theory. However, pragmatism envisions a society that does not follow the atomistic view of the individual that emerged with the scientific reductionist trend dominant since the establishment of Newtonian physics. Pragmatism can be seen as more congruent with the emerging theoretical quantum physics, and chaos and complexity theory. The individual, seen through the lens of pragmatism, is not separate from society and thus not separate from the corporation. Thus, a relational view emerges with corporations firmly embedded in society. Buchholz and Rosenthal propose pragmatism as a philosophy offering a foundation for, "a relational view of the self and the communal nature of corporate relations (2005, p. 142)." Thus the social individual exists only in relation to others and "the other" is considered in the development of conduct leading to common content and a community of meaning.

While this differs from the traditional stakeholder, as stockholder, theory of the firm, it may relate better with the current definition which holds a stakeholder to be, "any individual or group who can affect or is affected by the actions, decisions, policies, practices, or goals of the organization (Carroll and Bucholtz, 2006, p. 67)." Carroll and Bucholtz list primary and secondary stakeholders that include: the natural environment, future generations, nonhuman species, environmental interest groups and animal welfare organizations. Although, this view of stakeholders is expanded to include all aspects of society it still assumes the atomic view of the individual and the corporation as a discrete, isolatable economic unit. The various views of stakeholder theory are widely debated but most have the same underlying unchallenged assumptions. Donaldson and Preston (1995) move the discussion to consider alternatives aspects: descriptive/empirical, instrumental, and normative. While normative stakeholder theory introduces a values component it does not address questions raised above when the basic philosophical structure is questioned. Buchholz and Rosenthal further clarify this issue,

> "Because of the nature of the self, the individual is neither an isolatable discrete element in, nor an atomic building block of, a community. Rather, the individual represents the creative pole or dimension within community" (2005, p. 143).

This creativity leads to the emergence of novel viewpoints and leads to a dynamic community. This implies a participative communication leading to the emerging views of the community. In this structure the individual, the corporation, and the society are not separable. We adopt this relational view in this paper.

Existing literature in CSR also considers reporting, as a necessary component of societal accountability, and is of particular concern to accounting scholars with the actions of corporations and their reporting of these actions to constituents in society the primary focus. Scholars continue to develop theory and search for appropriate applications of existing theory to explain corporate social, ethical and environmental reporting practices. Examples of the range of theories currently discussed are: legitimacy (Deegan, 2002), stakeholder (Neu, et al. 1998), communitarian, (Lehman, 1999), media agenda setting theory (Brown and Deegan 1998), and social theory (Mathews 1997), Bebbington et al. (1999), Gray et al. (1995, and Gray, (2002) and critical theory, Tinker (1985,and 2002). Mathews (1997) and Gray (2002) provide excellent summary of the accounting literature in this field. This literature addresses reporting as a one directional communication issued to external constituents.

Corporate investors are questioning the adequacy of this communication approach and have called for increased reporting on issues of broad societal interest. Presently it is estimated that trillions of dollars are allocated to investments based on some social criteria (Sparkes and Cowton, 2004). Confusion may arise with the lack of comparable reporting. Implementable guidelines have consequently been developed by groups proposing models or frameworks for reporting (communicating) and auditing (verifying). Leading examples in order they were first issued are:

- EMAS (European, particularly German environmental management and audit)
- ISO 14001 (Internationally recognized environmental management certification)
- SA 8000 (Social Accountability International labor standard).
- AA1000 (International accountability assurance reporting standard).
- Copenhagen Charter (International standard involving stakeholder communications).
- GRI (Global Reporting Initiative) 2000 (International sustainability report).

These are detailed below.

Internationally companies have responded by increasing voluntary social and environmental reporting. Although some investors are demanding this information questions emerge about the information quality and purpose of the reporting. Are the stakeholders benefiting from corporate socially responsible action, and are corporations communicating fairly with the stakeholders? Habermas (1984, 1987, 1990) proposed principles of communicative action that may provide insight.

We turn then to the social context of corporations. Social contract theory emphasizes that corporations come into being to provide social goods and services and are incorporated by government, and thus by the people. This legal incorporation establishes all of society as stakeholders as corporations are just one of many components of society. Social contract then implicitly requires companies to maintain accountability to ensure their ongoing usefulness to society. Accountability has come to mean only financial/economic accountability, not a broader accounting for corporate related natural and social outcomes. The literature on corporate social responsibility reporting calls for accountability reporting for sustainability, both environmental and social. This includes dimensions of ecological sustainability as well as indicators of social justice such as fair distribution and intergenerational equity. CSR reporting frames this in terms of stakeholders. Accounting theory as expressed in the U.S. financial accounting framework holds that for reports to be useful to users, decision makers, they must have qualities of comparability and consistency (FASB, 1996). Although this was an obstacle to meaningful environmental and social accounting, voluntary international organizations have proposed reporting models which mitigate this problem. These are briefly outlined below. (For a more detailed discussion see Mathews and Reynolds, 2001).

## Models for corporate social responsibility reporting

Approaches to social and natural environmental accountability have been developed for various purposes. Classifying them under the umbrella of CSR reporting we will discuss some widely used models and introduce a less well-known model, which may provide additional benefit.

