

A FRAMEWORK FOR CSR ASSESSMENT, MEASUREMENT AND REPORTING

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Abstract

As an increasing number of companies take up the challenge of both engaging in and monitoring socially responsible activities, there is a growing demand for assessment and measurement systems that allow stakeholders to gauge performance in this area. Companies are being asked to report on issues of sustainability, human rights, worker empowerment and the environment. Performance measurement in these areas is difficult, with questions of what to report and how to report being common. To date, several organizations have provided principles and guidelines for CSR reporting but none of these reporting frameworks has been universally accepted or risen to the level of GAAP style reporting with concurrent auditing standards. The purpose of this paper is to review the evolution of CSR reporting guidelines, explore the benefits and costs of CSR reporting and suggest a new framework for CSR assessment, measurement and reporting.

Introduction and Theory

A first step toward understanding CSR assessment and measurement issues is defining what it is we are assessing. What are corporations responsible for and to whom and who is calling for firms to be socially responsible? CSR advocates suggest businesses are responsible for a wide range of issues such as employee relations, human rights, corporate ethics, community relations and the environment. The generally ambiguous nature of the business logic for adopting socially responsible behavior partially explains the range of approaches and theories as to whether or not business should engage in CSR and the forms that responsibility should take. On one extreme is the neo-classical view of the firm that essentially states that maximizing shareholder value is preeminent and CSR is irrelevant. Milton Friedman (1962) espoused this view, "Few trends would so thoroughly undermine the very foundation of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their shareholders as they possibly can." The other extreme associates the firm with some form of moral or ethical imperative to help solve social problems because they have the resources and skills to do it and because it is the right thing to do. This approach sees profitability as important for sustaining and growing the business but other societal and moral goals are equally important.

Leduc (2001) provides a summary of other CSR theories that fall between these 2 extremes.

Range of Approaches to CSR

Theory

Corporation A

What is CSR?

Motivation for CSR?

	<u>Social Actor?</u>		
Fundamentalism	No	Doesn't exist	None. The business of business is profits
Self-Interest	No	Legal/contractual responsibility, but additional activities O.K. if they generate profit	It may contribute to profitability
Social Contract Theory	Yes	The corporate response to societal values and rules of behavior	Corporation needs to accommodate stakeholders' demands
Stakeholder Management	Yes	Management of relations with stakeholders	Corporation needs to accommodate stakeholders' demands
Stewardship	Yes	Corporation's contribution to building a better world	It's the right thing to do, period

Numerous academic studies have reported mixed results as to whether CSR activity is positively correlated with corporate financial performance. And, those that do show a positive relationship generally have a convoluted argument in explaining whether causation exists. With this in mind, Perrini (2006) suggests that the business case for social responsibility is perhaps better supported as an unavoidable consequence of the critical interdependencies that exist in a firm and among its employees, customers, investors, communities, and other stakeholders. Companies build long term shareholder value by taking into strategic account the necessity of pursuing engagement and transparency about what the company stands for, how it creates value for its stakeholders, and how it contributes to society.

Literature Review

Various aspects of CSR have been a topic of academic study for decades. Cannon (1992), looks at the development of CSR in the post war period when firms began to re-examine the nature of the relationship between business, society and government. He claims that the primary role of business is to produce goods and services that society wants and needs; however business has some role in providing a stable economic environment and meeting societal needs. Similarly, Wood (1991), concludes that the basic aspect of CSR is that business and society are interwoven rather than distinct entities. Cyert and March (1963), take the view that because business has resources and skills they have a moral or ethical obligation to be involved in solving social problems.

Holmes (1976), in a study of executive attitudes toward CSR, finds that executives strongly believe that in addition to making a profit, business should help to solve social problems whether or not business created those problems. Frederick (1994), suggests that up to 1970 CSR was viewed as an examination of corporations' obligation to work for social betterment. However,

around 1970 he notes a shift toward viewing CSR as the capacity of corporations to respond to social pressures. This shift reflects a move from a philosophical approach to one that focuses on managerial action; that is, how will the firm respond. Frederick (1986), states that the study of business and society needs an ethical anchor to permit a systematic critique of business's impact upon the human community. This need for a moral basis provides a normative foundation for managers to make decisions and suggests that CSR activities are as important as making a profit.

