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CORPORATE SOCIAL RESPONSIBILITY REPORTING IN THE UNITED STATES

Lianna Cecil

Dr. Lois Mahoney, Mentor

ABSTRACT

This study documents and reviews the current state of corporate social responsibility (CSR) reporting in the United States. Prior accounting research examining CSR reporting mostly analyzes annual reports. However, recent evidence suggests that with the increase in companies using standalone CSR reports, the level of disclosure of environmental information within the annual report has decreased (Frost, 2007). Results suggest that despite the lack of regulations requiring U.S. companies to publish CSR reports, the number of companies doing so has grown each year. According to Mathews (1997), “continuing the tradition of empirical research aimed at documenting [the practice] of social and environmental accounting...is valuable as a record of the current state of organizational disclosure and, therefore, of the distance that remains to be travelled along the path to full accountability by economic actors” (p. 504). Consequently this research seeks to document the current status of standalone CSR reporting in the United States. My findings suggest that there is a growth trend in U.S. companies issuing standalone CSR reports, however, there are very few reports that are audited or assured in the United States..

INTRODUCTION

Though corporate social responsibility (CSR) is a multidimensional construct that incorporates the interaction between principles of social responsibility, the process of social responsiveness, and the policies and programs designed by corporations to address social issues, the most widely cited definition is:

...the process of communicating the social and environmental effects of organizations’ economic actions to particular interest groups within society and to society at large. As such it involves extending the accountability of organizations (particularly

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companies), beyond the traditional role of providing a financial account to the owners of capital, in particular, shareholders. Such an extension is predicated upon the assumption that companies do have wider responsibilities than simply to make money for their shareholders. (Gray, Owen, and Maunders, 1987, p. ix)

The “process of communicating the social and environmental effects of organizations’ economic actions” is done through disclosure. Though organizations have traditionally disclosed the social and environmental effects of their economic actions in their annual reports, more and more organizations are choosing to issue separate, stand alone reports that deal solely with these disclosures (CSR report).

As CSR reporting is unregulated in the United States., a required framework for reporting does not currently exist. As a result, many different types and names of reports exists under the umbrella of CSR reporting, such as ‘environmental reports’, ‘social reports’, ‘climate change reports’, ‘carbon reports’, ‘triple bottom line reports’ and ‘sustainability reports’ among others. The unifying theme is that a CSR report is separate from the annual report and presents nonfinancial qualitative and quantitative data.

The United States appears to lag behind other countries in issuing CSR Reports. This may be attributed to the lack of formal requirements in the United States for organizations to disclose nonfinancial data or issue CSR reports. Presently environmental reporting is mandatory for public corporations in Sweden, Norway, the Netherlands, Denmark, France and Australia (Frost, 2007). Although Japan and the U.K. do not have mandatory CSR disclosures, most companies in these countries choose to participate. In 2005 90% of Japanese companies and 71% of U.K. companies participated in CSR reporting, compared to only 32% of U.S. companies (KPMG, 2005).

Despite the lack of regulations in the United States requiring companies to disclose, increasingly more and more companies are issuing CSR reports for a variety of reasons. Research suggest that there are three main theories for this increasing trend (Dawkins and Ngunjiri, 2008): (a) to manage the perceptions of key stakeholders, which is explained in signaling theory; (b) to convey the organization’s values to the public, which is called impression management theory; and the most widely cited reason (c) to establish that the organization’s activities are in line with social norms, which is legitimacy theory (Campbell, Craven, and Shrives, 2003). In addition to the organization’s motivations for disclosure, there is a growing demand for this nonfinancial information.

Stakeholders are becoming savvier and realize that nonfinancial issues are critical to the going concern of all organizations. For stakeholders to become fully aware of an organization's total health, the disclosure of financial and nonfinancial information is needed. An increase in demand for disclosure of non-financial data in the near future appears likely. Legislation would speed this process along in the United States (Gray and Bebbington, 2001). According to Owen (2004), "growing corporate and professional capture of [social and environmental reporting] has led to public relations imperatives and a desire to control for risk and enhance reputation via effective stakeholder management displacing any meaningful concern with notions of accountability" (p. 31). Owen recommends more research into corporate practices and motivations for disclosure as well as stakeholder needs and engagement.

