

# “Exploring the relationship between Sustainability Reporting and Corporate Social Responsibility implementation”

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## Abstract

Companies are facing growing accountability requirements from a broad range of stakeholders asking to disclose the social and environmental outcomes of businesses. In addition, an increasing number of them have committed to integrate Corporate Social Responsibility (CSR) principles into their strategies and operations. This highlights the importance of developing robust measurement and reporting frameworks in order to both strategically implement CSR and respond to stakeholder accountability requirements.

However, design of intraorganizational Sustainability Performance Measurement (SPM) systems to support strategic CSR needs to take into account specific issues companies face, that may not be well reflected in generic Sustainability Reporting (SR) frameworks.

In order to explore the relationship between SPM and SR, we develop an exploratory multiple case study in four Spanish large firms, consisting of in-depth personal interviews with CSR managers and detailed analysis of different secondary sources.

The study has allowed to identify and describe tensions and synergies that arise at different levels (strategic, organizational and technical) of organizations that want to measure strategic CSR implementation and comply with stakeholder reporting requirements.

**Keywords:** Sustainability Accounting, Sustainability Reporting, Measurement, Corporate Social Performance.

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## **1. Introduction**

CSR has become a mainstream topic both in the management literature (De Bakker et al., 2005; Margolis and Walsh, 2003) and practice. Nowadays, almost every large company currently discloses information concerning its environmental and social performance, in addition to its financial results. Furthermore, CSR activities are being undertaken by a large number of companies, even when the degrees of maturity largely differ (Zadek, 2004).

From a societal standpoint, the interest on non-financial performance has led to the emergence of a wide array of non-financial reporting standards and compliance codes (e.g. Global Reporting Initiative (GRI) Guidelines, World Business Council for Sustainable Development (WBCSD) Guidelines). In addition, there is also a trend to non-financial accountability requirements from specific stakeholders, such as capital markets (e.g. Dow Jones Sustainability Index, FTSE4GOOD) and the public sector (European Commission, 2011). As SR has become a more institutionalized practice, it has also experienced a journey towards standardization (Adams and Narayanan, 2007), so that firms can comply with the information required by stakeholders and be evaluated on this basis.

From a corporate standpoint, the rising importance of non-financial issues in the company's agenda highlights a need for new management tools and decision frameworks (Snowden and Boone, 2007; Pedersen and Neergaard, 2008). However, unlike SR frameworks, experiences in designing SPM systems at the company level underscore the need to consider the specific sustainability issues companies face, which may not be well reflected in generic standards and codes (Searcy, 2012).

The relationship between SR practices and internal SPM systems has gone largely unexplored in the literature, as recent calls to explore this question acknowledge (Moon et al., 2011; Searcy, 2012). Thus, our contribution seeks to address this gap, aiming to explore the synergies and tensions generated by the dual objective of complying with external reporting requirements and developing company-specific measurement practices.

The remainder of this article is as follows. First, we review the literature on sustainability measurement, both from societal and corporate (managerial) viewpoints. Second, we introduce the methodology and the case samples selected. Third, we develop the findings of the study. Finally, we outline the conclusions and their broader implications in the SR and SPM fields.

## **2. Literature review**

The question of measuring social and environmental impacts of business is not new. Social and environmental accounting has a long history that can be traced back to 1960s and 1970s (O'Dwyer and Owen, 2008). Similarly, the term Corporate Social Performance was introduced in late 1970s as a call for organizations to embed CSR into their managerial routines, including designing and implementing policies and evaluating their outcomes (Carroll, 1979).

However, these two fields of knowledge have remained largely disconnected. Sustainability accounting has generally adopted a societal view on sustainability, remaining somehow apart from corporate practice (Parker, 2005; Adams and Larrinaga-González, 2007). On the other hand, research on CSR measurement has been criticized because of its excessive focus on the relationship between CSR and Financial Performance (also known as the "business case" of CSR), while the question of impacts on stakeholders and society has been paid little attention (Wood, 2010).

### ***Sustainability accounting and reporting: a societal approach***

Sustainability accounting and Triple Bottom Line methods have been developed in the last twenty years, expanding the original focus on environment issues to social and economic ones, as well as the linkages among them (Elkington, 1993).

Frequent methods of sustainability accounting include full-cost accounting, natural capital inventory accounting and input-output analysis (Gray, 1993; see also Lamberton (2005) for a brief history of SA and related concepts).

However, successful application of these methods at the corporate level is almost inexistent, and recent calls acknowledge the need of sustainability accounting research to engage with organizations in order to understand their specific circumstances and limitations (Parker, 2005; Adams and Larrinaga-González, 2007).