Brummer (1991), states that CSR implies that executives are accountable for their actions. He discusses three theories to explain to whom corporations might be accountable. These are stakeholder theory, social demandingness theory and activist theory. Stakeholder theory is the one most commonly used in support of CSR activities in the firm. As noted above, Leduc (2001), suggests several other theories to explain the existence of CSR activities. Finally, Moir (2001), reviews social contract theory and legitimacy theory as further rationale for the actions of managers in the CSR arena.

Current Practice in CSR Measurement and Reporting

Before looking at suggestions for a new framework for CSR assessment, measurement and reporting, a review of current practice in this area is important to establish context. Although there is growing interest in CSR reporting, descriptive studies examining how firms measure CSR activities and how they construct CSR reports are lacking. Chatterji and Levine (2006), Perrini (2006) and Marquez and Fombrun (2005) survey current corporate practice in CSR measurement and reporting and provide some suggestions for improvement. The following is a summary of their findings.

Companies engaged in CSR reporting commonly use environmental, sustainability and social reports. Reporting such information is voluntary with companies in control of what, how and when to report and disclose. Most large global companies, however, disclose some non-financial information. Some produce stand-alone reports while others integrate this information into quarterly or annual financial reports or publish it electronically on company web sites.

During the 1980s CSR reporting was primarily an American phenomenon associated with pressures exerted by investors, consumers and activists on U.S. based firms. American firms pioneered many of CSR's principles and practices including corporate philanthropy, social audits and corporate codes of conduct. However, in recent years, European companies have taken the lead in CSR measurement and reporting with the United Kingdom being the most active country. European firms are actively contributing to the CSR debate by promoting initiatives and formal definitions, proposing approaches and management tools and supporting rules of conduct.

Common Features of CSR Reporting

While companies differ in the way they define, prepare and disseminate CSR reports, they tend to have several common features that distinguish them from other external corporate reports. One, CSR reports are published to complement and complete the corporate financial picture by adding a social and environmental perspective. Two, CSR reports tend to give equal weight to

the qualitative and quantitative information contained within them. The quantitative data allows comparative assessment and the qualitative information enhances the communicative potential of the numbers. CSR reports often have two sections. The first one describes qualitatively the firm's programs in the CSR area, and the second section summarizes programs, activities and investments from a quantitative point of view. This section often refers to a list of key CSR performance indicators or to a reporting standard, such as the Global Reporting Initiative (GRI).

Three, CSR reports are primarily outside oriented aimed at sharing information. These reports are usually produced as a direct result of an accountability process that attempts to balance the interests of various stakeholders. Most organize data by social, environmental and economic areas rather than by specific categories of stakeholders. However, most CSR reports claim in their introduction to be part of a stakeholder engagement process. This allows each reader to recognize her or his role within the firm's strategies and operations and compare corporate activities and commitments to their own values.

Four, CSR reports have a strong process dimension. Rather than just reporting end results as do most financial reports, CSR reports tend to focus on ongoing interactions with stakeholders and stress the exchange of ideas. They are meant to demonstrate corporate CSR commitment and elicit stakeholders' needs and requests. Five, CSR reports tend to be clear as to their main objective. Companies stress that excellence in health, safety and environmental performance and addressing societal issues is capable of having a positive impact on the bottom line. This could occur either directly through reduction of operating costs or litigation or indirectly by affecting access to capital, licenses to operate or retention of quality employees.

CSR Reporting Standards and Guidelines

Current practice in CSR reporting has also been significantly influenced by the evolution and development of CSR reporting guidelines. Developing reporting standards is a daunting task given both the ambiguous nature of CSR activities and the broad range of stakeholders. Despite this, in the past 10 years a number of reporting guidelines have been developed in an attempt to provide some uniformity to the CSR reporting process. In 1997 the Global Reporting Initiative (GRI) was established with the aim of developing globally applicable guidelines for reporting on economic, environmental and social performance. It seeks to make sustainability reporting comparable to financial reporting in terms of rigor and verifiability. Its goal is to design, disseminate and promote standardized reporting practices, core measurements, and customized sector-specific measurements. To date, GRI is the most widely used CSR reporting standard utilized by over 700 companies in 50 countries.

