

CORPORATE SOCIAL RESPONSIBILITY REPORTING: WHAT BOARDS OF DIRECTORS NEED TO KNOW

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Abstract

To avoid future generations being burdened with the residual consequences of unsustainable corporate practices, corporate social responsibility (CSR) programmes are being implemented to ameliorate the adverse impacts of corporate activity on the environment, society and the economy. Companies are responding by not only reporting on their financial performance, but also on their non-financial performance, making CSR reporting practices an important emerging mechanism for corporate governance.

Recognising that CSR reporting is a relatively new voluntarily adopted intervention, for which the board of directors is ultimately accountable, this article accepts that CSR remains a relatively obscure concept with the associated responsibilities not being clearly understood. This article aims to provide insights into CSR reporting practices from a *de facto* mandatory reporting company perspective.

Keywords: Corporate Social Responsibility (CSR); JSE; King III; Report; Voluntary

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1. Introduction

Financial performance was traditionally considered to be an indicator of corporate success with investors typically using company financial reports for decision-making. By contrast, company non-financial disclosures were considered less important and for contextual purposes only. More recently though, stakeholder expectations have resulted in corporate reporting no longer focusing exclusively on quantitative issues and including qualitative issues (Zorio, Garcia-Benau & Sierra, 2013). To overcome asymmetrical information arising from the agency problem, corporate performance should be consistently reported, both internally and externally (Blair, 2005; ICAEW, 2005).

Moreover, the combined global pressures of anthropogenic climate-change (Kirk, 2008), rapid population growth, unrestrained economic growth and an enduring recession, require companies to improve their operational efficiency while also incorporating broader CSR issues into their business strategies (Manwaring & Spencer, 2009). While dissidents still argue that climate-change is a naturally occurring phenomenon and not necessarily anthropogenic (Sutton, 2009; Revkin, 2008; Pascoe, 2007), empirical evidence suggests that its recent acceleration may be due to post-industrialisation human activity (Johns *et al.*, 2003).

Companies contribute to society by participating in the administration of individual citizen rights, both within the company and more broadly within the context of external economic corporate relations by increasingly contributing to the administration of their employees' citizenship rights (Scherer & Palazzo, 2011; Moon, Crane & Matten, 2003). Companies may for example, provide public health, education and human rights protection services; while addressing issues such as HIV/AIDS, malnutrition, homelessness and illiteracy.

To accommodate changing societal expectations and adapt to regulatory environmental changes, CSR-related issues should be incorporated into corporate strategy (Galbreath, 2006; Waddock & Graves, 1997). Globalisation, pressure for increased transparency and the need to preserve company reputations have resulted in many successful companies critically re-examining their corporate values (ICAEW,

2004). Successful companies today do not only accept the combined crises of climate-change, food and water shortages, volatile energy prices, and economic and ecosystem collapses, but are rather those that 'rigorously exploit' it to their advantage (Berliant, 2009).

It may accordingly be argued that the right time has come to ask whether the right things are being measured, in the right way and correctly communicated to the right people (Manwaring & Spencer, 2009). The interdependence of interrelated systems provides balanced information in corporate annual reports, with non-financial disclosures filling in the gaps caused by inadequacies in financial reporting (Gouws & Cronjé, 2008).

2. Theoretical background

2.1. Corporate social responsibility [CSR]

The essence of CSR is captured by the Brundtland Commission's definition of sustainability which is "development that meets the needs of the present without compromising the ability of future generations to meet their own needs". Brundtland argues that the interrelated components of sustainable development are environmental protection, economic growth and social equity (UNCSD, 2007; Morimoto, Ash & Hope, 2005), the ubiquitous triple bottom line (Elkington, 1999). Companies are accordingly required to comprehensively account for their operational impacts on the planet, its people and the future (UNCSD, 2007; ICAEW, 2004).

CSR represents the "decisions and actions taken for reasons at least partially beyond the firm's direct economic or technical interest" (Davis, 1960: 70–71). McGuire (1963, cited in Ramasamy & Yeung, 2009) expanded on this definition by arguing that companies do not only have economic and legal obligations, but also societal responsibilities beyond these obligations. Kok et al (2001) more comprehensively defined CSR as the company's obligation to use its resources to benefit society, through participating as a member of society. As the discourse has unfolded, Davis (2005) argued that CSR should consider and respond to issues beyond the narrow corporate economic, technical and legal dimensions. CSR therefore "begins where the law ends" (Davis, 2005: 113), with socially irresponsible companies only complying with the minimum prescribed legal or regulatory requirements. CSR therefore involves voluntary adoption of the principles of social responsibility, the processes of social responsiveness, and the observable outcomes of societal relationships (Williams & Zinkin, 2008; Orlitzky, Schmidt, & Rynes, 2003; Wood, 1991). Notwithstanding the definition used, CSR-related business strategies and activities that simultaneously meet present company and stakeholder needs; while protecting, sustaining and enhancing human and natural resources that will be required in the future; have serious implications for companies (IIA, 2010).

The CSR discourse is complicated by the range of different terminologies used, often meaning different things to different people, and which tend to be used interchangeably (Aras & Crowther, 2008; Kirdahy, 2007b). This confusion is exacerbated by the term 'sustainability' being used in the management literature for over 30 years, simply to refer to company operations in terms of a 'going concern'. Despite 'sustainability' emerging as a preferred term in the literature (Daly, 2010; IoD, 2009; Aras & Crowther, 2008; Adams & Larrinaga-González, 2007; Adams & McNicholas, 2007; Bleischwitz, 2007), the term 'CSR', as used in this article, continues to be used (Boulouta & Pitelis, 2014; Armstrong & Green, 2013; Calabrese et al., 2013; Chin, Hambrick & Trevino, 2013; Fooks et al., 2013; Lee, Seo & Sharma, 2013; Murphy & Schlegelmilch, 2013).