There are two organizations that have a large influence on CSR reporting, The Global Reporting Initiative (GRI) and AccountAbility. Both of these organizations are not-for-profit, international, and multi-stakeholder in nature. (Adams, 2004) The most widely used CSR reporting framework in the world was developed by the Global Reporting Initiative (GRI). The first version, published in June 2000, was available to a small number of companies as a sample. A second version was issued in 2002 and was made available to all companies (Moneva, Archel, and Correa, 2006). Version three was published in 2006, called the 'G3,' and is available for use, though companies may continue to use the GRI 2002. The GRI frameworks give guidance on what information to include and how to present it in the CSR report. AccountAbility developed a widely used assurance framework called the AA1000AS that was issued in 2003. This is designed to work with the GRI (as well as other frameworks) and helps auditors to determine the credibility of CSR reports.

The purpose of this study is to explore the practice of CSR reporting in the United States, to discover how many companies are publishing stand alone CSR reports, and to see if the practice is growing. This study also aims to discover which industries are issuing the most CSR reports, given that the practice is voluntary in the United States.

METHODS

The CorporateRegister.com hosts the world's largest online directory of CSR reports. According to their website, the organization estimates to have captured over 90% of the world's published CSR reports (CorporateRegister.com, About the CSR Report Directory,

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2008). The CorporateRegister.com is very selective in the reports that it lists in its directory. Sales materials or brochures are not included and CSR reports must contain quantitative data in order to be included in the directory (CorporateRegister.com, About the CSR Report Directory, 2008). Registered users can create search queries to generate limited lists of reports based on various criteria.

On the CorporateRegister.com, an initial search was done for all CSR reports from companies in the United States with no set beginning or end year. The CorporateRegister.com uses the year in which the report was published to classify its data. This study classified reports according to the year in which the CSR activities were performed. Therefore, once the initial list of all reports was compiled, the dates were changed to reflect the reporting period of the data inside the report, not the year in which it was published. Usually the date was off by one year; for example, if the date the CorporateRegister.com listed was 2004, but the data inside the report was from 2003, the year was changed to 2003 for the purposes of this study.

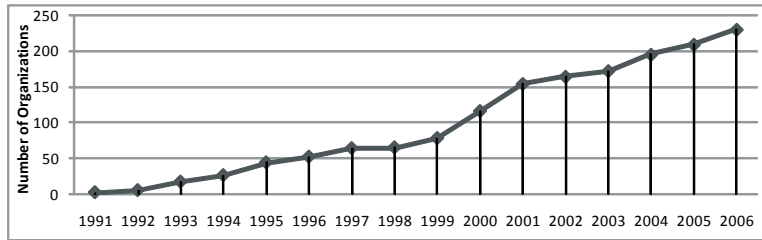
An Excel spreadsheet was created with the following column headings: company name, year, report title, GRI 2002, GRI G3, and AA1000AS. Queries were done on the CorporateRegister.com to produce lists of U.S. companies that published CSR reports using the GRI 2002, the GRI G3, and the AA1000AS. The companies whose reports followed the criteria were given a 1 in that column for yes and all other companies were given a 0 for no.

Many companies had issued more than one report in a given year as they had individual reports for different types of information, such as one report for the environment and another report for carbon emissions. The spreadsheet was edited to ensure that no company had more than one entry (or row in the sheet) in any given year. That enabled the results to reflect company practices, not instances of reports.

RESULTS AND DISCUSSION

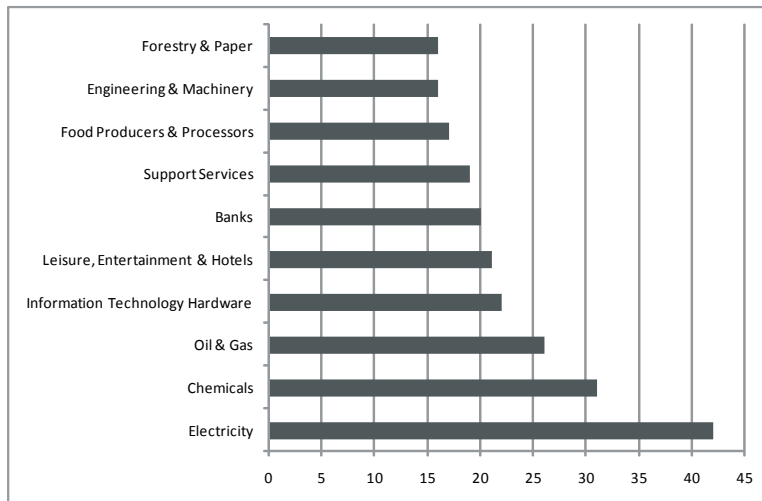
Figure 1 shows that there is a fifteen-year growth trend in voluntary CSR reporting in the United States. While in 1991 only two companies issued CSR reports, this number grew to 154 ten years later in 2001. Five years after that, in 2006, there were 230 companies that issued CSR reports in the United States. The compound annual growth rate (CAGR) of CSR reporting from 1991 through 2006 is 37%.