AA 1000 was launched in 1999 by the UK based institute, The Institute of Social and Ethical AccountAbility. This CSR standard is designed to complement the Global Reporting Initiative's (GRI) Reporting Guidelines and to improve accountability and performance by learning through stakeholder engagement. The AA 1000 Assurance Standard is based on assessment of reports against three assurance principles: materiality, completeness, and responsiveness. Currently, 300 members in 20 countries worldwide report on the basis of AA 1000 guidelines. The International Organization for Standards (ISO) has developed management systems (ISO 9000, ISO 14000) that require firms to adhere to certain standards on child labor, respect for the

environment and internal accountability. Finally, Social Accountability 8000 covers standards and monitoring programs for working conditions such as child labor, disciplinary practices, working hours and safety. Companies that have demonstrated adherence to the various requirements are awarded the respective certification. There are currently over 800 SA 8000 certified facilities in over 40 countries and over 50 different industries. All of the guidelines, standards and systems mentioned above are meant to be complementary to each other, each emphasizing a distinctive CSR area.

A summary of current practice in CSR reporting follows: There is no commonly accepted definition or reporting guidelines for CSR. Nonetheless, engaging in and reporting on CSR has become an integral part of business operations for many large corporations. Firms view CSR as a way to organize and explain their role as a corporate citizen and enhance stakeholder relations. The overall goal is to address important and shared social issues ranging from promoting safety of products and working conditions, environmental protection, skill development and responsible citizenship.

Benefits and Costs of CSR Measurement and Reporting

The interest and growth in CSR measurement and reporting on the part of corporations has been influenced by several perceived and actual benefits attached to this activity. These benefits include such things as reduced operating costs, increased customer and employee loyalty and satisfaction, reduced regulatory risk, improved business practice and enhanced public image. While a logical case can be made for a linkage between CSR activities and these benefits, it is often difficult to specifically quantify the extent of the benefits and whether the benefits outweigh the costs of implementing, managing and funding various CSR activities. After exploring several perceived benefits of CSR reporting, attention will be focused on several costs and difficulties found in the current practice of CSR reporting. These cost and problems will then set the stage for an exploration of a new framework for CSR measurement and reporting.

Benefits of CSR Reporting

Reduced operating costs. CSR activities create a corporate culture that tends to enhance worker motivation resulting in increased productivity and lower operating costs. The number of law suits by employees and others would be reduced resulting in increased funds for business growth. CSR reporting can help top managers and other stakeholders understand if operational managers are building valuable long-term relationships and assets. Exclusive reliance on short-term financial numbers provides incentives to devalue less tangible assets such as employee skills and customer loyalty.

Increased customer loyalty and sales. Customers will support firms that have acted ethically and demonstrated support for social causes. Consumers have a more positive image of companies who support a cause that they care about and are more likely to switch to a brand or a retailer associated with a cause when price and quality are equal. The potential for reduced operating costs and increased sales provides the support for many studies that show a positive correlation between socially responsible behavior and corporate financial performance. A

summary of much of this research can be found in Margolis and Walsh (2001), Verschoor (2001) and Roman, Hayibor and Agle (1999).

Attract and retain employees. Since a number of CSR activities deal with the development and welfare of employees, it is logical to expect that such activities would be attractive to potential new hires as well as increase retention of existing employees. CSR activities should help firms attract the best and brightest thus increasing product development and quality, reducing the cost of hiring and training new employees and ultimately increasing profitability.

Improve good business practice. As firms prepare CSR reports to formalize their positions on various CSR activities, it forces them to gather information from business units with different priorities. This begins a process of evaluation and measurement of CSR activities and provides an opportunity for the company to identify strengths and weaknesses across the whole corporate responsibility spectrum. CSR reporting creates momentum toward collaboration and identifying synergies among divisions within the firm. It brings the corporation together on the common CSR theme thus building a sense of corporate history and enhancing teamwork. On a broader level, preparing CSR reports creates an opportunity to review strategic positioning, redefine mission and values, evaluate corporate initiatives and manage relationship with stakeholders.