### *Eco-Management and Audit Scheme (EMAS, 1995, 2001)*

The European Commission set down the basic principles underlying the EMAS scheme in Council Regulation 1836/93 –EMAS of the European Commission. The purpose was improvement of environmental performance and was initially directed at manufacturing firms. This has since been extended to allow broad participation by any public or private entity wishing to participate. The regulation calls for an environmental statement from the entity and requires auditing and validation. Further, there is a requirement to document ongoing continual improvement through the implementation of policies, programmes and management systems by a systematic, objective, and periodic evaluation of performance. There is also an obligation to inform the public of the results of the evaluation.

The article on participation states that the scheme is open to public or private entities operating in the EU or the European Economic Area (EEA). The site may be registered if the site has an environmental policy, a site review, an environmental audit, objectives for continuous improvement, a statement from each site, verification covering policy, programmes, the management system, the review and audit procedure, and the statement provided. The validated environmental statement is then forwarded to the competent body in the Member State. The statement is also disseminated to the public after the registration of the site has been completed. The statement should be a concise, comprehensible description of activities at the site; with an assessment of significant relevant environmental issues, including: emissions, waste generation, consumption of raw materials, energy and water, noise and other significant aspects; a presentation of the company's environmental policy, programme and management system at the site, the deadline for the next statement, and the name of the accredited environmental verifier. The EMAS 2001 was strengthened by requiring ISO 14001 as the environmental management system.

*International Organisation for Standardisation (ISO 14000 series, 1997, 2002)*

The International Organisation for Standardisation (ISO) issued the 14000 series (1997, modified 2002) as an environmental management system (EMS) standard similar to the issuance of the ISO 9000 quality control standard. The intention is to introduce some consistency which allows for external parties to make judgements and assess trends. This EMS model includes requirements for Management commitment to an environmental policy. This policy is to be specified with documentation for organisational responsibility and personnel, programme implementation, control procedures, emergency preparedness, verification and review, documentation and communications. These last three characteristics arguably bring EMS models under the purview of professional accounting and auditing bodies (Mathews and Reynolds, 2001). With the implementation of this standard there is a shift from compliance and end of pipe command and control approaches, to one of prevention and continual improvement with the focus on the company or entity registering to the ISO standard. The entity must then make documents available to the public if they are requested. Thus, although this is a voluntary standard, once it is adopted by an entity all societal stakeholders have the right to view the information. ISO 14000 series is a specification standard and provides requirements against which an organization can be measured. Definitions in Section 3 of the standard specify interested parties and define environmental aspects. Environment, 3.2, is defined as, ‘‘surroundings in which an Organisation operates, including air, water, land, natural resources, flora, fauna, humans, and their interrelation.’’ A note continues, ‘‘Surroundings in this context extend from within an Organisation to the global system (p. 1).’’ Following this broad definition of environment is the definition of environmental aspect as an, ‘‘element of an Organisation's activities, products or services that can interact with the environment (3.3, p. 1)’’. This definition clearly includes the interests of, and interactions with, all societal stakeholders.

*Council on Economic Priorities Accreditation Agency Social Accountability Standard (SA8000, 1998) [renamed Social Accountability International (SAI)]*

This standard has a change in focus and is concerned with fair labor practices world wide. It is divided into purpose and scope, normative elements and their interpretation, definitions, and social accountability requirements. The social accountability requirements include: child labor, forced labor, health and safety, freedom of association and right to collective bargaining, discrimination, disciplinary practices, working hours, compensation, management systems, management review, company representatives, planning and implementation, control of suppliers, addressing concerns and taking corrective action, outside communication, access for verification and records. Organizations choosing to adopt this standard are encouraged to require their suppliers to comply with its requirements also. This extends it widely into global society. Organizations can adopt these standards voluntarily and may disclose their compliance with the provisions of the standard as part of other statements issued.

*Institute of Social and Ethical Accountability Standard AA1000 (1999)*

The first standard for building corporate accountability and trust was issued in November 1999 by the Institute of Social and Ethical Accountability (ISEA). The ISEA states that the AA 1000 standard "... provides both a framework that organizations can use to understand and improve their ethical performance and a means to judge the validity of ethical claims made." The AA 1000 standard is described as:

> ... an Accountability standard, focused on securing the quality of social and ethical accounting, auditing and reporting.

AA1000 comprises principles (the characteristics of a quality process) and a set of process standards. The process standards cover planning, accounting, auditing and reporting, embedding, and stakeholder engagement (AA1000, 1999, p. 1).

The focus is on improving overall performance through measurement, quality management, recruitment and retention of employees, external stakeholder engagement, partnership, risk management, investors, governance, government and regulatory relations and training (AA1000, 1999, pp. 3–4). Auditing and quality assurance are required as a part of the system. The users of AA1000 are expected to include adopting organizations, stakeholders, service providers, and standards developers. Thus we see the inclusion of societal stakeholders as constituents.

*The Copenhagen Charter (1999)*

This guide was launched at the Third International Conference on Social and Ethical Accounting, Auditing and Reporting, The charter was developed the Danish offices of Ernst and Young, KPMG, PriceWaterhouse Coopers and the House of Mandag Morgan. The basic concern of the charter is developing sensitivity to the values of stakeholders. The charter is designed as a "... management guide to stakeholder dialogue and reporting. It aims to set out, briefly and concisely, the most important motives and principles involved" (p. 1). The provisions of the charter show the focus on stakeholders as an integral part of the values and decisions of the corporation. Reporting with constituents is directly addressed and principles are set forth. These principles are listed in three group: laying the groundwork, embedding, and communicating. Laying the groundwork includes the involvement of top management, who should demonstrate commitment, determining objectives and resource allocation, setting up task groups, and preparing management and employees. The embedding process includes revising vision strategies and values, identifying key stakeholders and focus areas, identifying values and critical success factors, dialogue with stakeholders, determining key performance indicators, adaptation of management information systems, and monitoring effectiveness for continuous improvement. Communication is subdivided into preparing reports, having objectives, budgets and action plans for improvements, verifying reports, publishing reports, and consulting stakeholders about performance and values. Part Three is entitled 'Credibility in Stakeholder Reporting' and involves accounting principles (not necessarily GAAP), information relevance (including the provision of negative information as appropriate) and verification. The entire framework directly addresses stakeholder communication. The stated purpose is iterative response and communication based on stakeholder values as expressed. It was initiated as a management guide to stakeholder communications.