Some reasons have been advanced for this. First, from the sustainability accounting perspective, sustainability is understood as a systemic concept, so it should be ideally assessed at the ecosystem level, not at the organizational one (Archel et al., 2008; Gray, 2006). Second, sustainability accounting literature assumes a normative perspective on sustainability, from which the stewardship function should be privileged over other managerial considerations about performance (Parker, 2005; Gray, 2002). Related to this, concerns about the "hidden"

agenda of organizations engaging in sustainability accounting, as well as fears of “managerial capture” (Gray, 2002), have also contributed to prevent a closer collaboration.

In parallel to these debates, the last 20 years have also witnessed the development and institutionalization of some influential SR frameworks, such as the World Business Council for Sustainable Development (WBCSD) Guidelines and the Global Reporting Initiative (GRI) Guidelines. These guidelines have been promoted by a variety of corporate, government and non-government actors, and have been increasingly adopted by organizations. However, from the sustainability accounting literature, the extent to which these widely-used reporting frameworks accurately reflect social and environmental sustainability is subject to controversy (Moneva et al., 2006; Adams and Narayanan, 2007).

### ***Sustainability Performance Measurement (SPM): a company-level approach***

Corporate Social Performance (CSP) was first conceptualized by Carroll (1979), and included a definition of the different types of CSR businesses had, an enumeration of issues for which a social responsibility existed and a specification of the strategy of responsiveness to these issues.

As CSR has expanded from theory to corporate practice, companies increasingly need to incorporate social, environmental and stakeholder demands into business processes and day-to-day decision making (Maon et al., 2009). In order to do so, companies must be able to measure, monitor and manage economic, social and environmental performance (Cresti, 2009).

From a company-level perspective, some critics have been made to the adoption of generic SR frameworks. On the one hand, it has been underscored that SPM initiatives must be tailored to local circumstances and context in which the corporation operates (Searcy, 2012). In addition, the dynamic, socially constructed nature of CSR has been stressed, highlighting the need to understand CSR as a process of learning and change, rather than as a set of best practices (Gond and Herrbach, 2006; Jamali, 2006).

Accordingly, some specific SPM frameworks have been proposed. These frameworks commonly provide the following elements: criteria for selecting and prioritizing relevant issues, criteria for developing appropriate metrics and indicators and a mode of integration into management systems.

It has been argued that integration into management systems is of particular importance to embed CSR practices across the company (Pedersen and Neergaard, 2008), for which different approaches as well as criteria for trade-off between indicators have been found in the literature. Hubbard (2009) summarized the existing into four categories: the systems approach, the quality approach, the triple bottom line approach and the Balanced Scorecard (BSC) approach.

### **3. Methodology**

A qualitative multiple case study was carried out in order to explore the relationship between intraorganizational SPM and SR practices. This methodological approach is in accordance with existing calls, both in CSP and sustainability literatures, to study the specific circumstances of CSR implementation and measurement processes (Parker, 2005; Adams and Larrinaga-González, 2007; Moon et al., 2011).

Case studies are rich, empirical descriptions of contemporary phenomena within its real-life context, typically based on a variety of data sources (Yin, 2003). More specifically, multiple case studies allow for replication logic in order to discover similar patterns and fundamental differences among them (Eisenhardt and Graebner, 2007).

In our case study, theoretical sampling was used to select the cases (Strauss and Corbin, 1998). All companies belong to the IBEX-35, the 35 biggest Spanish companies' index and represent different business sectors. In addition, they are all well known for their commitment towards CSR practices and are among the CSR leaders in their field of activity.

For each case study, an extensive research about the company and its context was carried out. Semi-structured interviews and multiple secondary sources of evidence were collected, so that data could be triangulated and cross-checked against each other (Yin, 2003). Secondary data sources included public documentation (annual reports, sustainability reports and third-party assessments), internal documentation, news articles and corporate websites.

For every case, a semi-structured interview was conducted with the CSR manager. The purpose of the interview was to provide a richer picture of processes involved, rather than specific outcomes. For this reason, an interview guide was used to ensure that all the relevant subjects were covered, while allowing a certain degree of freedom and adaptability.

Once data collection was completed, Eisenhardt (1989) method of within- and cross-case analysis was used to analyze the pieces of evidence found. During within-case analysis, data were summarized and preliminary findings were elaborated for each case separately. The outcomes of this phase were then compared and contrasted during cross-case analysis.

Finally, in order to improve the quality of the research, the same protocol was followed for collecting the information for all cases, and respondents were encouraged to provide feedback on the initial findings. In addition, the participation of two researchers during data collection and analysis provided complementary insights and helped to reduce potential biases.

#### **4. Findings**

The research has allowed to explore and identify tensions and synergies derived of the interaction of SR and internal SPM practices. They are described next, according to the level (strategic, organizational and technical) of the organization where they appear.

##### ***Strategic level***

At the strategic level, case studies highlight relevant issues in the orientation of SPM and SR, such as strategic scope, time orientation and instrumentality.