Increased public image. CSR reporting helps customers, communities, regulators and potential employees judge the social performance of the firm. If some of these stakeholders favor socially responsible businesses and have the power to reward it, reporting such metrics can increase the firm's profitability. Companies that perform within the CSR guidelines have less need to spend money on traditional marketing as a positive public image does the job of enhancing sales. In addition, corporations often use CSR reports as communication instruments directed toward managing corporate image and interacting with various stakeholders. Skeptics would say image and profit motives are the primary motivations for CSR activities.

Expanded understanding of non-financial aspects of the firm. Traditional financial reports are primarily retrospective in their orientation while CSR reports can provide readers with indicators about the future potential of the firm. Reports on such topics as employee safety, engagement in societal activities and environmental performance can assist stakeholders in better understanding a firm's overall performance, business strategy and growth opportunities. Stakeholders can compare corporate CSR activities and commitments to their own values thus perhaps generating greater loyalty, commitment and good will.

Costs and Problems with CSR Reporting

CSR definition confusion. Executives have different opinions on the definition of CSR creating confusion in determining whether an activity falls under the CSR umbrella. It generally refers to business practices based on ethical values, respect for people, communities and the environment. However, some see CSR as a strategic activity, some see CSR is a marketing tool, and still others see CSR is just another name for corporate philanthropy. As a result of this and because of the wide range of potential stakeholder interests, standards are extremely difficult to develop and apply. This has resulted in multiple reporting standards and guidelines and the expected non-uniform reporting. In addition, definition confusion results in CSR activities that take the form

of a collection of discrete practices, occasional gestures, or initiatives motivated by public relations or marketing. As a result, stakeholder's acceptance of CSR activities is often lukewarm, and the intended results do not occur.

No generally accepted global CSR standards. Financial reporting is governed by generally accepted accounting principles (GAAP). The Sarbanes-Oxley Act has made certain standards of corporate governance required for firms seeking listing on U.S. exchanges. However, CSR has no single commonly accepted set of standards largely because of definition confusion described above. The absence of a uniformly accepted global standard for CSR reporting has resulted in a proliferation of non-financial performance metrics and associated surveys creating confusion and difficulty in determining which standards to follow. Even if a firm chooses a CSR standard such as GRI, the metrics may not be reliable, valid or comparable leading to outcomes that could harm corporate social performance. When firms face too many surveys and measurement systems, the natural response is to ignore them. Consequently, many metrics suffer from non-response bias that makes it difficult to generalize findings, ensure accuracy and reduces the impact of the metric. Each additional metric raises the cost of compliance and reduces the impact of existing standards so that more measurement is not always advisable.

Poor performers can actually benefit from a proliferation of metrics. They have incentives to invent and adopt unreliable and non-comparable standards, give themselves passing marks, and deceive stakeholders who will find it difficult to differentiate which standards are valid. For example, few consumers can distinguish whether certification from one of the many certification providers' best matches their desire to avoid products made in sweatshops. Each additional certification and corresponding acronym can actually decrease overall welfare, even while increasing the amount of measurement and reporting costs. Even worse, when metrics do not measure what is socially important, increased measurement can decrease societal welfare. For example, while all the major codes of conduct in apparel manufacturing prohibit child labor, it is implicitly assumed that children not working in factories will attend school. Unfortunately, the alternatives can be working in a more dangerous industry such as prostitution. Thus, the unintended consequences of metrics can decrease overall welfare.

Non-enforceability of standards. CSR measurement guidelines such as GRI are just standards, not enforceable by any governmental regulatory agency. Reporting is voluntary in most countries and there are no widely accepted and uniform standards. As a result, firms can arbitrarily choose what, how and when to report and can report on just those standards and activities that put them in a positive light. Compliance may rely on best practice tools and techniques and oversight mechanisms are lacking. This is compared to financial reporting standards that are well established; an organizational obligation; require the application of uniform accounting principles (GAAP); are legally enforceable; and have an oversight and conformance mechanism via required audits.

Few CSR organization models. While there are theories and models for why corporations should be engaged in CSR activities and numerous guidelines and standards, there are few examples of corporate practice to assist the manager who is ultimately responsible for measuring and reporting CSR activity. Models are lacking that illustrate how to build the infrastructure to

handle the process from deciding on measurements, engaging in surveys through dissemination of results.