*Global Reporting Initiative Sustainability Reporting Guidelines (2000, 2002)*

The Global Reporting Initiative Sustainability Reporting Guidelines (hereafter GRI, 2000) is a structure established in 1997 as an offshoot of the Coalition for Environmentally Responsible Economies (CERES). The objective is to provide globally applicable guidelines for preparing sustainability reports, in contrast to environmental reports. Sustainability is held to include social environmental and ethical aspects. One goal is the provision of standardized disclosures of economic, environmental and social information in annual reports and the media. The international steering committee, which oversees the activities of the GRI, comprises NGOs, corporations, professional accounting bodies and the United Nations

The various sections of the GRI set out: objectives in relation to other initiatives, outlines of principles and qualitative characteristics, classification of performance reporting elements, ratio indicators and the disclosure of reporting practices. Content of the GRI report is detailed. This specifically includes a CEO statement, profile of the reporting organizations, an executive summary and key indicators, vision and strategy, policies organization, and management systems and performance. There is also a requirement for verification.

Following some of the reporting requirements noted in the Statement of Financial Accounting Concepts (FASB, 1996) GRI adopts some of the conceptual framework reporting principles such as the reporting: entity, scope, period, going concern, conservatism and materiality. Further the adopt familiar qualitative report characteristics: relevance, reliability, clarity, comparability, timeliness, and verifiability.

Report content should include:

- 'categories' (groupings of economic, environmental and social issues of concern to stakeholders);
- 'aspects' (which refers to general types of information related to a specific category); and
- 'indicators' (which are the specific measurements of an individual aspect that can be used to track and demonstrate performance).

This approach is compatible with that of ISO 14000 and the World Business Council for Sustainable Development (WBCSD).

The widespread use of these frameworks indicate that corporations are recognizing the importance of communication with stakeholders. More than 60% of the Global 1000 corporations voluntarily adopt the GRI reporting guidelines. Worldwide, thousands of entities: corporate, institutional, governmental, and non-governmental have adopted the ISO 14000 series standards. We ask what this means for society? What does this imply for stakeholders? Does adoption of these models indicate that ethical communications with stakeholders are taking place? Are corporations simply reporting to stakeholders, or are they engaging stakeholders in decisions that affect them? We turn to Habermas' Theory of Communicative Action as a means through which to explore the degree to which CSR reports represent the results of action based on moral discourse between a company and its stakeholders.

## Communicative validity

Habermas' Theory of Communicative Action is grounded in critical social theory (CST). At the core, critical social theory seeks to emancipate humans from the material and ideological conditions that restrict their freedom. Habermas believes that societal transformation can best be accomplished through communicative action. Communicative action is oriented toward mutual understanding. It can perhaps be best understood by contrasting it to teleological action.

Teleological action, according to Habermas' theory, is purposive action oriented toward success. This orientation commands power and resources to coordinate actions and generate agreement. Goals are achieved through instrumental control of objects and people along with the application of technology and decision rules. Success can be measured by evaluating whether goals have been efficiently achieved. Teleological action is generally presumed in business transactions and is seen as the guiding principle in economics. Economic theory assumes that individuals use technical knowledge and means-ends calculation to optimize outcomes.

Habermas' Theory of Communicative action proposes that not all action is teleological, and much human interaction is oriented instead toward communicative action. Communicative action takes place solely through the use of language and is oriented toward achieving mutual agreement. Habermas grounds his arguments about human communication in the ontological and linguistic notions of discourse theory.

Discourse theory attempts to construct the universal conditions of human understanding. Since Habermas believes that human agreement is an important part of human behavior and necessary for social progress, he explores the general conditions that give natural speakers the ability to communicate rationally. These conditions are known as 'universal pragmatics' or validity claims. Habermas argues that a set of unspoken validity claims underlies all normal speech. These conditions are assumed by both speaker and listener, and make rational communication possible. These validity claims are:

– truth – the objective truth of the propositions made
– sincerity – the subjective truth of the propositions
– understandability – the comprehensiveness of the propositions
– appropriateness – the extent to which the propositions comply with norms

Under normal circumstances, we assume that what the speaker says is true, that the speaker is sincere, and means what he or she says, that the topic or content of what is said is appropriate to the context in which it is said, and that the listener will be able to understand what the speaker says.

We argue here that in public corporate communication, these assumptions cannot be taken for granted. To a greater degree than many other forms of speech, corporate communication is subject to a variety of economic and political forces. Under these pressures, and within the current context of market capitalism, communicative action becomes improbable. Instead, it is generally taken for granted that corporate communication is oriented toward teleological action – it is a means for achieving desired corporate ends. Therefore, the validity claims which form the basis for rational communication and mutual agreement are called into question. They must be guaranteed in some way by the communicator and or recipient.

