Firms adopt corporate social responsibility for complex reasons

blogs.lse.ac.uk/businessreview/2016/08/31/firms-adopt-corporate-social-responsibility-for-complex-reasons/

8/31/2016

The traditional perspective for engaging in corporate social responsibility (CSR) assumes that early adopters are more authentic than late adopters. Why? Those that fear their operations aren't CSR friendly take longer to bend to the will of external stakeholders, and report later. On the other hand, "best practice" organisations release CSR reports in advance of stakeholder expectations, taking advantage of their strengths to engender goodwill amongst regulators, customers and society. To what extent however, might this actually be the case?

We offer empirical evidence supporting rationales that introduce greater complexity to this discussion, and even appear counter-intuitive. Survey responses from 80 Finnish firms reveal that 72 engage in CSR practices, but only 46 actually engage in reporting (CSRR). Why is this the case? Why do CSR but not report it?

Organisations conduct CSR in order to achieve certain goals. Our survey findings reveal that most of these goals do not appear to have been realised. Indeed, our findings show that the surveyed Finnish organisations have not attained the primary goals for which they engage in CSR and CSRR (Table 1). For twelve of the seventeen motivations we identify for conducting CSR, reporters (R) fail in their goals like non-reporters (NR), to the extent that their motivation for conducting a practice did not lead to the desired outcomes.

Notwithstanding this, they voluntarily conducted CSR reporting. Furthermore, of the thirteen identified motivations/benefits for conducting CSRR amongst reporters (Table 2), twelve did not obtain the level of outcomes for which their reporting was initiated. These findings adequately explain why one third of the firms conduct CSR, but do not engage in CSR Reporting. However, an additional question must then be asked – why do the remaining two thirds voluntarily publish CSR reports in areas where their goals remain unmet?

Table 1. Motivations and consequences of CSR among CSR reporters and non-reporters

Q. To what extent do the following factors motivate your organization to be run as a sustainable business and to what extent has your organization obtained the following benefits as a result of sustainable business engagement?

	N	Reporting Status	Motivation (mean on 1-7 scale)	Obtained consequence (mean)	P value	Interpretation
To helps us better manage our corporate image	43	R	6,16	5,56	,001***	Goals not attained
	32	NR	5,38	5,03	,017**	Goals not attained
To increase customer satisfaction	43	R	5,79	5,14	,000***	Goals not attained
	31	NR	5,55	4,68	,000***	Goals not attained
To meet the expectations of shareholders	43	R	5,77	5,44	,039**	Goals not attained
	33	NR	5,15	4,85	,054*	Goals not attained
To create business sustainability solutions/applications	43	R	5,70	5,14	,000***	Goals not attained
	31	NR	5,23	4,39	,001***	Goals not attained
To achieve cost savings	42	R	4,71	4,33	,037**	Goals not attained
	31	NR	4,84	4,10	,001***	Goals not attained
To increase our competitive advantage	42	R	5,64	5,00	,001***	Goals not attained
	32	NR	5,25	4,34	,000***	Goals not attained
Too meet stakeholder stipulations	43	R	5,00	5,05	,868	**Goals attained**
	30	NR	5,17	4,53	,006***	Goals not attained
To enhance our financial performance	43	R	4,77	4,35	,057*	Goals not attained
	31	NR	4,81	4,29	,093	Goals not attained
To align with the values of the organisation	42	R	6,26	5,69	,000***	Goals not attained
	31	NR	5,29	4,94	,008***	Goals not attained
To increase employee satisfaction	42	R	5,67	5,29	,002***	Goals not attained

