An Analysis upon Corporate Social Responsibility from Different Perspectives

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Abstract. In order to enhance the competitiveness, make a good social influence, and impersonally evaluate corporate performances, more and more companies tend to disclosure their corporate social responsibility information in their annual reports, which is becoming more important than accounting index. This paper comprehensively analyzes its nature and different focuses from institutional theory, stakeholder theory, and agency theory perspectives, respectively.

Introduction

The modern era of Corporate Social Responsibility (hereafter, CSR) started in 1954 when Howard Bowen published Social Responsibilities of the Businessman, which was the first book related to CSR. Bowen (1954) identified CSR as “the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society.”

Firms either disclose financial and non-financial information voluntarily or due to legal obligations mandatorily. Though there is no particular law in The UK Corporate Governance Code concerned with CSR, under A.1: The Role of the Board, the code does mention that “The board should set the company’s values and standards and ensure that its obligations to its shareholders and others are understood and met” [1]. Most companies' business models and strategic reviews today include sustainability strategies and plans of making a positive impact on the society. Therefore, to ensure that the companies' stakeholders understand the values and standards, the companies should disclose information concerning those topics through their annual reports even though the law does not directly request them to do so.

On the other hand, companies sometimes do disclose information and news related to CSR voluntarily to improve their images in the society and to increase the companies’ transparency. By doing so will not only contribute to the society at large. However, may also benefit the companies at the same time by attracting more socially responsible investors and expanding the companies’ investor bases [2]. Voluntary disclosures can also be prompted by pressure from a variety of stakeholders, such as the consumers and investors. Public scrutiny and pressure that is exerted on the companies can be used as a regulatory mechanism to curb companies’ undesired behaviours [3]. For example, forcing manufacturers to reveal details of the pollution they generate and their effort on energy, carbon, and water reduction.

This paper will then introduce and analyse three different theoretical explanations related to voluntary disclosures. More specifically related to activities of FirstGroup Plc which is a leading transport operator in the UK and North America and also a constituent of the FTSE 250 Index listed on the London Stock Exchange.

Perspective from Institutional Theory

Institutional theory interprets the reasons for companies to act in a similar way. For this paper particularly, why most companies in the transport industry nowadays disclose information related to CSR voluntarily. DiMaggio and Powell (1983) identified three mechanisms of institutional isomorphic change, coercive isomorphism, mimetic isomorphism, and normative isomorphism [4].
Coercive isomorphism results from both formal and informal pressures from a variety of authorities in the society [4]. For example, the government and the rating agencies could all exert pressure on companies. This kind of pressure would usually work as a force for companies to adopt the identical strategic action. As for transport industry in the UK, all vehicles with heavy-duty diesel engines must meet the European emission standards. It is also required by the Department for Environment Food and Rural Affairs that all quoted companies must report their greenhouse gas emissions from activities for which they are responsible on their directors’ reports [5]. FirstGroup Plc like all the other large bus operators in the UK has met this standard and reported its achievement on meeting regulatory requirements in the Group’s annual report. Since all quoted companies in the UK must obey this law, they will thus contain information relating to greenhouse gas emissions information in their reports and therefore leading to organisational homogeneity.

Mimetic isomorphism happens when uncertain factors cause organisations to imitate another organisation's behaviour [4]. Usually, companies would choose to mimic a company that is referred as a leader in the industry or a more successful competitor. In this case, FirstGroup Plc would be considered as a leader in the transport industry, and its behaviours and activities would be followed by other companies in the industry. As a leading transport operator, FirstGroup Plc continues to be at the forefront of providing sustainable travel solutions and reducing carbon footprint. The Group reported its achievements on supporting the economic activity and improving social well-being by linking together the customers and communities the Group serves [6]. The Group has also voluntary disclosed a summary of the emissions for which it is responsible, as shown in Figure 1.