## Validity claims: analysis I

In this section, we consider claims of appropriateness, understandability, truth, and sincerity, appropriateness and understandability associated with CSR reporting. We explore how these characteristics, which for Habermas are always presumed in normal speech, can be guaranteed in corporate reporting. We find that, taken together, the reporting frameworks address all of Habermas' validity claims.

### *Appropriateness and understandability*

In normal communication, what the speaker speaks is presumed to be appropriate within its context and understandable to the listener. In corporate communication, deciding what to say and how to make it understood are difficult challenges. Communication included in corporate financial reports is often carefully prescribed; guidelines are provided for both the format and content of written and numeric communication. Since CSR reporting is still in its infancy, and because the scope of CSR is so broad, determining how to appropriately report CSR-related activity poses a significant challenge for corporations. It is difficult for corporations to determine what they can and should disclose to stakeholders, and how to put this information into a format or context that allows users to correctly interpret it.

A variety of global standards have been developed provide guidance to corporations regarding the content of CSR reports and to help ensure that this information is presented in such a manner that it can be effectively interpreted by a broad range of users. Standards provide detailed and specific guidance about what information is appropriate to include in CSR reports, suggest categories of metrics that can be included, and develop approaches for measuring and presenting information.

Of the reporting models explored for purposes of this paper, the GRI and SA 8000 most directly address issues relating to appropriateness and understandability of corporate communication. The GRI and similar initiatives were developed through lengthy and thorough processes for identifying the basic needs and interests of a broad variety of stakeholder groups. Stakeholder consultation was used to define what information stakeholders sought and for what purposes. This information was then used to determine what information was appropriate to communicate to stakeholders and how it could best be communicated. This process was also used to help ensure that the information was understandable to recipients, by providing how that information is organized, referenced, labeled, and sometimes captured, measured, and reported. ISO 14063, part of the ISO 14000 series, specifically addresses the effectiveness, and by implication the understandability, of corporate communications to stakeholders.

The GRI, designed to enhance ''the quality, rigor, and utility of sustainability reporting'', provides a set of principles for sustainability reporting along with suggestions relating to the content and compilation of the reports. The GRI identifies a large number of performance metrics relating to economic, social, and environmental issues and suggests that additional information identified by stakeholders also be included. The SA 8000 focuses more narrowly on issues relating to human rights. It identifies a set of labor standards to be followed by companies reporting under the standard. Signatories to the standard agree to report publicly on their progress in implementing the labor standards.

The frameworks enhance appropriateness of social reports by helping to ensure that information relevant to stakeholders is included in the reports. By providing means for standardization of metrics and reports, the frameworks enhance the understandability of its CSR communications.

### *Truth*

In order for CSR reports to be useful in making corporate activity transparent to stakeholders, the veracity of the information contained in the reports must be assured. There is evidence that financial markets have disciplinary mechanisms which, over time, penalize firms that communicate inaccurate information. Such mechanisms do not yet exist, and may never be possible in the CSR realm due to the broad range of activities and consequences that can be addressed in CSR reports. Direct validation of the information contained in these reports can therefore be helpful in guaranteeing the truthfulness of claims made.

Many of the models discussed do incorporate or recommend use of processes designed to ensure the accuracy of reported information through verification. The AA1000 assurance standard is a process standard that provides a thorough and widely-used method for validating information in CSR reports. The standard provides a methodology for auditing corporate CSR reports and the activity underlying them. The AA1000 provides a set of audit and accountability procedures that help ensure that companies comply with standards, such as the GRI, that it has voluntarily adopted, along with the law. It then provides the basis for assuring the validity of CSR reports that publicly communicate the outcomes of corporate activity.

And AA1000 audit follows a set of standardized procedures designed to guarantee the credibility of reported information. The methodology emphasizes stakeholder interests, and provides mechanisms to help avoid misstatements or omissions that could impact stakeholder decisions or actions. Like financial audits, AA1000 and similar assurance frameworks require rigorous planning, investigation, and documentation. They examine both the reported data, and the effectiveness of organizational processes that ensure the reliability of the data. EMAS and ISO both require ongoing verification.

### *Sincerity*

Habermas' sincerity criteria is perhaps the most difficult to evaluate. While the truth criterion focuses on the factual truth of a statement – sincerity focuses on the subjective beliefs underlying the statement. Since there are no formal standards for CSR reporting, it is possible for firms to pick and choose which items to include in the report and which to leave out. Thus it would be possible to have a report that is factually correct, but paints an inaccurate picture of performance.

CSR reports are intended to provide transparency about a firm's activities but performance information alone may be insufficient to provide the transparency stakeholders desire. Environmental management system frameworks can fill this gap. Environmental management systems generally include environmental strategy, goals, processes, measurement and reward, and feedback components, all under the oversight of top management.

EMAS and the ISO 14000 series are standards firms can voluntarily adopt to help ensure that the goal of improved environmental performance is embedded into its strategy, structures, and processes. Although specific environmental goals are unique to each firm, rather than prescribed externally, all firms adopting these standards have the goal of improving environmental performance.

Environmental management systems extend beyond a firm's internal activities to those of their suppliers. Major suppliers to these firms must operate their own environmental management systems. A similar requirement holds under SA 8000 for supplier labor standards. These requirements prevent firms from outsourcing activities to firms with lower standards, and provide incentives for supplier firms to improve their own standards.