	N	Reporting Status	Motivation (mean on 1-7 scale)	Obtained consequence (mean)	P value	Interpretation
	31	NR	5,16	4,61	,007***	Goals not attained
To meet requirements of other organisations in the supply chain	42	R	4,69	4,48	,205	Goals not attained
	31	NR	4,81	4,35	,006***	Goals not attained
To meet the expectations of civil society and associations	42	R	4,31	4,31	,967	**Goals attained**
	31	NR	4,26	4,13	,470	Goals not attained
To follow the example given by markets and competitors	42	R	4,24	4,69	,045**	Goals exceeded
	31	NR	4,87	4,58	,128	Goals not attained
Availability of finance and lower cost of capital	39	R	4,00	4,46	,026**	**Goals exceeded**
	31	NR	4,35	4,42	,772	**Goals attained**
To avoid tighter regulation	41	R	3,98	3,59	,091*	Goals not attained
	30	NR	4,03	3,43	,021**	Goals not attained
To aid internationalisation of the company's business	42	R	3,60	3,95	,034**	**Goals exceeded**
	30	NR	3,50	3,93	,388	**Goals attained**

Note: Wilcoxon matched-pair signed-rank test as a nonparametric test, testing bi-directional significance in mean differences between “obtained consequence” and “motivation” scores. “Obtained consequence” mean score < motivation mean score = Goals not attained; “obtained consequence” mean score > motivation mean score = Goals attained; “obtained consequence” mean score > motivation mean score with stat. significance p<0.1 = Goals exceeded. P value indicates significant result on 1% (***), 5% (**) and 10% (*) level. (-) indicates no significant result.

Table 2. Motivations and consequences of CSR Reporters

Q. To what extent do the following factors *motivate* your organization to produce a CSR report and to what extent are the following issues *consequences* of CSR reporting?

	Motivation (mean on 1-7 scale)	Obtained consequence (mean)	P value	Interpretation
To align with the values of the organisation	5,48	5,18	,048**	Goals not attained
To help us better manage our corporate image	5,47	4,93	,006***	Goals not attained
To meet the expectations of shareholders	5,33	4,87	,013**	Goals not attained
To increase employee satisfaction	4,72	4,26	,017**	Goals not attained
To increase customer satisfaction	4,58	4,04	,004***	Goals not attained
To create business sustainability solutions/applications	4,33	4,09	,243	Goals not attained
To meet stakeholder stipulations	4,31	4,16	,871	Goals not attained
To follow the example given by markets and competitors	4,27	4,20	,444	Goals not attained
To increase our competitive advantage	4,20	3,80	,025**	Goals not attained
Risk management	4,14	4,05	,710	Goals not attained
To enhance our financial performance	3,68	3,36	,024**	Goals not attained
It is easier to reason cost saving	3,32	3,30	,661	Goals not attained
Availability of finance and lower cost of capital	3,23	3,27	,772	**Goals attained**

Please refer to Notes for Table 1.

A key idea underpinning our study is isomorphism. Isomorphism is a term used in research to describe why companies adopt a new practice/innovation (in our study, CSR or CSRR). There are three broad categories of reasons for engaging in new practices – *normative*, *coercive* and *mimetic*. Simply put, normative isomorphism arises when companies adopt practices because managers in the firm or external consultants advise them to. Coercive isomorphism arises when a company is forced (e.g. for regulatory reasons) to adopt practices. Mimetic isomorphism arises when a company adopts a practice because someone else has (a competitor).

Generally, it is thought that if an organisation is forced to do something (coercive) or does it because others are doing it (mimetic), the organisation might not do it as authentically as if it was motivated by managers/consultants advising a firm to do it (normative). Of course, a company might adopt a practice for multiple isomorphic reasons. For example, a company might adopt CSR because managers push for it (normative) and other companies in its industry are using it (mimetic).

To clarify these unpredicted survey-based findings, we obtained access to five organisations to analyse their CSR and CSR reporting practices. This field evidence indicated broad support for higher CSR embeddedness amongst the early CSR adopters than for late adopters, but for quite different reasons. Two of our three early adopters (Caretaker, Traveller and Electrician) evidence a high level of inter-linkages between CSR and other systems supporting their operations.