Figure 1 Fifteen Year Growth Trend in CSR Reporting



The ten industries that had the largest number of companies issuing CSR reports from 1991-2006 are shown in Figure 2. Electricity had the most number of companies at 45 followed by chemicals with 31. The companies in the electricity industry are mostly local or regional providers and the companies in the chemicals industry are mostly multinational corporations.

Figure 2 Top Ten Reporting Industries



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The industries that had less than five companies issue CSR reports from 1991-2006 are shown in Figure 3. It is surprising that water, packaging, tobacco, and steel companies do not issue more CSR reports. A study by Campbell et. al (2003) that looked at one tobacco and multiple brewing companies found that the tobacco company had the least level of disclosure out of the group (p. 568). He concludes that “those companies that would be (according to legitimacy theory) expected to disclose more (because of society’s negative perceptions) do not always do so and those companies with a lesser apparent legitimacy gap sometimes disclose more” (p. 573). Research is needed to determine if nonfinancial data disclosure is in demand by these industries stakeholders. Additionally research about management’s rationale for non-disclosure practices is also necessary.

Figure 3 Industries with Less than Five Reports

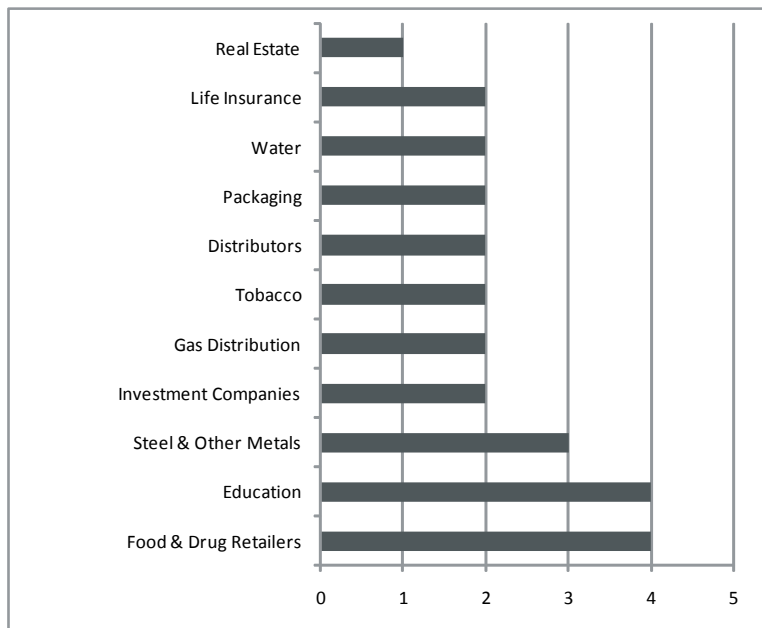


Figure 4 shows the percentages of reporting companies that used each framework by year. The number of companies that used the GRI 2002 grew each year until 2006 when the GRI G3 framework was introduced. The combined total in 2006 of companies that used either the

GRI 2002 or the GRI G3 is larger than any previous year, therefore it can be said that the total number of companies using some form of the GRI did increase each year. The compound annual growth rate of companies using some form of the GRI from 2002 through 2006 is 35.5%. However, the percentage of companies using any form of the GRI in 2006 was only slightly higher than that of 2005. Perhaps the trend of using the GRI is leveling off in the United States, but only time and more research will tell. Gray and Bebbington (2001) state the following about social and environmental disclosure in general, but it could be applied to companies using the GRI frameworks as well:

... whatever the motivation for disclosing or not disclosing, the fact is that voluntary initiatives follow a general, predictable – and entirely unsurprising – pattern. That is, the initiative is taken up by a few innovative, leading companies. Then the majority (but not all) of the larger companies (typically the transnational corporations) become involved and then, unless the issue passes into legislation, it begins to fade away. (p. 243)

These results suggest that since there is not an incentive to use a framework such as the GRI, although the number of companies that issue CSR reports is increasing, there is no incentive for the added work and cost of issuing a report that conforms to a standard. In addition, CSR reports that do not conform to standards may be produced in efforts to enhance a company's reputation with little regard to accountability.