The Copenhagen Charter is a stakeholder communication guideline designed to allow corporations and stakeholders to communicate about stakeholder values and concerns. The iterative nature of this process implies sincerity on the part of top management. A specific part of the process calls for corporations to report their responses to previously expressed concerns.

Although the management system frameworks most directly address the issue of sincerity, all of the frameworks, to some extent, ensure that the firms that adopt them are sincere about improving social performance. All of the frameworks require firms to understand and be responsive in various ways to the needs or corporate stakeholders, and adoption of these voluntary standards provides evidence that stakeholder interests are important to the firm.

Taken together, the frameworks help ensure the appropriateness, understandability, truthfulness, and sincerity of the communicative claims made in CSR reports. Compliance with these validity claims is an important first step in establishing an effective discourse between a corporation and its stakeholders. Thus far in our analysis, the communication is only one way – we have examined characteristics of communication by a corporation to its stakeholders. In the next part of the analysis, we discuss means thorough which firms can establish moral discourse to ensure that valid communication takes place in both directions, and to provide an environment that promotes formation of mutual consensus.

## Moral discourse

Earlier, we noted that current stakeholder paradigms generally view the stakeholders as external parties whose interests should be taken into account and/or managed by corporate representatives. We shift now toward a relational view of stakeholders that views external and internal stakeholders as participants in an ongoing relational web. In this part of the analysis, we return to Habermas for guidance on how communication among stakeholders might be designed such that it exhibits characteristics of moral discourse, and results in outcomes that are mutually acceptable to all participants.

Habermas' theory operates at a societal level and is grounded in critical social theory. The basic goals of such theories are: to understand the existence and origins of deficiencies in current society, and to uncover more desirable futures and shape society to better meet the interests of participants. Habermas argues that social goals can best be achieved through communicative action that incorporates the validity claims addressed above, and that is geared toward mutual understanding and consensus formation.

Habermas seeks to identify principles that establish the conditions under which such social self-transformation and human progress can be achieved. Habermas holds that this achievement cannot come about through the application of administrative power or resources. Rather, it must be pursued through rational discourse among informed parties. Habermas proposes communicative action and discourse ethics as the means through which members of a society can conceive and pursue outcomes acceptable to all parties affected by them.

In his discussions of discourse ethics, Habermas argues that moral norms gain validity not through their adherence to external universal criteria, as is often claimed. Instead, norms are valid if they are developed through an open and fair discourse among all parties affected by them. Habermas builds on work by Apel (1980) that outlines the conditions for "ideal speech" – a discursive situation that can provide the foundation for the development of moral norms.

Kettner (1993) distills Habermas' arguments about ideal speech into five propositions:

- generality – the discussion should be open and accessible to all interested parties,
- autonomous evaluation – participants must have opportunity to fully express interests,
- role-taking – participants must attempt to view the situation from others' perspectives,
- transparency – participants must reveal their goals and intentions relevant to the issue,
- power neutrality – the discussion must be free from coercion.

Each of these principles can be applied within the context of CSR. The generality proposition suggests that corporations have the responsibility to allow all stakeholders to participate in discussions about matters that can affect their welfare. Before ethical discourse about social responsibility can take place, corporations must identify those constituencies who hold a stake in corporate decisions. Kettner (1993), following Habermas, extends generality to "all interested parties". Stakeholder theory is generally somewhat more restrictive, and includes all parties who can affect or be affected by corporate activity. Various stakeholder theories are more or less inclusive regarding which stakeholder groups corporations must recognize.

Autonomous evaluation requires that participants in moral discourse must have the opportunity to express their interests and objectives, to make assertions, and to question assertions made by others. In a practical sense, this requires corporations to identify relevant stakeholders and invite them or their representatives to participate in a discussion about the actions that might affect them. This principle requires corporations to go beyond the common practice of considering how their actions might affect stakeholders. The stakeholders must be allowed to speak for themselves.

The role-taking proposition requires all participants in the discourse to attempt to understand the perspectives of other participants. Mutual understanding cannot be achieved when participants act strategically, working to negotiate to achieve their own desired ends. Instead, participants attempt to truly understand the perspectives of others, and allow the 'force of the better argument', or reason, to prevail in developing mutually-acceptable solutions. In a CSR setting, this requires companies to move far beyond strategic stakeholder management, and even past stakeholder consultation, to true stakeholder engagement.

Transparency requires that parties in the discourse make their positions, goals, and interests known to other members. Hidden or distorted information works against transparency objectives. Only with full disclosure can participants develop rational agreements that take the interests of all parties into account. Although full transparency is unrealistic in the corporate realm in which companies hide information from competitors and others for strategic purposes, it can nonetheless serve as an ideal for stakeholder engagement.

The final condition, power neutrality, is little discussed but critically important in the CSR realm. As discussed above, participants in moral discourse must fully disclose their own interests, as required by the transparency constraint, and be allowed to make assertions and question those made by other parties, as required by the autonomous evaluation constraint. In order for this to take place, efforts must be made to provide for a democratic setting, in which all participants have equal opportunity to speak and be heard. This is perhaps the most difficult condition to achieve in stakeholder engagement due to the strong power relationships that exist outside the engagement and because the resources and capabilities possessed by stakeholders can vary so dramatically. In conditions under which stakeholders have unequal power, the organization must attempt to provide conditions for democratic participation.

Taken together, these propositions provide the conditions under which participants in a discussion can seek consensus decisions based on mutual understanding. Moral discourse requires a perspective in which all participants search for common content as seen in the theory of pragmatism. This discourse is possible to the extent that participants can break free of material and ideological influences.