Caretaker's CSR reporting relates to its balanced scorecard, incentive systems and strategy, emphasising this embeddedness. Caretaker also integrates its CSR into its control systems and HR training procedures with significant positive benefits. In Traveller, we observe a similar embeddedness between CSR reporting and systems as in Caretaker, but for pragmatic economic benefit, as opposed to an intent for sustainability reporting as an end objective. Finally, Electrician initially conducted CSR owing to the personal interest of a former CEO, but now does it to provide CSR information to others in the supply chain, to satisfy stakeholder demands. All these three firms are early reporters, but two of the three do not necessarily conduct CSRR because they're intrinsically passionate and strongly align with it.

The late reporters (Builder and Cleaner) conduct CSR more symbolically and with less evident embeddedness into extant systems, which is somewhat consistent with prior research. Builder showed strong mimetic alignment, as management copied the indicators used by competitors. Finally, Cleaner invested in CSR reporting to keep up with competitors, but its late adoption was for quite authentic reasons not normally observed in the mimetic isomorphic stance. This was surprising to us. Ironically, the strong link between the company's strategy and environmentally friendly operating stance introduced a measure of complacency amongst management and key stakeholders regarding CSRR, as they perceived it as self-evident that they were CSR aligned. Again, these findings run counter to the idea of a late adopter not possessing authentic, genuine CSR practices – quite the opposite.

In summary, our findings show that normative and coercive isomorphism interplay to drive the adoption decision of early adopters, who do so to placate key external stakeholders. This contrasts with prior studies that have mainly argued for mimetic and normative isomorphism as dominating the decision to implement CSRR amongst adopters (Arya and Zhang 2009).

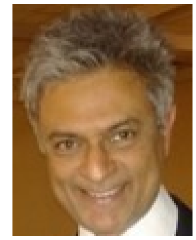
We also find that some late reporters often chose not to engage earlier for very pro-CSR reasons – their strategic proximity to the phenomena being reported is so intrinsically close they don't perceive the need to report. Such firms subsequently feel less need to opportunistically validate or signal their sustainability ethos using formal reporting systems. This very authentic rationale for reporting late has not been introduced into the literature. In this sense, our findings problematise the early/late CSR reporter divide – they may not intrinsically align to the higher or lower sustainability performance of an organisation.

♣♣♣

Notes:

- *This article is based on the authors' paper Voluntary Corporate Sustainability Reporting: A Study of Early and Late Reporter Motivations and Outcomes, Journal of Management Accounting Research.*
- *The post gives the views of its authors, not the position of LSE Business Review or the London School of Economics.*
- *Featured image credit: CSR, by Scott Lewis, CC-BY-2.0 licence*
- *Before commenting, please read our Comment Policy*

Alnoor Bhimani is Professor of Management Accounting at LSE. His research interests are in management accounting in the digital economy; strategy and financial management; and globalisation, governance and development.



Hanna Silvola is Assistant Professor of Accounting at Aalto University School of Business. Her research interests are in accounting for sustainability, strategic management control and performance measurement. After receiving a PhD in Accounting from the University of Oulu, she had a post-doctoral fellowship at the LSE. Dr. Silvola has published on a range of topics in management accounting in journals like Accounting, Organizations and Society; Management Accounting Research; Journal of Small Business Management and Journal of Management Accounting Review.

Prabhu Sivabalan is Associate Professor and Accounting Discipline Group Core Member at the University of Technology Sydney. Prior to pursuing an academic career, he was a cadet analyst in Deloitte Touche Tohmatsu. He completed his Bachelor of Business undergraduate degree with 1st class honours, and has completed a PhD in the area of budgeting, strategy and management control systems under the supervision of Professor Peter Booth, Professor Teemu Malmi and Associate Professor Bernhard Wieder. Prabhu's research interests are broadly in the application of core accounting concepts such as budgeting and costing to innovative and far-reaching contexts not usually associated to accounting, such as entrepreneurship and high innovation environments, accounting/costing in healthcare, as well as the role of accounting in hydrology and agriculture.