<table>
<thead>
<tr>
<th><strong>Our carbon footprint in tonnes of CO₂(e)</strong>:</th>
<th>2015/16</th>
<th>2014/15</th>
<th>2013/14</th>
<th>2012/13</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scope 1</td>
<td>2,360,200</td>
<td>2,354,822</td>
<td>2,317,065</td>
<td>2,357,302</td>
</tr>
<tr>
<td>Scope 2 (location based)</td>
<td>88,888</td>
<td>88,427</td>
<td>94,884</td>
<td>112,027</td>
</tr>
<tr>
<td>Scope 3</td>
<td>2,701</td>
<td>2,398</td>
<td>2,611</td>
<td>2,181</td>
</tr>
<tr>
<td>Outside of scope</td>
<td>13,565</td>
<td>10,007</td>
<td>11,258</td>
<td>11,444</td>
</tr>
<tr>
<td>Total tonnes CO₂(e)</td>
<td>2,490,463</td>
<td>2,473,264</td>
<td>2,432,749</td>
<td>2,488,069</td>
</tr>
<tr>
<td>Total tonnes CO₂(e) per £1m revenue</td>
<td>462</td>
<td>486</td>
<td>457</td>
<td>451</td>
</tr>
<tr>
<td>Scope 2 (market based)</td>
<td>72,104</td>
<td>98,427</td>
<td>94,884</td>
<td>112,027</td>
</tr>
</tbody>
</table>

Figure 1. The carbon footprint in tonnes of carbon dioxide. [6]

It is likely to be believed that other companies in the transport industry are influenced by the behaviour of FirstGroup Plc and has the incentive to follow the Group's actions on disclosing the information related to CSR in their annual reports. However, these companies often forget that the actions that are suitable for the leading company might not be appropriate for them. For example, while it could be very easy and convenient for the leading company to generate information, it could be much harder for other companies to do so. Consequently, companies need to consider their conditions before imitating another organisation's strategies and actions.

Normative isomorphism is driven by professionalization. DiMaggio and Powell (1983) argued that formal education and professional network are the two aspects of professionalization that are important sources of isomorphism. Therefore, when managers with similar education backgrounds in the same industry switch from one company to another, not only they are moving but also their ways of solving problems, professional knowledge and management styles are also moving along and in result would shape similar organisational behaviour.

In conclusion, the Institutional theory suggests that coercive, normative, and mimetic pressures can all influence corporate behaviour and would encourage companies to adopt similar actions. For this paper particularly, most companies in the transport industry would disclose information related to CSR voluntarily.

**Perspective from Stakeholder Theory**

Before Freeman (1983) first pointed out the importance of meeting the needs of stakeholders other than shareholders. Companies have been putting shareholders needs first and ignored other parties
that are involved in the businesses. Hence, traditionally corporate performance has been assessed merely on the financial goal which is based on the maxim of “maximisation of shareholders’ wealth” [7]. Stakeholder theory provided a new way for companies to think about corporate responsibilities and turned attention to considerations beyond shareholder’s wealth maximisation [8]. Therefore, businesses nowadays are no longer only focusing on achieving financial goals. Instead, firms are now putting efforts on meeting the needs of other stakeholders such as the communities and consumers. Most companies today are performing more responsibly and being accountable for social concerns and environmental issue. As a result, corporate performance is being assessed by three elements including economic value, social responsibilities, and environmental impact, that constitute the triple bottom-line.

The reporting system has changed considerably in line with the corporate objectives to a new scheme with more dimensions. Since traditional financial reporting system fails to reflect the multiple dimensions of corporate goals due to focusing almost exclusively on profitability [7]. To remain a competitive position in the market companies need to adopt the triple bottom line reporting system to support the companies’ sustainable development goals. Reports based on the triple bottom line would act as a medium for companies to communicate both their financial and corporate social performance successes to their various stakeholders and therefore provide more comprehensive information to support stakeholders with their decision-making processes and at the meantime may attract more socially responsible investors. The benefits of acting and reporting in a socially and environmentally manner motivate companies to disclose information related to CSR through annual reports and also forces the companies that do not report out of the market. FirstGroup Plc identifies in its annual report that the group’s ultimate strategic goal is to invest time, energy, and capital in what matters to its stakeholders. Being a responsible partner to its customers and communities and all other stakeholders is the key to the Group's long-term success [6]. Hence shows that companies are now attaching great importance to the relationship with their stakeholders by disclosing information related to CSR in their annual reports.