## Discursive processes: analysis II

In this part of the analysis, we explore the discursive processes inherent in the CSR reporting frameworks. We examine each of the ideal speech principles to explore how they are addressed by the reporting models. Although each of the models recognizes that stakeholders must participate in the CSR reporting process, the nature and scope of participation varies dramatically across the models, as does the level of specificity provided.

It is important to note before proceeding that most of the frameworks do not directly address the problem of how stakeholders should be engaged in discursive processes. Some frameworks even state that it is beyond their scope to address such issues. Nonetheless, all of the models explored here explicitly recognize that corporate reporting is one component of the firm's overall program of socially-responsible behavior.

Following Habermas and Apel (1980), we argue that responsible behavior flows from decisions, and those decisions are best evaluated based on the processes through which they were formed, rather than their outcomes. Thus, we believe that stakeholder engagement is a necessary prerequisite to socially-responsible action. And we find that all of the frameworks investigated here make reference, explicitly or implicitly, to principles of stakeholder engagement. In the following analysis, we examine the degree to which, individually and in combination, the engagement processes embedded in the reporting models satisfy the principles of discourse ethics.

### *Generality*

The first principle, generality, suggests that all interested parties have an opportunity to be involved in the dialogue. In environmental reporting, this can be interpreted to mean that all corporate stakeholders can participate in CSR reporting initiatives. When considering ideal speech, the notion of stakeholders is generally somewhat more restrictive than a general interest notion, and is normally restricted to stakeholders that can affect or be affected by corporate activity. Here, consistent with Carroll and Bucholtz (2006), we include 'the natural environment' as a stakeholder, and do not eliminate from consideration non-human species and future generations.

All of the reporting models or frameworks address, in some way, the importance of stakeholder participation in the environmental or social management and reporting process. Companies that produce environmental or social reports recognize the importance of these reports to interested stakeholders extending beyond corporate investors. The reporting models providing specific guidelines about what should be included in social reports (such as the GRI and the SA 8000) carefully tailor their recommendations based on the expressed interests of a broad range of stakeholder groups. The developers of these and other social reporting frameworks worked through processes that included participation from a broad range of interested parties.

Because stakeholder interests are embedded in the reporting frameworks, adoption of these frameworks suggests that the adopting corporation takes stakeholder interests seriously. Although this is an important step in the pursuit of ethical corporate activity, it falls short of an ideal speech situation. To develop a morally-grounded consensus, those parties holding a stake in the decision must be included or represented. Stakeholder interests vary greatly depending on specific issues addressed. They are influenced by a variety of factors that also may change over time. Thus, the company must continually revise its list of relevant stakeholders based on the specific issues being addressed.

Each of the reporting frameworks explored recognizes the importance of identifying relevant stakeholders. The SA 8000 labor standard identifies the general parties (e.g., workers, governments, companies in the supply chain) who are likely to hold a stake in labor reporting. Other frameworks address social performance more broadly, and recognize that many different parties may hold an interest. Each of these frameworks requires organizations to identify relevant stakeholders, and recognizes that understanding and addressing the interests of these stakeholder groups is a necessary condition for effective social reporting.

The EMAS recognizes that different stakeholders need different information. Firms are required to consider the needs of various stakeholder groups in determining what information to report and how is should be communicated. Under AA1000, organizations commit to identifying stakeholders impacted by organizational performance, and to understanding the views of these stakeholders. The ISO 14001 standard requires that reports on environmental aspects be made available to all interested parties. The GRI identifies a set of generic reporting metrics that would be of interest to a broad range of stakeholders. Still, corporations reporting under these guidelines are expected to identify their own stakeholders and report additional metrics to accommodate them.

### *Role taking*

The second principle of ideal speech – role taking – is also addressed or inferred by all of the reporting frameworks in our analysis. The role-taking principle suggests that in order to form consensus, parties in a discourse must attempt to understand each others' points of view. A good deal of research in CSR reporting argues that corporations engage in reporting in order to manipulate rather than to understand stakeholder interests. But regardless of how corporate social reporting may be misused by some firms, each of the models discussed above is grounded in the recognition that corporate activity designed solely to maximize shareholder wealth can have dire consequences for other stakeholders. Thus, adoption of any of the frameworks requires the corporation to recognize the interests of these stakeholders. Even companies pursuing CSR reporting purely for public relations advantages must attempt to understand the interests of the public.

Role taking in the CSR reporting realm can be understood as efforts to identify and understand the key interests and issues of stakeholders. The EMAS and ISO standards do not specifically require firms to understand the interests of their stakeholders. But they encourage companies to identify all environmental aspects of their activities and to make reports on these aspects available to all concerned stakeholders. Most commonly, the frameworks encourage firms to identify those performance indicators the stakeholder groups would like to see incorporated into corporate reports. Although these indicators provide only a surface-level representation of the interests of stakeholders, they do allow the reporting company some insights into the needs and preferences of the stakeholders. The willingness to gather this basic level of information provides evidence of a desire by the corporation to understand stakeholder perspectives.

Although most of the role-taking activity involves identification of reporting metrics, some of the frameworks go beyond the surface and require companies to identify those issues that concern stakeholders. The Copenhagen Charter asks firms to identify 'critical success factors' – outcomes of greatest importance – for each of the corporation's key stakeholder groups.