Although classical and neo-classical economists still argue in favour of 'pure' shareholder primacy, while business cannot survive without profits, profits were not incompatible with other social priorities (Nohria, 2010). CSR may be used as a marketing tool for developing company reputations and brands, contributing to bottom line profitability (McWilliams & Siegel, 2001). This 'instrumentalist', 'enlightened shareholder' or 'stakeholder inclusive' perspective (IoD, 2009), suggests that accommodating stakeholder requirements improves long-term company success (Owen et al., 2000). In terms of instrumental theory, CSR activities are only used to gain competitive advantage (Porter & Kramer, 2002) and facilitate entry into new markets (Prahalad & Hammond, 2002). Proactive companies may engage with a broad range of stakeholders and integrate CSR practices into their strategy and culture, whereas others more pragmatically recognise the merits of the CSR business case (Utting, 2005). According to Black and Quach (2009), the top CSR drivers for long-term company success include:

- Responsible CSR practices may improve corporate risk management and provide appropriate risk mitigation strategies and interventions.
- Accommodating CSR issues may create value by assisting companies identify and develop opportunities for new products and/or markets.
- Improved alignment of CSR with overall corporate strategy may reduce operating costs through improved operational efficiency and utilisation of scarce resource.
- CSR initiatives may stimulate employee and corporate learning and innovation by considering new ways of doing the same things better, or doing things differently.
- CSR may enhance corporate and brand reputation through communicating with external parties to build a positive image with customers, investors, bankers and supporters. While a strong reputation may stimulate sales, conversely a loss of reputation may result in lost customers (Orlitzky *et al.*, 2003).
- Strong CSR strategies may assist companies improve employee motivation, while retaining and attracting quality human resource talent (Fust & Walker, 2007).
- CSR may assist companies develop new competencies, resources and capabilities (Orlitzky *et al.*, 2003).
- Companies disregarding their operational impact on society and the environment may result in the withdrawal of their operating or metaphorical licences to operate.
- CSR can facilitate easier access to capital, since capital markets are increasingly influenced by risk assessments based on the company's environmental, social and governance dimensions.

Since social values and expectations tend to change over time, dynamic concepts like CSR continue to evolve adapting to changing social norms (Okoye, 2009). Despite widespread acceptance, effective CSR practices are constrained by inadequate normative grounding for effective regulation (Okoye, 2009; Campbell, 2007; Wan-Jan, 2006; Cramer, Jonker & van der Heijden, 2004; Whitehouse, 2003). Whereas CSR was previously associated with forgoing profits, or employees performing voluntary work, contemporary business leaders are recognising the importance of 'doing good', not only because it is 'the right thing' to do, but also because CSR can be an investment to enhance shareholder value. Corporate social involvement has evolved from simply funding 'worthy causes' through 'chequebook philanthropy', to strategic CSR in terms of which company CSR activities are more closely aligned with corporate expertise and capabilities (Kirdahy, 2007a). Even though the CSR discourse has been around at least since the 1930s (Okoye, 2009) and despite increased company awareness of CSR, it is suggested that the drive for companies to discharge their CSR accountability has not yet reached the tipping point.

2.2 CSR reporting

Whereas 25 years ago, 80% of a company's value was reflected on the balance sheet with only 20% representing intangibles, today 80% of company value factors in non-financial information (Gouws & Cronjé, 2008). Eccles, Krzus and Serafeim (2011) confirm this shift by arguing that a company's market value attributable to tangible assets has reduced from around 80% in 1975, to less than 20% by 2009. The over-reliance on financial data may therefore result in the omission of important non-financial information (Cohen *et al.*, 2011). As companies begin recognising the accruing benefits of greater corporate disclosures and increased transparency, CSR reporting is becoming increasingly important (Jones, Hillier & Comfort, 2014; Aras & Crowther, 2008).

Companies typically provide both statutory (primarily financial) and voluntary (usually non-financial) disclosures in their annual reports. The primary purpose of financial reporting is to provide shareholders with pertinent information relating to their investments. However, non-financial reporting provides information of interest to broader stakeholders (Eccles, 2010). Unlike external financial reporting which is mandatory for all companies, CSR reporting is usually voluntary. CSR reporting guidelines therefore do not prescribe corporate boundaries, but leave the definition and interpretation to reporting companies and their stakeholders (Archel, Fernández & Larrinaga, 2008). Despite emphasising historical financial information, corporate annual reports are also mechanisms conveying pertinent CSR-related information to stakeholders (Force for Good [sa]).

Non-financial information provides necessary context for meaningfully assessing corporate performance (Gouws & Cronjé, 2008). These contextual disclosures which include the company's economic, environmental and social operational dimensions attempts to bridge the gap caused by inadequacies in

financial accounting practices, normatively reflected in corporate annual reports, by presenting the ‘big picture’.

Companies have both a legal and moral obligation to provide stakeholders with relevant information about their operational impacts (Archel *et al.*, 2008). Once regarded as a moral and social obligation, companies are increasingly considering CSR reporting to be a business imperative (Jones *et al.*, 2014; KPMG, 2011). Improved CSR reporting practices are being driven by attempts to address a stakeholder need for information (Gouws & Cronjé, 2008; Morimoto *et al.*, 2005). Access to CSR information should therefore be a ‘right to know’ and a priority for the reporting company, irrespective of whether the information is subsequently used by stakeholders (Hibbitt, 1999).

The tendency to exclusively rely on financial information for decision-making is changing as socially responsible or ethical investors, other institutional investors and rating agencies increasingly consider non-financial information (Hummels & Timmer, 2004). Companies that are perceived to be more ‘sustainable’ are considered less risky than those that are not, with an expectation of continued profitability (Aras & Crowther, 2008). However, many investors only consider CSR information according to a separate mandate (Hummels & Timmer, 2004). Institutional investors may for example, wish to meet the requirements of some socially responsible index like the Johannesburg Stock Exchange’s [JSE] socially responsibility index [SRI], or the Principles for Responsible Investment [PRI]. The demand for ‘responsible investments’ is illustrated by the growth of PRI signatories since its launch in 2005. By May 2014, the PRI had grown to 1 200 signatory organisations representing assets under management of US\$34 trillion globally. PRI signatories commit to act in the best long-term interests of their beneficiaries, and accept that environmental, social, and corporate governance [ESG] issues can affect the performance of their investment portfolio.