CSR diverts attention from more important issues. As Friedman implied, the social responsibility of business begins and ends with increasing profits. CSR diverts attention from key business aspects such as growth, product improvement, financial viability, competition and such. Thus, when push comes to shove most organizations give more weight to the economic aspect of the business.

CSR concerns differ among corporations. CSR issues differ according to industry, nationality, and societal priorities which are themselves influenced by historical and cultural factors. CSR priorities in one firm (pollution standards) may be irrelevant for another firm. That's not to say that firms without environmental concerns don't find CSR standards useful. However, it is difficult to devise a common standard for measuring and reporting on CSR activities.

CSR is expensive. Small organizations that are just surviving, may find it difficult to compete with big organizations in this area. Sustainability reports produced by large corporations require considerable infrastructure and are expensive to produce. And, the proliferation of overlapping metrics on a single CSR topic burdens managers and is costly in time and resources. It could be that CSR measurement and reporting is counterproductive to the goals of benefiting the community as funds for staffing, data crunchers and complicated survey tools draw resources away from the very CSR projects that actually benefit the community.

Complicated corporate structures weaken CSR activities. Large corporations today are involved in more modular and strategic alliances creating structures such that firms may have little or no control over partners and suppliers. Therefore, even if a company has engaged in initiatives that are socially responsible its products may still be tarnished by the practices of suppliers over whom it has little control. Several large corporations have received backlash from customers for the business practices of their suppliers.

Framework for CSR Assessment, Measurement and Reporting

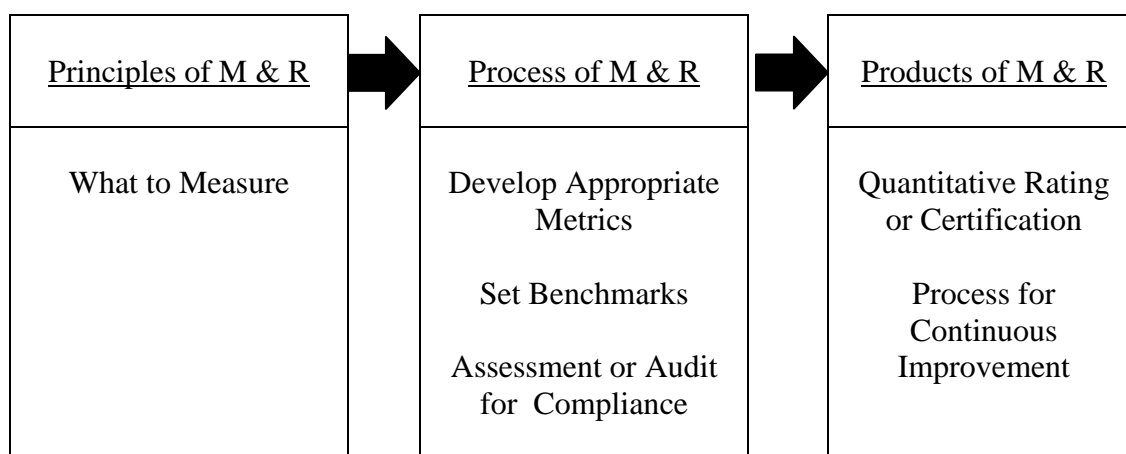
The prior section outlining the various costs and problems with CSR measurement and reporting indicates that the central issue revolves around CSR definition confusion which, in turn, leads to a proliferation of arbitrary, overlapping and unenforceable standards. Existing standards and guidelines are not uniformly applied and in some cases lead to unintended consequences that undermine the very societal benefits being fostered. The current situation burdens managers and is costly to shareholders and consumers. Therefore, any framework for improving CSR reporting must start with a process to standardize measurement and reporting metrics.

CSR reporting must move toward uniformly accepted standards and oversight mechanisms as are currently in place for financial reporting and corporate governance. Conformance in financial reporting is provided through Generally Accepted Accounting Principles (GAAP) with oversight by the Financial Accounting Standards Board (FASB) and the Securities Exchange Commission (SEC) in the United States. GAAP has increasingly become a global standard providing

stakeholders a transparent, reliable and comparable standard. More recently, uniform corporate governance standards have been created with the passage of the Sarbanes-Oxley Act in the United States. This Act has empowered audit committees, created internal audit mechanisms, tightened controls on financial processes and developed audit matrices all of which increase the ethical operations and transparency of the firm and restore investor confidence.