Nevertheless, reporting information related to CSR to satisfy various stakeholders has few drawbacks. First of all, although it is easy to quantify the economic value of the company by simply calculating the financial figures such as profits and costs, there is no formula on quantifying the impacts of environmental and social activities. Moreover, unlike the International Financial Reporting Standards (IFRS) which allows investors and other users of financial statements to compare the financial performance of publicly listed companies [9]. There is no standard for corporate social performance that is designed to make the environmental and social performance across different companies understandable and comparable to stakeholders. Secondly, more goals concerning to CSR aiming to be achieved might conflict with the primary objective of a firm which is to maximise shareholders’ wealth. While some shareholders may agree on spending money on performing and disclosing CSR activities, others may disagree and think the cost spent on disclosing information related to CSR outweighs the profit. Furthermore, multiple goals would also increase the complexity in the planning process and thus increase the amount of work for companies. It is argued that a firm's managers may seek to overinvest in CSR for their private benefits to the extent that doing so improves their reputations [10] which lead to the second theoretical explanation of voluntary disclosure, agency theory.

**Perspective from Agency Theory**

Agency theory is one of the most frequently used theoretical explanation on illustrating the reasons and motivations of voluntary disclosure. The agency theory suggests that a variety of corporate characteristics such as firm size, leverage, and profitability all correlate positively with a high level of voluntary disclosure [11]. Firm size particularly has been considered as one of the determining factors on the extent of voluntary disclosures. It is evident that because companies of smaller size would spend more on collecting and analysing information due to their ineffective information systems. Large firms are more likely to bear this cost and thus disclose more details related to financial and corporate responsibility [12].
Moreover, studies have found that a greater number of stakeholders are more interested in receiving voluntarily disclosed information in line with mandatory financial information. Also, because large firms generally have a greater majority of stakeholders influencing them with the public and the media placing scrutiny on the behaviour of large firms as well [11]. Consequently, large companies are more motivated to increase the level of disclosure to gain investors’ confidence and to enhance their public images [13]. For example, in the transport industry companies of larger sizes such as FirstGroup Plc discloses more comprehensive information in its annual report compared to that of smaller transportation companies such as Ulsterbus, which is a public transport operator in Northern Ireland. The annual report of FirstGroup Plc contains 168 pages in total, with three main parts delivering information on both good financial returns and sustainable growth in the year of 2016. The report also has an individual chapter of Corporate Responsibility illustrating the Group’s achievements on successfully managing its impacts on the environment, safety, and investing in its employees and communities. In contrast to the annual report of FirstGroup Plc, Ulsterbus’s annual report has only 89 pages with more than two third of the report illustrating information containing financial information only.

Agency Theory also explains the possible conflicts between the principals and the agents due to unaligned goals. According to Bamber, Jiang, and Wang (2010), managers who work as agents in the principal-agent relationship play an economically significant role in companies' voluntary financial disclosure decisions [14]. Watson, Shrives, and Marston (2002) have also found that with shareholders (principals) trying to control managers’ (agents) behaviour through monitoring activities, managers would thus have the incentive to disclose information through a variety of means to convince shareholders that they are performing in the way as the shareholders would expect [15]. For instance, under the Corporate Responsibility chapter in the FirstGroup Plc's annual report, it is shown that the Group would continue to draw upon sector and location-specific insights to ensure that its corporate responsibility strategy is relevant to all its stakeholders [6].

Conclusion

This paper examined the reasons for companies to disclose corporate social responsibility information in annual reports voluntarily. Using Institutional Theory, Stakeholder Theory, and Agency Theory in line with examples from the transport industry, especially information from FirstGroup Plc Annual Report of 2016 to give a better understanding of theoretical explanations for voluntary disclosure. Institutional theory illustrates that coercive, normative, and mimetic pressures can all encourage companies to disclose information related to CSR voluntarily and thus lead to organisational homogeneity. Stakeholder theory argues that a corporation's responsibility is not only about maximising its shareholders’ wealth but meeting the needs of other stakeholders is equally important. Therefore, to remain a competitive position in the market companies should provide annual reports that contain more comprehensive information on both financial and corporate social performances. On the other hand, it has been bringing to attention for the need to have a standard on corporate social performance to make the environmental and social performance across different companies understandable and comparable to stakeholders. Agency theory suggests that the size of the firm is positively related to voluntary disclosure. Therefore, companies of larger sizes tend to disclosure more corporate social responsibility information in their annual reports.

References