The KPMG (2011) report found that companies were increasingly accounting for their key social and environmental operational impacts, as illustrated by the growth of CSR reporting. CorporateRegister [sa] illustrates this growth in CSR reporting by revealing that only 26 CSR reports were issued globally in 1992, compared to 837 in 2000, 2 465 in 2005, and 5 627 in 2010. KPMG (2011) confirmed this growth by reporting that 95% of the world’s largest 250 companies [G250] reported on their CSR activities in 2011, compared to 79% in 2008 and 52% in 2005 (KPMG, 2008). KPMG (2011) found that CSR reporting by the top 100 companies in 34 countries increased by 11% to 64%, for the same period.

The evolution of the CSR reporting paradigm is illustrated by KPMG (2011) finding that the primary driver of CSR reporting has shifted from ethical (69% in 2008) and economic (74% in 2005) considerations, to reputation management (67% in 2011). While economic considerations received very high rankings in 2005 (74%) and 2008 (68%), by 2011 it only represented 32%. It is suggested that this may be attributed to the rather nebulous nature of economic considerations and/or respondent bias. Respondents understanding of CSR may also have been influenced by the relative topicality of CSR, causing them to provide more informed responses to the research questions. Moreover, it could be argued that ‘reputation management’ is really an ‘economic consideration’ aligned to instrumental theory. The reduction of the innovation and learning dimension from 55% in 2008 and 53% in 2005, to 44% in 2011, may be due to the progressively accumulated learning by companies over the past few years.

2.3 Mandatory vs. voluntary CSR reporting

CSR reporting occurs within a particular context, in certain areas and under specific circumstances, with global CSR variability being attributed to regional perspectives (Okoye, 2009). For example, companies in developing countries often tend to oppose strict regulatory regimes which may increase operating costs (Okoye, 2009). These companies prefer supporting perfunctory and relatively weak codes instead; often only complying with the minimum requirements, but without incurring ‘unnecessary costs’ (Wells, 2007; Jenkins, 2001).

Increasing international concerns about the non-financial impacts of company operations have resulted in the development of mandatory CSR reporting regulations, where certain countries require annual reports to include CSR performance disclosures (Zorio *et al.*, 2013). France, for example, introduced the *novellas regulations economiques* requiring companies to provide CSR indicators in addition to their statutory financial disclosures (Force for Good [sa]) and UK companies are obliged to disclose their material CSR risks (CorporateRegister, 2008). Publicly-listed companies in Malaysia (PwC, 2007) and India (India,

2011) are compelled to report on their environmental and social responsibility performance. Similarly, certain aspects of CSR reporting are mandatory in South Africa too. Despite King III being a voluntary governance code, section 7.F.5 of the JSE regulations makes it mandatory for all JSE-listed companies to apply the King III principles, on an 'apply or explain basis' (JSE, 2011; IoD, 2009). While not usually intended for public consumption, other examples of mandatory South African CSR-related disclosures include those relating to safety, health and environmental legislation, employment equity and broad-based black economic empowerment [BBBEE]. Spencer [sa] however, argues that some companies will only grudgingly comply with the absolute minimum legal and regulatory requirements.

Despite supporting mandatory governance, Becht, Bolton and Röell (2005) argue that stringent rule enforcement may be counterproductive. Suggesting that companies should provide shareholders with adequate protection mechanisms, they caution that regulators may not have the information necessary to define efficient rules. Becht *et al.* (2005) advance two primary reasons for regulatory intervention. Firstly, not all relevant stakeholders may be involved in the design and implementation of a corporate charter. Secondly, even when companies respond to the 'right incentives', they may still wish to retain sufficient flexibility to contravene or amend these rules when necessary.

Government intervention may be necessary to stimulate CSR activity and reporting (KPMG, 2011). Companies should work with governments develop strong CSR-related frameworks, set targets and provide a stable regulatory environment for sustainable CSR solutions (Force for Good [sa]), with resultant legislation improving corporate citizenship (van Gass, 2008). Despite appearing to be in conflict with the ideals of voluntarism, King III highlights the linkage between good governance and the law, asserting that good governance does not exist separately from the law (IoD, 2009). King III points out that many of the King II recommendations are now '*matters of law*', having been incorporated into the South African Companies Act (71 of 2008).

CSR extends beyond mere legislative and regulatory compliance and includes moral or ethical behaviour which takes cognisance of society's expectations of business (Kotler & Lee, 2005). Voluntary governance initiatives involve more than simple pragmatic innovations aimed at enriching the institutional environment (UNRISD, 2000) and should therefore establish a platform for institutionalisation of the desired ethical culture corporate with the company to drive its CSR reporting approach.

The increasing adoption of voluntary corporate and/or industry initiatives for the implementation, monitoring and reporting of CSR may effectively render governments' regulatory CSR role obsolete (UNRISD, 2000). In South Africa, where CSR reporting is not legislated, many organisations that are not subject to the JSE regulations have voluntarily adopted the principles of the various iterations of the King Codes of Governance to enhance their governance practices (Marx & van Dyk, 2011; Rea, 2011; Ackers, 2009; Esser, 2008). Many firms now voluntarily provide CSR information on their websites, while others publish CSR information in formal reports (Hess & Dunfee, 2007), including the annual report. CSR reporting should therefore be sufficiently flexible to reflect its different conceptions, and illustrate the diversity of its participants and dimensions (Okoye, 2009).