My argument here is that CSR reporting should be viewed as an equal partner in the continuum of corporate reporting that includes financial and corporate governance reports. Thus, CSR reports should be required in the same fashion as financial and corporate governance reporting and these three reporting sectors should be integrated and comprehensively linked into a set of policies, practices and programs. Yet, their reporting standards and accountability issues have developed independently. The following framework (Figure 1) and related suggestions presents a model to assist practitioners in standardizing the measuring and reporting (M & R) of CSR activities.

Figure 1: CSR Measuring and Reporting (M & R) Model



What To Measure? On a theoretical basis, the answer to this question partially depends on the firm's basic beliefs and approach to CSR. As discussed previously, this ranges from a pure profit motive approach where CSR is deemed irrelevant to one motivated by stewardship where CSR is central to the firm's purpose and mission. On a practical basis, the firm should consider the issues and topics that CSR advocates typically mention as important. For example, CSR Europe, a membership organization of large firms across Europe, in its reporting guidelines suggests the following areas: treating employees fairly and equitably; operating ethically and with integrity; respecting basic human rights; sustaining the environment for future generations; and caring for your community. In addition to determined the CRS areas that are appropriate to work on, organizations need to consider whether to measure and report on behavior, accomplishments, or both. Behavior reflects what is done or actions that are performed while accomplishments reflect whether the firm has achieved the specific goals it has set for itself. A

key consideration is stakeholder interest. Will they want to see company efforts in a particular area, or will they instead want to see specific, numerical measures of accomplishment? Likely, stakeholders will want to see both reflected in CSR reports. Companies may not always succeed at all their CSR efforts; however, it is important for interested parties to understand that actions have been taken. Not to mention that well intentioned behaviors often lead to accomplishments.

On the other hand, Joyner and Raborn (2005), make the point that if stakeholders can be satisfied with behaviors rather than accomplishments, this could motivate firms to engage in superficial actions that purport to address CSR issues. It is essential that the measures for behaviors be worded and calculated differently than those for accomplishments. Otherwise, companies might waste time and resources creating a superficial persona of concern.

Develop Appropriate Metrics. This is probably the most difficult and time-consuming aspect of the model. However, the development of standards that are valid, reliable and comparable is critical to the ultimate value of the CSR reporting process. The long-term benefit will more than compensate for the time and effort expended in the metrics development process.

It is appropriate and at times necessary to develop standards that can be measured either directly or through proxy measures. Physical characteristics such as weight, quantity and distance can be measured using a direct method while intangible items would necessitate a proxy method. For example, dollars spent on pollution control equipment can be quantified, but the benefits of utilizing such equipment cannot always be directly measured. An indirect measure such as the general health of the community may have to be used. However, an indirect measure must result in a similar decision to those that would have been made had a direct measure been used. The use of proxy measures to verify CSR activities should be familiar to management as similar measures are commonly utilized in making decisions such as those related to capital budgeting and research and development.

Whether they are direct or indirect, good metrics should have certain basic characteristics. Using a financial reporting perspective, Joyner and Rayborn (2005), suggest the following attributes. They have been clearly defined; have been evaluated for acceptability to and conformity with the performance area to be measured; reflect organizational mission and strategy; flow from the top downward for consistency; are not too aggregated to impede action; are collectable from data sources; have a positive cost-benefit relationship; and are manageable in number.

Taking further cues from financial reporting, CSR standards should also be reliable, comparable, and valid. A metric is reliable if it provides the same answer when applied more than one time. For CSR standards reliability can be a problem. For example, if a questionnaire is filled out at different times, by different people, in different divisions of the same firm, the answers can vary widely. This likely results from the subjectivity of the areas being measured such as human rights, equal opportunity or environmental issues and suggests that relying on a single respondent or rater is probably unwise. Therefore, the development of concise questions and metrics is essential as are efforts to coordinate information from many different sources.

