Introduction: developing standards for reporting

There has been considerable change in the emphasis of corporate reporting of their Corporate Social Responsibility (CSR) activity which has taken place in recent years. This change is not just in terms of the extent of such reporting, which has become more or less ubiquitous throughout the world, but also in terms of style and content. When researching into corporate activity and the reporting of that activity in the 1990’s it was necessary to acknowledge (Crowther 2002) that no measures of social or environmental performance existed which had gained universal acceptability. Good social or environmental performance was subjectively based upon the perspective of the evaluator and the mores of the temporal horizon of reporting. Consequently any reporting concerning such performance could not easily be made which would allow a comparative evaluation between corporations to be undertaken. This was regarded as helpful to the image creation activity of the corporate reporting as the authors of the script were therefore able to create an image which could not be refuted through quantificatory comparative evaluation. Instead such images could be created through the use of linguistic and non-linguistic means. Thus each company was able to select measures which created the semiotic of social concern and environmental responsibility and of continual progress, through the selective use of measures which support these myths. As a consequence of the individual selection of measures to be reported upon, a spatial evaluation of performance, through a comparison of the performance with other companies, was not possible and a temporal evaluation was all that remained. This temporal evaluation was of course determined by the authors of the script, through their choice of measures for reporting upon, in order to support the myth of continual improvement. Because any measure of such performance does not have universal acceptance as a measurement tool, each company must determine its own priorities for social and environmental performance and develop appropriate measures for reporting upon impact. It is convenient however that companies, all undertaking very similar operations, chose different measures of performance which all show their performance as being not just good but, by implication, the best that can be achieved.

While this research was being undertaken steps were being taken to change this and to develop some kind of standards for reporting. Thus in 1999 the Institute of Social and Ethical Accountability published the AA1000 Assurance Standard the aim of fostering greater transparency in corporate reporting. AccountAbility, an international, not-for-profit, professional institute has launched the world’s first-ever assurance standard for social and sustainability reporting. The AA1000 framework is designed to improve accountability and

1 The Institute of Social and Ethical Accountability is probably better known as AccountAbility.
2 http://www.accountability.org.uk
performance by learning through stakeholder engagement. It was developed to address the need for organisations to integrate their stakeholder engagement processes into daily activities. It has been used worldwide by leading businesses, non-profit organisations and public bodies. The Framework is designed to help users to establish a systematic stakeholder engagement process that generates the indicators, targets, and reporting systems needed to ensure its effectiveness in overall organisational performance. The principle underpinning AA1000 is inclusivity. The building blocks of the process framework are planning, accounting and auditing and reporting. It does not prescribe what should be reported on but rather the 'how'.

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

At the similar time the Global Reporting Initiative (GRI) produced its Sustainability Reporting Guidelines have been developed through multi-stakeholder dialogue. The guidelines are claimed to be closely aligned to AA1000, but focus on a specific part of the social and environmental accounting and reporting process, namely reporting. The GRI aims to cover a full range of economic issues, although these are currently at different stages of development. The GRI is an initiative that develops and disseminates voluntary Sustainability Reporting Guidelines. These Guidelines are for voluntary use by organisations for reporting on the economic, environmental, and social dimensions of their activities, products, and services. Although originally started by an NGO, GRI has become accepted as a leading model for how social environmental and economic reporting reports whilst being sufficiently flexible to reflect the different impacts of different business sectors.

The GRI aims to develop and disseminate globally applicable Sustainability Reporting Guidelines. These Guidelines are for voluntary use by organisations for reporting on the economic, environmental, and social dimensions of their activities, products, and services. The GRI incorporates the active participation of representatives from business, accountancy, investment, environmental, human rights, research and labour organisations from around the world. Started in 1997, GRI became independent in 2002, and is an official collaborating centre of the United Nations Environment Programme (UNEP) and works in cooperation with UN Secretary-Ca In January 2006 the draft version of its new Sustainability Reporting Guidelines, named the G3, was produced and made open for feedback. The GRI pursues its mission through the development and continuous improvement of a reporting framework that can be used by any organisation to report on its economic, environmental and social performance. The GRI has become the popular framework for reporting, on a voluntary basis, for several hundred organizations, mostly for-profit corporations. It claims to be the result of a permanent interaction with many people that supposedly represents a wide variety of stakeholders relative to the impact of the activity of business around the world.
GRI and AA1000 provide a set of tools to help organisations manage, measure and communicate their overall sustainability performance: social, environmental and economic. Together, they draw on a wide range of stakeholders and interests to increase the legitimacy of decision-making and improve performance. Individually, each initiative supports the application of the other – at least this is the claim of both organisations concerned; AA1000 provides a rigorous process of stakeholder engagement in support of sustainable development, while GRI provides globally applicable guidelines for reporting on sustainable development that stresses stakeholder engagement in both its development and content. Part of the purpose of this paper however is to question the need for these standards as all the evidence concerning standard setting suggests that standards are derived by consensual agreement rather than by the actions of a third party.