Archel *et al.* (2008) however, suggest that the reasons why companies voluntarily report on CSR remain unclear. Instead of using CSR reports to discharge their accountability, companies may simply want to improve or maintain their reputations (Bebbington, Larrinaga & Moneva, 2008). Moreover, voluntary CSR reporting may be an important alternative to increased government regulation of business which is inherently inefficient and stifles business growth (Wines, 2008). Orlitzky *et al.* (2003) argue that the case for government regulation and control of CSR reporting is relatively weak, resulting in companies entrenching instrumental theory by voluntarily adopting CSR-related programmes to avoid government prescribing inflexible CSR accountability mechanisms. Companies providing CSR information may therefore not necessarily be concerned about social and environmental issues, but could simply be interested in the accruing instrumental benefits (Aras & Crowther, 2008). Furthermore, companies (and their shareholders), and not stakeholders, usually benefit more from management's analysis and evaluation of CSR performance (Orlitzky *et al.*, 2003).

Archel *et al.* (2008) conclude that voluntary CSR reporting may actually compromise the quality of CSR reporting. Therefore, until the introduction of global standards that may be consistently applied by companies around the world, comparability will remain a challenge for voluntary reporting standards (IIA, 2010). This deficiency can be overcome through the development and implementation of more

robust reporting frameworks (Force for Good, [sa]). Entrenching successful voluntary CSR governance initiatives are therefore not necessarily based on an enforcement regime, but rather on embedding self-regulation into the corporate fabric, as illustrated by the almost universal acceptance of the Hippocratic Oath for medical practitioners, dating back to the 4th century B.C.

While it may be argued that mandatory regulations should force companies to increase their disclosure levels, anecdotally, some companies will always only provide minimal (tick-box) compliance, without actually providing meaningful value to stakeholders. Moreover, mandatory CSR reporting ineffectiveness is exacerbated by the lack of universally agreed standards and frameworks, and may even stimulate a desire to beat the system.

2.4 CSR reporting, standards and frameworks

CSR reporting practices have largely been driven by the voluntary adoption of corporate codes (Okoye, 2009). Standardised methods are required to analyse, measure and report on CSR performance in a manner that is universally understood and allows for comparative evaluation by interested parties to improve decision-making (Aras & Crowther, 2008). Unfortunately, the inconsistent interpretation of what CSR involves may conveniently facilitate corporate disingenuity, especially since the underlying corporate risk evaluation methodologies are often inadequate (Aras & Crowther, 2008).

Increasing recognition of the social and environmental dimensions of corporate activity is driving the need for the establishment of appropriate CSR reporting standards (Jenkins, 2001). Simply reporting according to the international financial reporting standards [IFRS], only presents part of the picture. New contextual reporting standards, incorporating standardised metrics and reporting principles, should be developed and implemented to improve the quality and comparability of CSR reporting (KPMG, 2011; van Gass, 2008).

Instead of converging, several different frameworks and standards have emerged to account for and report CSR-related performance (Morimoto *et al.*, 2005). The Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting [ISAR] began developing environmental accounting and reporting practices already in the late 1980s. By 1999, ISAR agreed to continue developing environmental accounting and disclosure practices and to promote CSR reporting (UNCTAD, 2002). Private organisations like the Institute of Social and Ethical Accountability (AccountAbility) and the New Economics Foundation [NEF] led the initiative to establish SEAAR standards to complement similar financial functions in disclosing triple bottom line performance (Owen *et al.*, 2000). More recent initiatives included developments by the Global Reporting Initiative [GRI], the International Federation of Accountants [IFAC] and the Chartered Institute of Management Accountants [CIMA] (Reuvid, 2007).

Archel *et al.* (2008) found that companies strategically tend to selectively use CSR reporting standards by deliberately ignoring the disclosure of indirect impacts, or concealing non-disclosure, confirming the perceived shallow nature of CSR reporting. Moreover, Manetti and Becatti (2009) caution that financial analysts, investors and other stakeholders, usually tend to question the reliability, comparability, relevance and materiality of CSR reports; creating a credibility gap that reduces the usefulness of CSR reports. This deficiency may be overcome through the provision of independent assurance which enhances the quality of voluntary CSR reporting (Sierra, Zorio & Garcia-Benau, 2013). Companies wishing to act responsibly should therefore collaborate to establish and implement appropriate standards through self-regulation. The primary frameworks presently used for CSR reporting are briefly considered below.

The GRI presently provides the world's most widely-used framework for CSR reporting (Eccles *et al.*, 2011). The objective of the GRI is to make CSR reporting as routine and comparable as financial reporting (FEE, 2011). The most recent iteration of the guidelines, the GRI (2013) G4 incorporates the *principles for defining report content* (materiality, stakeholder inclusiveness, sustainability context and completeness); and the *principles for ensuring report quality* (balance, comparability, accuracy, timeliness, clarity and reliability). Broad acceptance of the GRI is illustrated by the GRI database containing 14 691 CSR reports, from more than 5 552 organisations (GRI [sa]) in 85 different countries ranging from Albania to Vietnam. KPMG (2011) describes the GRI as the *de facto* or *gold standard* (Black & Quach, 2009) for global CSR reporting, with 80% of G250 and 69% of N100 companies aligning their CSR reporting to the GRI framework. Rea (2011) however, found that the GRI's list was

incomplete, since many organisations prepared their CSR reports according to the GRI guidelines, but did not necessarily register them with the GRI. Archel *et al.* (2008) caution that companies were more likely to obtain a GRI compliant label to enhance their corporate image and reputation, instead of providing assurance about the quality of reporting.

AccountAbility released its first standard, the AA1000 AccountAbility Framework Standard, in 1999. AA1000 was subsequently revised to include the four core principles of inclusivity, materiality, completeness and responsiveness. These principles are incorporated into the AA1000 Assurance Standard (AA1000AS), the AA1000 Stakeholder Engagement Standard (AA1000SES), and the AA1000 AccountAbility Principles Standard (AA1000APS). Completeness refers to the extent to which these principles have been achieved (AccountAbility, 2008). Discharging accountability includes *transparency* (accounting to stakeholders); *responsiveness* (responding to stakeholder concerns); and *compliance* (complying with legislation, regulations, standards, codes, principles, policies etc.). Accountability is therefore about acknowledging, accepting responsibility for, and being transparent about the impacts of corporate policies, decisions, actions and products on stakeholders (AccountAbility, 2008). Accountability obliges companies to engage stakeholders to identify, understand and respond to CSR issues and concerns, and to report, explain and account to stakeholders.