A metric is comparable if it can be used across different organizations and over time. Many environmental performance metrics suffer from lack of comparability such as emissions of toxic

materials that are difficult to compare across different industries. This slows improvements as top performers are difficult to discern. Validity is whether the measure identifies performance that is important to society. This is more difficult to assess than reliability or comparability as it is a function of the values and beliefs of multiple stakeholders. A measure may be reliable and comparable but not measure an outcome that matters to stakeholders. For example, a reliable metric could be the number of women on the board of directors since it is easily determined. This metric is also comparable across firms. However, does this metric tell us anything about whether women at a particular firm face equal opportunities? It would be possible for a firm to have women board members and still not treat women employees fairly.

In developing appropriate metrics, the validity problem is seen in other ways. For example, the metrics that are easiest to report are not always the most informative. A firm could report good environmental performance based on available measures, while it causes damage in areas that are difficult to measure and monitor. Another example where validity comes into question is when firms report good CSR performance while the social performance of their supplies is poor. Such as excellent working conditions at corporate headquarters while supplies mistreat their workers. Validity also depends on the context. For example, water conservation by firms is an important social goal in many parts of the world and metrics that measure water use are important and valid in these areas. However, encouraging firms to measure and conserve water in other parts of the world is counterproductive. One size fits all metrics are not sensible and illustrate why metric development is so difficult in the CSR area compared to financial reporting.

One other aspect to consider in metric development is the types of metrics that are typically used in measuring and reporting environments. They generally fall into one of four types of measures which are input; output; outcome; and process indicators. In summary, developing good metrics is difficult. However, two axioms generally apply in organization: 1. a firm gets what it measures and 2. if you can't measure it, you can't manage it. Therefore, management must be certain the firm is measuring the factors that are essential to progress in the CSR area. They must invest the time and resources necessary to develop metrics that are valid, reliable and comparable.

Set Benchmarks. Benchmarking is the process of setting standards of performance and has been traditionally used by firms to assess both product and process performance. It has typically been used in those business areas where numbers predominate and performance can be measured with relative ease. In the CSR arena benchmarking has been practiced for some time in the environmental and employee health and safety areas on issues such as energy consumption, recycling, toxic emissions and sick days. Benchmarking tools developed and lessons learned in these two CSR areas need to be implemented in other areas of CSR and ethical behavior.

Setting benchmarks in CSR areas can be difficult due to nonnumeric standards, the wide array of nebulous CSR activities, varying legal restraints, and little historic record of standards. To begin the process firms should obtain benchmarks from both direct competitors as well as from firms outside their industry that are attempting to develop comprehensive CSR reports. Organizations should develop continuous improvement processes to move toward parity or even higher levels of performance than those who are currently excelling. The minimum benchmarking standards should reflect legal requirements. Many firms operate under multiple legal jurisdictions with

different rules of behavior depending on location. In that case, firms should utilize the highest legal standard and apply it regardless of location. However, firms must consider whether even the highest legal standard is acceptable. For issues such as minimum wage, bribery, and pollutants, it may be necessary to raise the behavioral bar above the legal minimums if the organization is to meet its CSR commitments.

Raiborn and Payne (1990), suggest that an organization may choose to act at one of four levels in a hierarchy of behavior. They are: 1. Basic, which comply solely with the law; 2. Currently attainable, which reflect a step above current legal mandates but would not be deemed laudable by society; 3. Practical, which show extreme diligence and strive to do the “right” thing; and 4. Theoretical, which reflect the greatest potential for good. For example, the choice to act at the basic level would mean that no CSR reports would be prepared unless they were required by law. Given the increasing interest in CSR activities and reporting, acting at the basic level would not likely be acceptable to most stakeholders.

An important issue in benchmarking is the use of relative versus absolute standards. While financial reporting tends to use absolute standards, such standards would be difficult to apply in the CSR reporting arena. Therefore, standards that are relative to particular industries make more sense. A mining firm should obviously not be expected to meet the same environmental standards as a software firm. In fact, an absolute bar of performance would discourage entire industries from improving their CSR performance. A relative bar allows firms in the same industry to compete against each other and provides better incentives for improving CSR performance. Moreover, relative standards provide greater flexibility for ratcheting them up over time as the average level of CSR performance improves. Therefore, one-size-fits-all standards are rarely sensible.