The EC approach

The European Union, through its Commission, has concentrated on the enaction of corporate social responsibility (CSR) as an expression of European cohesion. The Green Papers Promoting a European framework for Corporate Social Responsibility (EC, 2001) and Corporate Social Responsibility: A business contribution to Sustainable Development (EC, 2002) define the pressure from the European institutions for corporations to recognise and accommodate their responsibilities to their internal and external stakeholder community. The first document (EC, 2001: 8) described CSR as:

… a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis.

The essential point is that compliance is voluntary rather than mandatory and this voluntary approach to CSR expresses the reality of enterprises in beginning to take responsibility for their true social impact and recognises the existence of a larger pressure exercised by various stakeholder groupings in addition to the traditional ones of shareholders and investors. Moreover it reflects the different traditions of business and differing stages of development throughout the Community. Nevertheless the need for social responsibility is by no means universally accepted but evidence shows that ethical and socially responsible behaviour is being engaged in successfully by a number of large corporations and this number is increasing all the time. Additionally there is no evidence that corporations which engage in socially responsible behaviour perform, in terms of profitability and the creation of shareholder value, any worse than do any other corporations. Indeed there is a growing body of evidence that socially responsible behaviour leads to increased economic performance at least in the longer term and consequentially greater welfare and wealth for all involved.

All of this means that a wide variety of activities have been classed as representing CSR, ranging from altruism to triple bottom line reporting and different approaches have been adopted in different countries, in different industries and even in different but similar corporations. The purpose of this paper is firstly to develop a

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3 See Crowther 2002 for detailed evidence
typology of such activity and then to show evidence for convergence towards a commonality – in other words that the voluntary approach of the EC is effective without the need to develop any imposed standards.

**Defining CSR**

The broadest definition of corporate social responsibility (see Crowther & Rayman Bacchus 2004) is concerned with what is or should be the relationship between global corporations, governments of countries and individual citizens. More locally the definition is concerned with the relationship between a corporation and the local society in which it resides or operates. Another definition is concerned with the relationship between a corporation and its stakeholders. All of these definitions are pertinent and each represents a dimension of the issue. A parallel debate is taking place in the arena of ethics – should corporations be controlled through increased regulation or has the ethical base of citizenship been lost and needs replacing before socially responsible behaviour will ensue? However this debate is represented it seems that it is concerned with some sort of social contract between corporations and society.

This social contract implies some form of altruistic behaviour – the converse of selfishness (Crowther & Caliyurt 2004) whereas the self-interest of Classical Liberalism connotes selfishness. Self-interest is central to the utilitarian perspective championed by such people as Bentham, Locke and J. S. Mill. The latter for example free-market economics, is predicated on competing self-interest recognising what he regarded as inevitable despite his personal concern for ethical behaviour. These influential ideas put interest of the individual above interest of the collective. The central tenet of social responsibility however is the social contract between all the stakeholders to society, which is an essential requirement of civil society. This is alternatively described as citizenship but for either term it is important to remember that the social responsibility needs to extend beyond present members of society. Social responsibility also requires a responsibility towards the future and towards future members of society. Subsumed within this is of course a responsibility towards the environment because of implications for other members of society both now and in the future.