### *Autonomous evaluation*

Although identification of stakeholders impacted by corporate action is a major achievement in the pursuit of CSR, it is only the first of many challenges for corporations seeking true stakeholder consensus. For Habermas and Apel, autonomous evaluation – allowing stakeholders to participate fully in the discussion – is required for meaningful consensus. Under many instrumental and even normative stakeholder approaches, corporate action is seen as responsible if the corporation gathers information on stakeholder interests and makes a serious attempt to accommodate them in decision making. This is not sufficient for consensus formation, however. Ideal speech requires that stakeholders have an actual voice in discussions – either directly or through their representatives. Decisions based on imputed stakeholder interests or implied consent do not carry the normative weight of decisions achieved through active stakeholder participation.

Autonomous evaluation requires that each stakeholder participating in the discourse be allowed to express opinions, make proposals, raise and question claims, and engage in other speech acts necessary to move toward consensus. In corporations, stakeholders are likely to be dispersed across geographical locations and to possess differing capabilities and expectations regarding their interaction with the corporation. Therefore, to accommodate a discussion among these parties requires careful planning. Corporations must develop processes for stakeholder interaction and supply logistical and technical mechanisms to support this interaction. For stakeholders with sufficient economic and technological resources, in-person or online synchronous meetings may be used as avenues through which stakeholders can pursue consensus. For stakeholders without these advantages, creative approaches must be developed to encourage and accommodate full stakeholder participation in decision-making processes.

Although the reporting models examined recognize that understanding stakeholder interests is imperative, they provide little guidance to corporations regarding how this goal might be accomplished. Within the ISO 14000 series, one standard – ISO 14063 – provides a guideline for stakeholder communication. It requires development of a stakeholder communication policy covering the corporation's commitment to engage in discussions with stakeholders addressing key environmental issues and to disclose environmental performance information. The guideline further requires the company to evaluate the effectiveness of its stakeholder communications. Although the guideline appears to be directed largely toward communicating intentions as a means of avoiding unanticipated stakeholder responses, it nonetheless opens avenues for stakeholder dialogue.

The Copenhagen Charter is perhaps the most advanced of the reporting guidelines in this respect. Although it too falls short of prescribing stakeholder engagement processes, it does require companies to develop their own processes and to allocate resources to implement them. Further, it recognizes that commitment to stakeholder engagement must come from top management, who is also responsible for developing objectives for stakeholder engagement. This model also requires an iterative process with the company reporting its response to previous communications from stakeholders.

We find other frameworks also recommending a voice for stakeholders. SA 8000 requires firms to identify a representative of the non-management workers to work with a management representative on development and implementation of labor standards. The AA1000 requires the auditor to gather historical information about stakeholder views and to examine and evaluate the quality of stakeholder engagement processes.

The EMAS does not require firms to establish direct communication with stakeholders. The GRI emphasizes the importance of stakeholder engagement in determining the contents of CSR reporting. Further, while stating that standards for engagement lie beyond its scope, it notes that guidance on this topic is available elsewhere. Corporations following GRI guidelines report on processes used for stakeholder consultations as well as how information gathered through consultation was used.

*Transparency*

The transparency requirement is the flip side of autonomous evaluation. While autonomous evaluation guarantees stakeholders the right to raise issues and make claims, the transparency condition requires these stakeholders to make their interests known publicly to other parties. The sincerity principle described in the first analysis requires speakers to mean what they say. Here we note that the transparency principle requires speakers to say what they mean. This includes corporate and stakeholder participants.

Hidden preferences and motives detract from the ability of participants to use role taking to understand the issue from the perspective of other parties and impede formation of solutions grounded in mutual consensus. Although there is no clear way to guarantee transparency within a single discussion, ongoing interaction over time can provide conditions through which the true motives of the stakeholder participants can be revealed.

One way of addressing corporate transparency is seen in the reporting models, which have requirements for public reporting. Although public reporting certainly cannot guarantee that the full range of corporate interests is exposed, it at least provides the mechanism for making transparent some corporate motives and actions. Most of the reporting frameworks require that corporations report social outcomes publicly to their stakeholders. What corporations choose to include in these reports provides important signals about organizational interests and priorities. Some of the frameworks require firms to go beyond outcome measures and report on aspects of how the firm operates. SA8000, for example, requires firms to publicly report their policies relating to social accountability and labor conditions. EMAS and ISO require reporting entities to disclose environmental policies or aspects and, in addition, to outline the management structure governing the environmental management system.

Some frameworks expand beyond current activities and require corporations to provide information about their future plans relating to social performance. For example, organizations reporting under GRI guidelines begin their reports with a statement from the CEO. This statement is an effort to make transparent the organization's vision for sustainable development. As with the management discussion and analysis in corporate annual financial reports, there is no way to guarantee management's candor or sincerity with regard to motivations and future plans. Nonetheless, because of the multi-period nature of stakeholder engagement, corporations have clear incentives to ensure the truthfulness of these discussions. Just as firms are disciplined by the market when financial claims fail to materialize, stakeholders have a variety of means available for disciplining firms falling short of transparency expectations.

Both the ISO 14000 series and the Copenhagen Charter avoid prescribing specific report contents and focus instead on the stakeholder engagement and reporting cycle. These guidelines assume that specific report contents will be determined through direct consultation with the corporation's shareholders. Both of these reporting models refer to an iterative process, which could serve to increase transparency on both sides of the communication.