Codes of conduct are written statements of principle or policy, intended to reflect a commitment to particular governance practices and usually include guidelines, recommendations or rules, to enhance CSR reporting practices (Okoye, 2009). Corporate codes of ethics and conduct probably represent the most visible signs of a company's ethical or moral philosophy (Stead, Worrell & Stead, 1990). The Institute of Directors of Southern Africa released the first King report and code of governance for South Africa [King I] in 1994 to promote the highest standards of corporate governance. King III released in 2009, requires companies to integrate CSR risks and opportunities into their core strategies (Davids, 2010; IoD, 2009). Despite being a principle-based voluntary code, JSE (2011) regulation 8.63(a), requires all JSE-listed companies to apply the King III principles, or to explain why it has not, making King III a *de facto* regulation for all JSE-listed companies.

CSR's increased importance is illustrated by the South African Companies Act (71 of 2008) introducing the CSR concept, albeit at a rather superficial and unenforceable level (Esser, 2008). Despite not prescribing any CSR responsibility, section 7(k) requires companies to balance the rights and interests all relevant stakeholders. Emphasising the significant role of companies in social and economic life, section 7(a)(iii) encourages (but does not oblige) companies to be transparent and to adopt high standards of governance. Companies' CSR role is confirmed by section 7(d) alluding to government's stated objective of using companies to achieve economic and social benefits. While these provisions do not go far enough, it nevertheless represents a step in the right direction, away from the previous Companies Act (61 of 1973), which did not acknowledge any responsibility to stakeholders.

Insufficient agreed upon criteria for defining sustainable outcomes implies that CSR reporting methodologies do not adequately reflect CSR performance (Morimoto *et al.*, 2005), or indicate whether corporate actions contribute to sustainable development. Similarly, Aras and Crowther (2008) argue that CSR reporting is inherently flawed, since financial performance has not historically been recognised as an integral component of CSR reporting. CSR therefore involves more than isolated CSR reporting, requiring companies to focus on integrated performance (IoD, 2009). It is suggested that the global integrated reporting initiative aims to overcome this deficiency by more comprehensively presenting the company's performance (Eccles, Krzus & Watson, 2012; Eccles *et al.*, 2011; Eccles, Cheng & Saltzman, 2010). Integrated reporting may be defined as "*a holistic and integrated representation of the company's performance in terms of both its finance and its sustainability*" (IoD, 2009: 54). Integrated reports <IR> provide relevant forward-looking information about the company as a whole, simultaneously enhancing legitimacy. Since <IR> complements and does not replace existing corporate reports, <IR> should concisely communicate corporate performance, requiring the provision of additional information through linkages to other reports (IIRC, 2013).

The International Standards Organisation [ISO] represents the national standards institutes of 163 countries, with a centralised secretariat in Geneva, Switzerland. ISO positions CSR as a company's responsibility for the impact of its decisions and activities on society and the environment. The ISO 14000 series of standards, introduced environmental management systems for managing the environmental impacts of company operations (Feldman, 2012). ISO 26000 (Guidance on Social

Responsibility), expands on ISO 14000 by including broader aspects of CSR and facilitates transforming environmental management systems into integrated sustainability management systems (Pojasek, 2011).

2.5 Conclusion

Companies are responding to increased stakeholder demands for responsible corporate citizenship by providing relevant non-financial information. Corporate responses to stakeholder expectations are driving the development of CSR accounting and reporting practices. However, without a universally applicable CSR accounting and reporting framework, these practices remain the subject of intense discourse. The primary frameworks, regulations, legislation and guidelines presently used to account for CSR include the GRI, the AA1000 series of standards, King III and to a lesser extent <IR>. Despite several different approaches, tools, frameworks and standards to guide the CSR reporting process, the major frameworks and standards are expected to converge over time, improving the usability and comparability of CSR reports.

Financial accounting practices were developed by the accounting profession over several millennia, and continue to evolve. It is therefore understandable that the practices for accounting of non-financial matters are still in the early development stages. Even though <IR> is expected to become one of the primary methods through which companies will report on their overall performance, it should be noted that <IR> is intended to complement and not to replace CSR reporting.

Despite various philosophical reasons for companies to report their CSR performance, it is an integral component of corporate governance, albeit reflecting an instrumental bias. Notwithstanding the reasons why companies report their CSR performance, it is clear that they recognise the importance of not only reporting to shareholders but also to other stakeholders. The board of directors are ultimately responsible to ensure that the company provides relevant, reliable and complete CSR reports.

3. Research methodology

The objective of CSR reporting is to provide stakeholders with material information about a company's non-financial impacts. However, CSR's primarily voluntary nature has resulted in the emergence of diverse unregulated CSR reporting practices. However, corporate diversity suggests that some organisations may report on different aspects of CSR. To reduce the uncertainty caused by this ambiguity, this study considers the perspectives of reporting company respondents about emerging CSR reporting practices. These results should assist company directors understand emerging CSR reporting practices and their respective CSR-related obligations.

Despite King III's ostensibly voluntary nature, the JSE specifically requires listed companies to apply the King III principles on an 'apply or explain' basis, making it appropriate for this study to be confined to JSE-listed companies. Within this context, a purposive (Welman, Kruger & Mitchell, 2011; Sekaran & Bougie, 2010) non-probability convenience sample (Barbour, 2001) of the 200 largest JSE-listed companies (in terms of market capitalisation), was selected for this study. After adjusting for subsequent delisting and the consolidation of various corporate reports into the annual reports of their holding companies, the companies studied were reduced to 192 companies.

When the sample companies were extracted on 30th April 2012, there were 376 companies listed on the JSE, with a total market capitalisation of R6 889 billion. While the 200 largest JSE-listed companies only represented 53% of JSE-listed companies, they accounted for 99.3% of the total market capitalisation of the JSE.