Given that universal CSR standards do not exist globally, attempts at benchmarking must recognize those differences. Joyner and Rayborn (2005), suggest that firms need to be forthcoming in disclosing how benchmarks were developed and why the particular benchmarks were selected. Stakeholders need to realize that changes to benchmarks are unavoidable as expertise is gained in this area. They need to understand that progress toward benchmarks is important as is comparisons with other firms. But, comparisons cannot be made in a vacuum, without sensitivity to organizational characteristics such as financial resources and location.

Assessment or Audit for Compliance. Once appropriate metrics have been developed and benchmarks established firms need to develop policies and procedures to assess whether they are meeting their standards of performance. If firms just engage in self-reporting of CSR activities rather than implementing and utilizing an external assessment mechanism then they open themselves to criticism as to the validity of their CSR performance. Thus, more firms are utilizing widely accepted CSR reporting guidelines such as the Global Reporting Initiative (GRI) as well as third-party certification groups such as the Fair Labor Association. Once certified, firms can use the certification to signal their social performance to various stakeholders.

Ideally the CSR assessment and audit process would begin to resemble that which is currently found in financial reporting. Here an annual audit by a certified public accountant of the firm’s financial records is required for all public corporations. And, a universally accepted audit report is

produced certifying compliance or non-compliance with generally accepted accounting principles. A rudimentary form of this is beginning to develop in certain areas of CSR reporting. For example, most of the apparel manufacturing standards include outside auditing as does the ISO 14000 standard for environmental management systems. Some magazine rankings of most admired firms are determined by a survey of employees or other stakeholders such as the Fortune Magazine listing of most admired companies. Validity and trust in CSR reporting is critical and ensuring data quality should be a top priority when developing audit policies and procedures. Auditing processes need to be explained clearly to stakeholders. However, the major impediment to developing a uniform CSR audit process is the proliferation of measures and standards. Unless there is consensus over what exactly should be measured and how it will be measured, comparability among metrics is futile and a valid audit process will not exist.

Quantitative Rating or Certification. The assessment and audit process would provide a greater benefit to stakeholders if it resulted in a concise and meaningful rating or certification. The audit process which typically includes various forms of statistical sampling, surveys and interviews can be complex, detail oriented and confusing to interpret. Therefore, a summary score or certificate that is universally accepted and easy to interpret is an important aspect of CSR reporting. This would be similar to the AAA – D scale used for bond ratings and the audit opinion used in financial reporting. A major problem with the current state of CSR reporting is the proliferation of CSR reporting guidelines and certifications. This tends to call into question the validity of a certification as it is not clear what standards were applied to earn it.

Process for Continuous Improvement. Firms should develop formal internal systems to encourage continuous improvement in researching, developing and validating appropriate metrics, setting benchmarks and auditing for compliance. In addition, the major stakeholders in CSR activities should be funding more broad based research in these same areas. For example, is worker safety actually improved in those firms that receive a safety certification? Are people healthier when they live downstream from factories that receive environmental certification than those that do not? Willingness on the part of firms to develop CSR metrics and set benchmarks has increased over time, but there is little systematic research to validate whether these metrics are valid measures of the social performance they claim to measure.

It is important to include external stakeholders in all parts of the CSR measuring and reporting process. This may be difficult as they may not have a clear idea of organizational goals but, at the same time, determining their concerns and getting their buy-in on the process is critical. One way to organize this process is to form a group for each CSR area to include internal management, employees, and external representatives from various informed and affected constituencies. This provides a think-tank for generating ideas on new CSR initiatives as well as ideas on continuously improving the CSR reporting process. Gunther (2006), provides an example of how Wal-Mart uses groups such as these to benefit their CSR programs. External stakeholder input also increases the legitimacy and validity of CSR standards and reporting as metrics developed only by management may be viewed with suspicion as just self-serving.

Conclusion

This paper has reviewed the theory and evolution of and explored the benefits and costs of CSR reporting. With this as background, a model for CSR assessment, measurement and reporting is presented. The premise of the model is that CSR reporting should bear some resemblance to the universally accepted procedures and principles currently utilized in financial reporting. In other words, there needs to be principles, processes and reporting outcomes that are valid, transparent, reliable and comparable presenting information that complements financial reporting by adding a social and environmental perspective. Although, it is recognized that CSR issues are often difficult to define, measure and assess making the application of this model a challenge, managers must continue their quest to improve the effectiveness of CSR reporting.

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