All of the frameworks implicitly, and some explicitly, recognize the iterative nature of stakeholder reporting. They recognize that social reporting is not simply the end product of social performance. Instead, they recognize that in anticipation of public reporting, corporations will manage activities in a manner that allows for favorable outcomes and reports. And the frameworks recognize that stakeholders will react to the information provided in CSR reports and will take action that will affect the corporation and its future actions and social performance. Although the mechanisms that allow this to take place are not always specified, it can be inferred that ongoing, iterative dialogue and communication with stakeholders will result in mutual exposure of interests and intentions, and will, over time, result in conditions that approximate discursive transparency.

*Power neutrality*

The final ideal speech principle – power neutrality – is the ideal most problematic in the context of CSR reporting. This principle requires democratic participation in discourse, a situation almost impossible to achieve in a corporate stakeholder engagement context. In order for the principle to be realized, all participants involved in discussions about corporate social activity have an equal voice in determining outcomes. Due to the legal corporate form, the Western world privileges management's fiduciary responsibility to shareholders above responsibilities to other stakeholders, it may be legally impossible to engage in processes that allow stakeholders equal power in corporate decision-making. Nonetheless, corporations truly seeking to understand stakeholder interests through role taking and to encourage autonomous evaluation, or full participation of stakeholders in discursive processes must recognize the importance of power neutrality. This can only take place in a setting free of coercion and fear of recourse.

Stakeholder relationships, such as that between non-management labor and top management, are inherently power-based, and providing for egalitarian decision-making might require the use of mechanisms such as anonymous communication. Likewise, differential access to resources necessary to become fully informed on an issue and to formulate well-reasoned claims and options leads to inherent and persistent power differentials among participants. Corporations pursuing power neutrality must recognize and attempt to remedy the consequences of unequal access to resources if they seek to develop consensus on egalitarian grounds.

Power neutrality is perhaps both the most critical and, at the same time, the most elusive of the ideal speech principles. To avoid strategic action and decisions that are biased toward the interests of powerful parties, all parties must have the potential for equal access to discussions, and the potential for equal participation in those discussions. Under such conditions, the 'force of the better argument' prevails, regardless of who makes that argument. Power-neutral conditions are exceptionally rare in corporate/stakeholder interaction.

To achieve social progress grounded in morally-binding mutual consensus, it is imperative that companies recognize problems inherent in current domination structures and take measures to neutralize power differentials in decisions that influence social outcomes. At the current time, none of the reporting frameworks seriously addresses this foundational criterion for moral choice.

Analysis II shows that all of the CSR reporting models fall short when it comes to fully engaging stakeholders by adopting all key principles of moral discourse. As these models continue to develop, there is a trend to move from a model of reporting only toward an effort to communicate with stakeholders in a more interactive way. Examples of this are seen in the Copenhagen Charter which responds to stakeholder expressed values, the GRI with its identification of stakeholders and early attempts to engage them, as well as the ISO 14063 communication guideline that requires companies to identify interested parties and evaluate effectiveness of communication with them.

## Concluding remarks

In this paper, we have adopted the relational view of stakeholders suggested by the theory of pragmatism. Under this perspective, CSR reporting becomes part of an ongoing discourse between a corporation and its stakeholders, rather than one-way communication about past performance. We use Habermas' theory of communicative action to provide guidance on how this discourse can be conducted in a manner that leads to morally-justifiable outcomes. We examine how Habermasian principles are approximated in existing reporting models such as EMAS, ISO, SA 8000, AA 1000, and The Copenhagen Charter.

The widespread voluntary adoption of various reporting models allows decision makers interested in social responsibility to evaluate corporations using this information in the context of a perceived social contract. The use of frameworks that approximate principles of communicative action allows investigation not only of reported outcomes, but also of the processes involved.

In the first part of our analysis, the reporting models were examined for elements of truth, sincerity, understandability and appropriateness. When viewed together, we find that these frameworks effectively address these four components of communicative validity. In doing so, they serve to enhance the reliability and usefulness of CSR reports.

The second part of the analysis moves further to the question of moral discourse among the concerned constituents. We use Habermas' principles of ethical discourse and assess the reporting models based on five ideal speech propositions: generality, autonomous evaluation, role taking, transparency, and power neutrality. Analysis II finds that the reporting models incorporate some aspects such as generality, autonomous evaluation and, perhaps implicitly, role taking. Transparency is also addressed, but tends to be a one way communication rather than a democratic discourse. Power neutrality, which is necessary to move society fully into moral discourse, is an ideal that is not currently achieved through any of these frameworks.

Based on our examination of corporate social responsibility reporting models currently in use, we conclude that progress is being made in CSR reporting, and communication. Models exist that enable corporations to report on their social, environmental, and ethical performance. The existing models discussed in this paper offer opportunity for some transparency and greatly enhance the ability for broader stakeholders to compare companies and their performance in these critical arenas. However, the models do not quite move to the level of ethical discourse through which social progress might be achieved. We believe that a different philosophical perspective, making stakeholders an intrinsic part of the discourse rather than peripheral to the process, and engaging them in discourse that is open, fair, and democratic would move society toward moral corporate discourse.

Several of the models examined offer aspects that lead in this direction. Modifications of frameworks and frameworks in progress, such as the SA1000 Stakeholder Engagement Standard, provide evidence that corporations and their constituents recognize that corporate accountability is supported by effective stakeholder engagement. As reporting on CSR performance encourages performance improvements, we believe that the same holds for moral discourse. As companies move toward greater transparency in the processes and outcomes of stakeholder discourse, we expect movement toward ideal speech and moral communicative outcomes.

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