The empirical data used in this study were collected using a self-administered survey questionnaire distributed to a range of officials responsible for CSR-related functions at the JSE-listed companies included in this study. The reporting company respondents invited to complete the online survey were purposively selected on the assumption that they could meaningfully respond to the survey questions, based on the responsibilities typically associated with their respective positions. Despite the diversity of potential respondents, it was anticipated that only one official would respond on behalf of the company (usually the company secretary). These potential respondents included the:

- Company secretary;
- Chairperson of the board of directors;
- Independent non-executive directors;
- Chairperson of the audit committee;
- Independent audit committee members;
- Members of the CSR committee;
- Chief executive officer [CEO];
- Chief financial officer [CFO];
- Chief risk officer [CRO];
- Executive manager responsible for CSR;
- Chief audit executive [CAE];

Being an online research survey questionnaire, the covering letter sent to potential respondents, contained a hyperlink taking respondents directly to the web-based, self-administered online survey. Respondents were required to capture their responses to the survey questions directly into an online survey manager. Respondents were encouraged, but not compelled to respond, and provided with the assurance that their individual responses would be treated confidentially. Despite acknowledging that more than one respondent from the same company could respond to the survey, multiple responses from the same companies were not expected to significantly distort the study findings.

4. Empirical research results

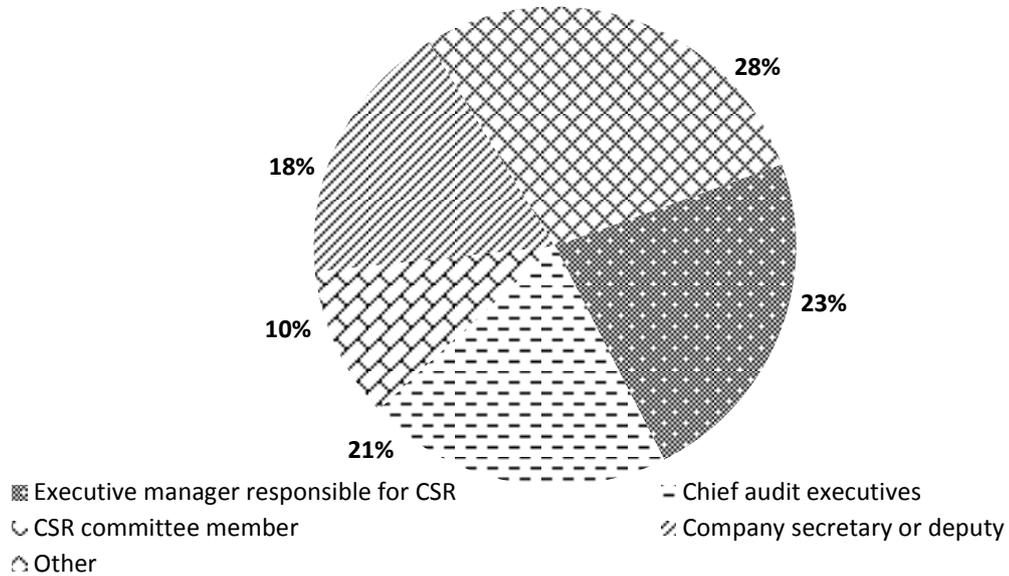
4.1 Introduction

The study attracted a total of 39 responses to the revised sample of 192 reporting companies, representing a 20.3% response rate. All 39 respondents were compelled to complete all the survey questions considered in this study. Possible reasons for the poor survey response rate include: survey fatigue (Adams & Umbach, 2012), the survey instrument not reaching the intended respondents, or respondents not understanding the survey questionnaire (Warshawsky, 2014). These reasons may also result in the survey only being completed by respondents who agree with CSR reporting practices, possibly skewing the results.

4.2 Demographic characteristics

Since the study was confined to JSE-listed companies, a demographic question appropriately established that survey respondents represented JSE-listed companies. Within this context, figure 1 reveals that survey respondents represented executive managers responsible for CSR (n=9); chief audit executives (n=8); members of the CSR committee (n=4); company secretaries (n=7) and 11 representing other positions. Included in the broad category 'other' were chief financial officer (n=1); corporate social investment [CSI] senior specialist (n=1); sustainability manager (n=2); sustainability director (n=1); sustainability reporting/group reporting manager (n=2); social and labour plan group manager (n=1); executive assistant for public affairs (n=1); and risk and sustainable development manager (n=1). It may accordingly be concluded that all purposively selected respondents were suitable to answer the survey questionnaire, validating the use of purposive sampling in this study.

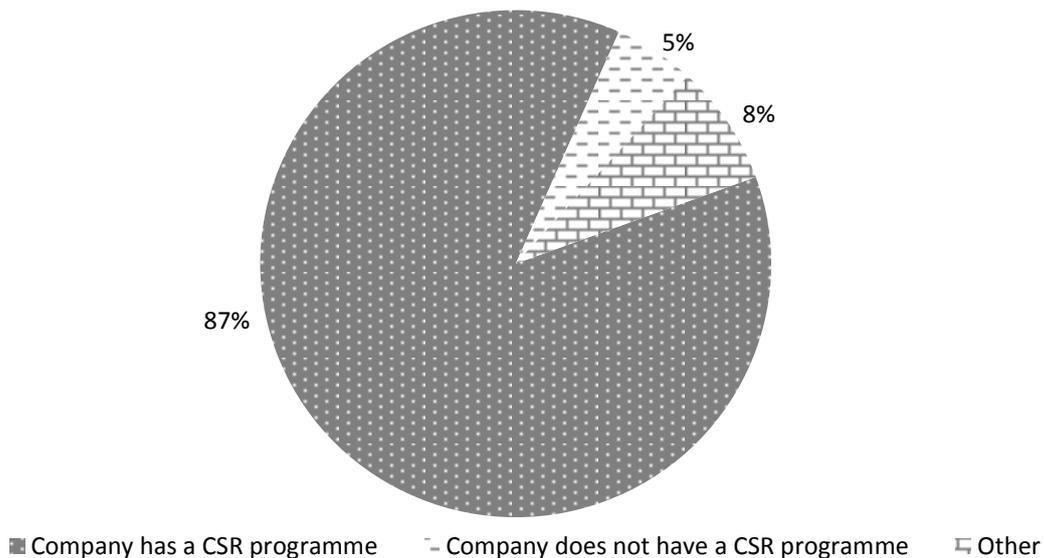
Figure 1. Company position held by survey respondents



4.3 CSR practices

Responding to a question on the extent to which CSR was implemented, figure 2 reveals that 34 respondents (87%) indicated that their respective companies had implemented CSR programmes; three respondents (8%) indicated that their companies were in the process of implementing such programmes; and two respondents (5%) indicating that their companies had not. It may therefore be concluded that CSR-related issues clearly feature on the agenda of reporting companies.