Concerning the strategic scope of SR requirements, mixed responses were collected through the case studies. Company B and C acknowledged that SR requirements were helpful when defining the strategic focus of internal SPM systems. On the contrary, manager from Company D highlighted that SR requirements rarely dealt with strategic issues, being more concerned with operational tools and metrics, so there was no practical overlap between them.

Whether SR requirements were thought to be of more or less help, it was however acknowledged that, alone, they do not provide a sufficient basis for developing relevant CSR policies. This was explained in terms of time orientation of SR and SPM. Whereas reporting standards tend to address (past) performance on generic sustainability issues, internal SPM practices are designed to cope with CSR strategic issues the company is facing (or will face), even if they may not be actually demanded by any particular stakeholder. In this sense, manager from D underscored that even company-specific stakeholder consultation had not always led to the identification of relevant strategic issues.

Finally, concerns about the instrumentality of SR and SPM also arose during the interviews. Within the research sample, three out of four interviewees (B, C and D) said CSR was also a way to reap some benefits for the business (such as legitimacy and efficiency), in addition to responding to stakeholder demands. On the other hand, manager from Company A said CSR value, apart from the ethical commitment towards society, was unclear. Manager from B also signaled the lack of CSR awareness among customers as a barrier for mainstreaming CSR into core business. For all respondents, a better knowledge about the linkages of social and environmental outcomes to financial results would be helpful, allowing to explore win-win strategies derived from sustainability and pushing the CSR agenda forward.

### ***Organizational level***

At the organizational level, the interaction between SR and SPM reflected in three related issues: how CSR is managed across the company, how issues are integrated into management systems, and what outcomes in terms of organizational learning and change are observed.

As some of the respondents acknowledged, CSR departments have evolved from a mainly external relations role to areas increasingly embedded into the corporate value chain. In order to achieve this transformation all interviewed managers underscored the need to get other departments involved when dealing with CSR issues. As CSR managers of B and C pointed out, external SR requirements were no longer exclusively addressed to CSR departments, but also to departments held responsible for them, thus enhancing the visibility and relevance of CSR across the company. As these respondents signaled, this was contributing to a more decentralized management of CSR issues as well as to wider collaboration between different departments.

A complementary theme to understand how CSR is managed across the company is their integration into management systems. The way both SR requirements and SPM shape and integrate management systems differed across the cases researched. Company B and D had well established sustainability SPM systems, which were internally used to define goals and measure progress against them. As explained by the CSR manager, the design of the SPM system at company D had the explicit goal of both meeting SR requirements and strategic priorities. At company B significant synergies were achieved since SR practices and internal SPM had developed in parallel. Company C did not have a specific system to deal with CSR objectives; however these were embedded into the management systems of relevant areas (e.g. information about environmentally certified suppliers was integrated into the Purchasing Department management system).

In a more general way, some further benefits of SR requirements in terms of organizational learning and change were identified. Managers from all companies agreed to signal how responding to SR requirements had contributed to make CSR commitments more explicit, as well as to change organizational attitudes. They also underscored how external pressures could help create a sense of urgency and facilitate change towards a more integrated CSR orientation. More specifically, SR requirements were thought to raise awareness about these issues across departments (company C), and facilitate the development of a transparency culture (company B).

### ***Technical level***

At the technical level, main themes from the case studies focused on metrics and information systems needed to support them.

Regarding metrics, translating SR requirements into policies and goals generates several difficulties. First, and opposed to financial metrics, sustainability metrics were not always thought to have an easy understanding, neither they provide univocal measures about social and environmental performance. In this sense, managers from A and B acknowledged that these weaknesses could hamper the benchmark with competitors and other companies, which is common way to set goals and monitor progress.

The generic nature of SR indicators also revealed troublesome, but companies had adopted different strategies to deal with it. Company B had designed specific SPM indicators by adapting generic guidelines in a relevant way for its particular business. Company D had made an effort to integrate SR requirements into its SPM system and also to explore the link to financial results where possible.

Finally, some concerns were expressed about the limitations (including the cost) of information systems needed to gather and permanently update increasing amounts of SR and SPM information on an automated basis.

## **5. Conclusions**

This article has sought to address the lack of study about the relationship between generic sustainability reporting frameworks and intraorganizational sustainability measurement practices at the company level.

By critically reviewing the literature, we have highlighted relevant contributions both from the sustainability accounting and CSR literatures, while also identifying their differences in approaching sustainability measurement.

In accordance to existing calls in both of these literatures, a multiple case study was carried out in order to explore the tensions and synergies generated by the dual objective of external sustainability reporting and internal sustainability performance measurement. These tensions and synergies have been then described at the strategic, organizational and technical level.

Exploring this dynamics has provided useful insights to guide both SR design and CSR strategic implementation. In addition, good managerial practices identified may help companies to overcome this gap, grasping the benefits of adopting an integrated perspective on both issues.

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