There are surprisingly few companies using the AA1000AS assurance framework. It was first issued in 2003 and the percentage of companies that issue CSR reports and use the assurance framework has not increased. More research is needed as to why more companies are not having their reports assured. The lack of assurance calls attention to the fact that the content in the majority of the reports has not been verified. That leads to the next area of inquiry that was explored through the information found on the CorporateRegister.com.

Figure 4 Annual Percentages of Companies Using Each Framework

YEAR	GRI 2002	GRI G3	AA1000AS
2002	8%	N/A	N/A
2003	13%	N/A	1%
2004	23%	N/A	1%
2005	26%	N/A	0%
2006	12%	15%	1%

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GRI reports are given a code based upon standards developed by CorporateRegister.com. Each company self determines the code for their reports based upon these standards. The codes are based on the GRI's "Application System" and are summarized below (CorporateRegister.com, "Which companies and reports feature in the GRI Register?", (2008).

Reports using the GRI 2002 are given the following codes:

IA - In Accordance = '2002 IA' - A report can be considered "In Accordance" with the 2002 version of the Sustainability Reporting Guidelines if it meets five criteria, including: a statement from the CEO, a Content Index, and a response (or explanation of omission) to each core indicator. In Accordance status is self-declared by the report maker, and can optionally be checked for accuracy by an auditor or GRI.

IA GRI-Checked - The GRI checked the report to see if it is 'in accordance' (see above)

GRI 2002 CI - Meaning 'Content Index': report includes a GRI Content Index, mapping responses to some or all of the 2002 Guidelines indicators.

A report maker includes a GRI Content Index to show readers in a quick and easy way where they can find data or responses to each disclosure in the 2002 Guidelines.

Reports using the G3 are given the following codes that are based on an 'Application Level' system comprising three components:

1. Letter grade A, B, C - which relates to the number of indicators covered - C being the least number of indicators and A being the most number of indicators.

2. ['+' symbol] - is optional and shows that external assurance was performed

3. Self-Declared, Third Party Checked, GRI Checked - indicates which party is giving the grade A column for each code was added to the original spreadsheet and the research process started again as before. Queries were done on the CorporateRegister.com for each of the codes and the company report was given a 1 in the column that corresponded to its code and all others were given a 0. Figures 5 and 6 summarize the results of these codes.

Figure 5 Annual Percentages of Companies' Reports with Each GRI 2002 Code

YEAR	GRI 2002 IA	GRI 2002 IA GRI CHECKED	GRI 2002 IA CI
2002	8%	0%	92%
2003	35%	0%	65%
2004	11%	0%	89%
2005	5%	2%	93%
2006	0%	0%	100%

Figure 6 2006 Percentages of Companies Reports with Each GRI G3 Code

A	A+	B	B+	C	C+	DRAFT	SELF-DECLAR-ED	3RD PARTY CHECK-ED	GRI-CHECK-ED
9%	3%	14%	5%	9%	3%	49%	26%	0%	17%

The results of this research highlight some major issues. For reports that adhere to the GRI 2002, almost none of them are checked by the GRI. For reports that adhere to the GRI G3, none of them are checked by a third party. Most of the reports are in draft form, and no explanation for the exact meaning of this could be found on the CorporateRegister.com or the GRI's website. The plus signs next the grades suggests that the reports were externally assured, but we know from Table 4 that it was most likely not by using the AA1000AS. There needs to be more research into the GRI coding system and how companies are using it.

LIMITATIONS OF THIS STUDY

This paper is a brief analysis of the current state of CSR reporting in the United States. The amount of time for the study was only ten weeks. Therefore, all of the data was collected and cleaned by one person over about eight weeks. The data was gathered from the CorporateRegister.com which generates .pdfs of search queries. Those queries were then entered into Excel by the researcher, therefore despite paying careful attention to the task at hand, there is room for human error in such an endeavor.

Considering that the researcher is an undergraduate who is new to the field of SEAA research, there was a large learning curve at the beginning of attempting the literature review. There is sure to be large gaps in the literature that were not covered due to this and to the time

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limitations mentioned above.

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