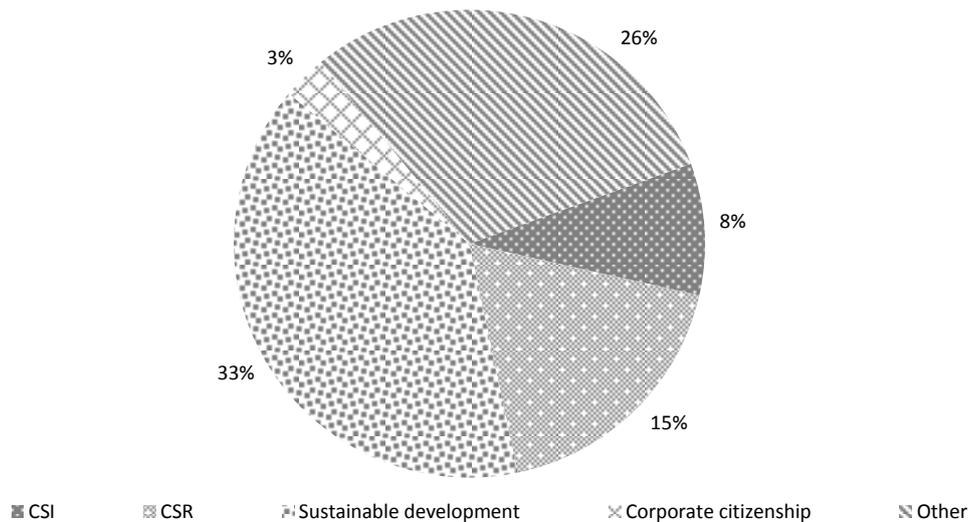
Figure 2. CSR programme implementation



Establishing the extent to which common terminology was used in CSR reporting, figure 3 reveals that the most commonly used terms were “sustainable development” (n=13 – 33%); “CSR” (n=6 – 15%); “CSI” (n=3 – 8%); “corporate citizenship” (n=1 – 3%); while ten respondents indicated ‘other’; and six indicated that the question did not apply. Within the ‘other’ category, CSR-related names included

“governance and sustainability”, “disclosure of social, economic and environmental impacts relating to sustainable development”, “sustainability”, “corporate sustainability”, “social and ethics committee”, “group sustainability management”, “transformation, environmental and social appraisals for financing, ethics etc.”, “sustainability, social and labour plan”, “good business journey programme” and “sustainability objectives”. The diversity of names, which could be interpreted as meaning fundamentally different things, confirms that extant CSR ambiguity creates stakeholder confusion. Despite not being the most common term used by respondents, the term “CSR” more compellingly describes the interrelationship between the company, its environment and society, whereas “sustainability” may simply be interpreted as the on-going existence of the company (i.e. as a ‘going concern’).

Figure 3. Name of CSR programme



The dimensions of a question relating to stakeholders relying on CSR reports were not mutually exclusive, with respondents allowed to indicate more than one option, resulting in the cumulative total exceeding 100%. Figure 4 reveals that respondents indicated that stakeholders relying on CSR reports included activists (n=32 – 82%); trade unions (n=31 – 79%); government (n= 27 – 69%); existing customers (n=22 – 56%); employees (n=21 – 54%); institutional investors (n=21 – 54%); rating agencies (n=19 – 49%); potential (new) customers (n=18 – 46%); media (n=17 – 44%); shareholders (n=15 – 38%); NGOs (n=15 – 38%); suppliers (n=5 – 13%); other (n=16 – 41%); and not applicable (n=1 – 3%). Other identified stakeholders include bodies such as the JSE SRI index; investment structures with specific mandates; financing institutions; community members; and all stakeholders. However, one respondent cynically commented that:

“the publishing of information is aimed at all the groups above, but there is great doubt that some of them place any reliance on it, either because they do not want to engage (activists) or it is not important (investors). As to the media, they only focus on what drives a story, not what you publish (unfortunately)”.

While identifying the primary stakeholders using the CSR reports, responses to this important question simultaneously illustrate the underlying reasons for companies disclosing their CSR performance. Counterintuitively, the data suggests that government and civil society were perceived to be the primary audiences for CSR reports, and not the shareholders. This appears to confirm the instrumentalist assertion that some companies may primarily report their CSR performance to conform to regulatory and legislative requirements, to improve their corporate legitimacy, or to be broadly perceived as good corporate citizens. These disingenuous motivations for reporting CSR performance may increase the propensity for companies using green-wash to falsely represent their CSR performance, introducing a need for independent CSR report assurance.