CSR therefore involves a concern with the various stakeholders to a business but there are several problems in identifying socially responsible behaviour:

- Research shows that the concern is primarily with those stakeholders who have power to influence the organisation. Thus organisations are most concerned with shareholders, less so with customers and employees and very little with society and the environment. CSR would imply that they are all of equal importance.
- The definitions imply that CSR is a voluntary activity rather than enforced though regulation whereas in actual fact it is an approach to decision making and the voluntary regulated debate is irrelevant.
- Claiming a concern is very different to actually exhibiting that concern through actions taken (Crowther 2004).
Because of the uncertainty surrounding the nature of CSR activity it is difficult to evaluate any such activity. It is therefore imperative to be able to identify such activity and it is argued that there are three basic principles (See Crowther, 2002 and Schaltegger et al, 1996 for the development of these principles) which together comprise all CSR activity. These are:

- sustainability;
- accountability;
- transparency.

Sustainability is concerned with the effect which action taken in the present has upon the options available in the future. If resources are utilised in the present then they are no longer available for use in the future, and this is of particular concern if the resources are finite in quantity. Thus raw materials of an extractive nature, such as coal, iron or oil, are finite in quantity and once used are not available for future use. At some point in the future therefore alternatives will be needed to fulfil the functions currently provided by these resources. This may be at some point in the relatively distant future but of more immediate concern is the fact that as resources become depleted then the cost of acquiring the remaining resources tends to increase, and hence the operational costs of organisations tend to increase. Similarly once an animal or plant species becomes extinct then the benefits of that species to the environment can no longer be accrued. In view of the fact that many pharmaceuticals are currently being developed from plant species still being discovered this may be significant for the future.

Sustainability therefore implies that society must use no more of a resource than can be regenerated. This can be defined in terms of the carrying capacity of the ecosystem (Hawken 1993) and described with input–output models of resource consumption. Thus the paper industry for example has a policy of replanting trees to replace those harvested and this has the effect of retaining costs in the present rather than temporally externalising them. Viewing an organisation as part of a wider social and economic system—which is of course in accordance with the Gaia hypothesis (Lovelock 1979)—implies that these effects must be taken into account, not just for the measurement of costs and value created in the present but also for the future of the business itself. Measures of sustainability would consider the rate at which resources are consumed by the organisation in relation to the rate at which resources can be regenerated. Unsustainable operations can be accommodated for either by developing sustainable operations or by planning for a future lacking in resources currently required. In practice organisations mostly tend to aim towards less unsustainability by increasing efficiency in the way in which resources are utilised. An example would be an energy efficiency programme.

Accountability is concerned with an organisation recognising that its actions affect the external environment, and therefore assuming responsibility for the effects of its actions. This concept therefore implies a quantification of the effects of actions taken, both internal to the organisation and externally. More specifically the concept implies a reporting of those quantifications to all parties affected by those actions. This implies a reporting to external stakeholders of the effects of actions taken by the organisation and how they are affecting those stakeholders. This concept therefore implies a recognition that the organisation is part of a wider societal network and has responsibilities to all of that network rather than just to the owners of the organisation.
Alongside this acceptance of responsibility therefore must be a recognition that those external stakeholders have the power to affect the way in which those actions of the organisation are taken and a role in deciding whether or not such actions can be justified, and if so at what cost to the organisation and to other stakeholders.

Accountability therefore necessitates the development of appropriate measures of environmental performance and the reporting of the actions of the firm. This necessitates costs on the part of the organisation in developing, recording and reporting such performance and to be of value the benefits must exceed the costs. Benefits must be determined by the usefulness of the measures selected to the decision-making process and by the way in which they facilitate resource allocation, both within the organisation and between it and other stakeholders. Such reporting needs to be based upon the following characteristics:

- understandability to all parties concerned;
- relevance to the users of the information provided;
- reliability in terms of accuracy of measurement, representation of impact and freedom from bias;
- comparability, which implies consistency, both over time and between different organisations.

Inevitably however such reporting will involve qualitative facts and judgements as well as quantifications. This qualitativeness will inhibit comparability over time and will tend to mean that such impacts are assessed differently by different users of the information, reflecting their individual values and priorities. A lack of precise understanding of effects, coupled with the necessarily judgmental nature of relative impacts, means that few standard measures exist. This in itself restricts the inter-organisation comparison of such information. Although this limitation is problematic for the development of environmental accounting it is in fact useful to the managers of organisations as this limitation of comparability alleviates the need to demonstrate good performance as anything other than a semiotic.

Transparency, as a principle, means that the external impact of the actions of the organisation can be ascertained from that organisation's reporting and pertinent facts are not disguised within that reporting. Thus all the effects of the actions of the organisation, including external impacts, should be apparent to all from using the information provided. External users of such information as these users lack the background details and knowledge available to internal users of such information. Transparency therefore can be seen to follow from the other two principles and equally can be seen to be a part of the process of recognition of responsibility on the part of the organisation for the external effects of its actions and equally part of the process of transferring power to external stakeholders.

Regulation of standards

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

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

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

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

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

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

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

**Developing a typology of CSR activity**

The preceding analysis makes possible the development of a typology of CSR maturity. It would be relatively easy to develop a typology of CSR activity based upon the treatment of the various stakeholders to an organisation but as Cooper et al (2001) show, all corporations are concerned with their important stakeholders and make efforts to satisfy their expectations. Thus a concern with employees and customers is apparent in all corporations, being merely a reflection of the power of those stakeholder groupings rather than any expression of
social responsibility. Similarly in some organisations a concern for the environment is less a representation of social responsibility and more a concern for avoiding legislation or possibly a reflection of customer concern. Such factors also apply to some expressions of concern for local communities and society at large. It is therefore inappropriate to base any typology of CSR activity upon the treatment of stakeholders as this is often based upon power relationships rather than a concern for social responsibility and it is not realistic to distinguish the motivations.

A different typology is therefore proposed – one which is based upon the three principles of social responsibility outlined earlier. Moreover it shows the way in which CSR develops in organisations as they become more experienced and more convinced of the benefits of a commitment to this form of corporate activity. The development of this typology is based upon research and interviews with CSR directors and concerned managers in a considerable number of large corporations, many of which are committed to increasing social responsibility. It demonstrates stages of increasing maturity.

<table>
<thead>
<tr>
<th>Stage of development</th>
<th>Dominant feature</th>
<th>Typical activity</th>
<th>Examples</th>
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<tbody>
<tr>
<td>1</td>
<td>Window dressing</td>
<td>Redesigning corporate reporting</td>
<td>Changed wording and sections to reflect CSR language (see Crowther, 2004)</td>
</tr>
<tr>
<td>2</td>
<td>Cost containment</td>
<td>Re-engineering business processes</td>
<td>Energy efficiency programmes</td>
</tr>
<tr>
<td>3</td>
<td>Stakeholder engagement</td>
<td>Balanced scorecard development</td>
<td>Customer / employee satisfaction surveys (See Cooper et al, 2001)</td>
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<tr>
<td>4</td>
<td>Measurement and reporting</td>
<td>Sophisticated tailored measures</td>
<td>CSR reports</td>
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<tr>
<td>5</td>
<td>Sustainability</td>
<td>Defining sustainability: re-engineering processes</td>
<td>Sustainability reporting</td>
</tr>
<tr>
<td>6</td>
<td>Transparency</td>
<td>Concern for the supply chain: requiring CSR from suppliers</td>
<td>Human rights enforcement: eg child labour</td>
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<tr>
<td>7</td>
<td>Accountability</td>
<td>Reconfiguration of the value chain</td>
<td>Relocating high value added activity in developing countries</td>
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</table>

**Fig 1: Stages of Maturity of CSR activity**

It is argued in this paper that the CSR activity of corporations demonstrates increased maturity over time as the actions required are recognised and undertaken. In part this is in response to pressure from stakeholders but in part also it is internally driven as firms increasingly recognise the benefits from socially responsible behaviour

\(^4\) See Crowther & Caliyurt, 2004 for an evaluation of the financial benefits accruing from this socially responsible behaviour.
This can be considered as a developmental process with the leading exponents of CSR only now beginning to address stage 6 and consider stage 7. Less developed corporations are at lower stages of development. What is significant about this however, in the context of this paper, is that agreed standards and regulations are not just unnecessary but also irrelevant. The leaders in the field have recognised the commercial and economic benefits accruing from increased social responsibility. Moreover there is a reasonably open discourse in existence between these companies and the individuals within them who have responsibility for CSR activity, who incidentally are mostly fairly committed individuals in which best practice is identified and shared.

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