Figure 4. Stakeholders relying on CSR reports

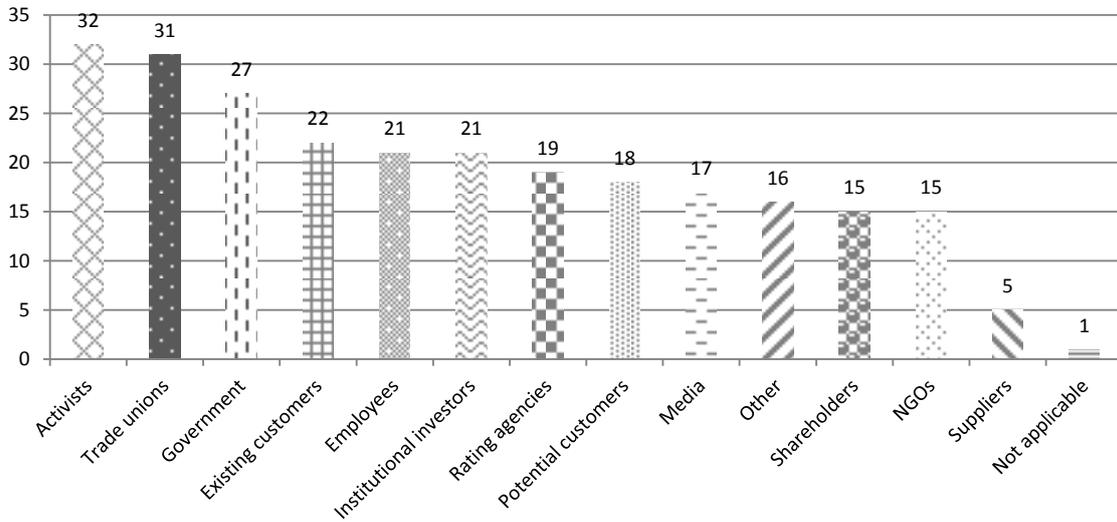
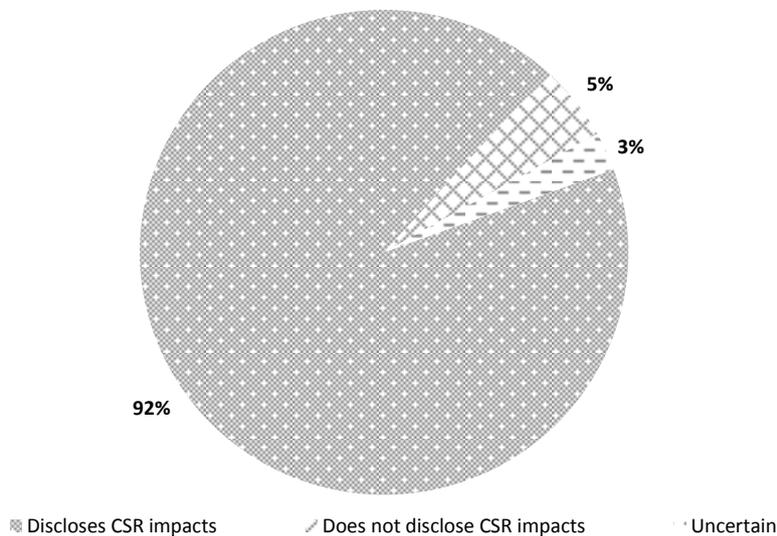


Figure 5 identifies that 36 respondents (92%) confirmed that their respective companies disclosed their CSR performance; two respondents (5%) revealed that their companies did not; while one respondent (3%) was uncertain. Despite respondents appearing to indicate that their respective companies overwhelmingly disclose their CSR impacts, the ‘uncertain’ response may suggest that the respondent believed that the company disclosed some of its impacts but not others, or may not have been involved in CSR-related matters to provide an informed response.

Figure 5. CSR reporting rate



Where respondents confirmed that their respective companies disclosed CSR impacts, figure 6 reveals that 34 respondents (87%) stated that their respective companies disclosed their CSR performance in the annual reports; 17 respondents (44%) revealed that their CSR impacts were available on their corporate websites; four respondents (10%) confirmed that their CSR impacts were available in stand-alone CSR reports; 22 respondents (56%) indicated that their CSR impacts were disclosed in other places; and three (8%) suggested that the question did not apply. The ‘other’ category included: the carbon disclosure project; stakeholder presentations; the integrated annual report; and on the website. Since the question allowed respondents to select more than one option, the cumulative total exceeds 100%. Since most

companies disclose their CSR impacts in annual and/or CSR/sustainability reports and on company websites, implies that CSR reports are available to a broad range of stakeholders, albeit unintentional. For these stakeholders to confidently rely on company issued CSR reports, the veracity of CSR reports should be established through independently assurance, as envisaged by King III.

Figure 6. Where CSR performance is disclosed

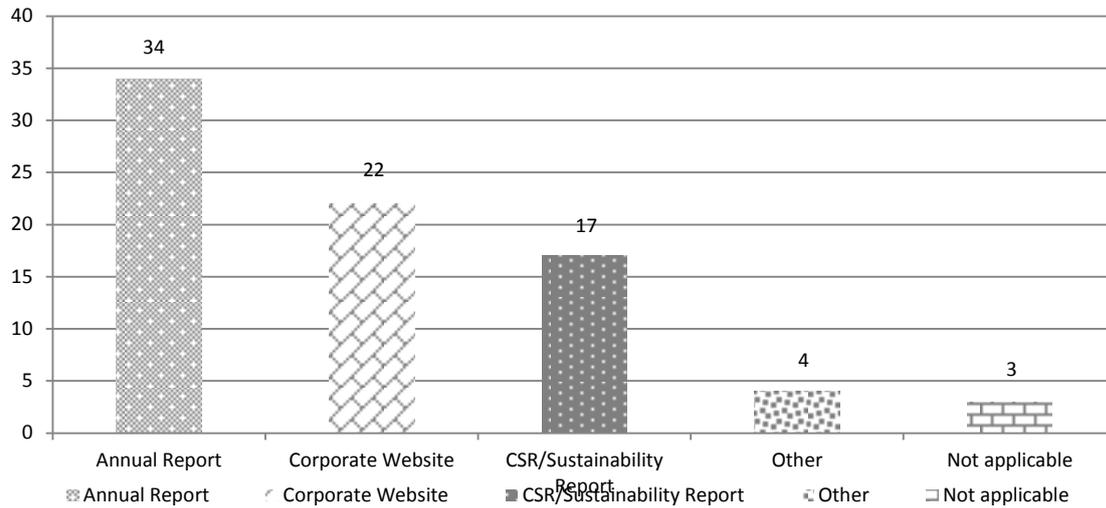
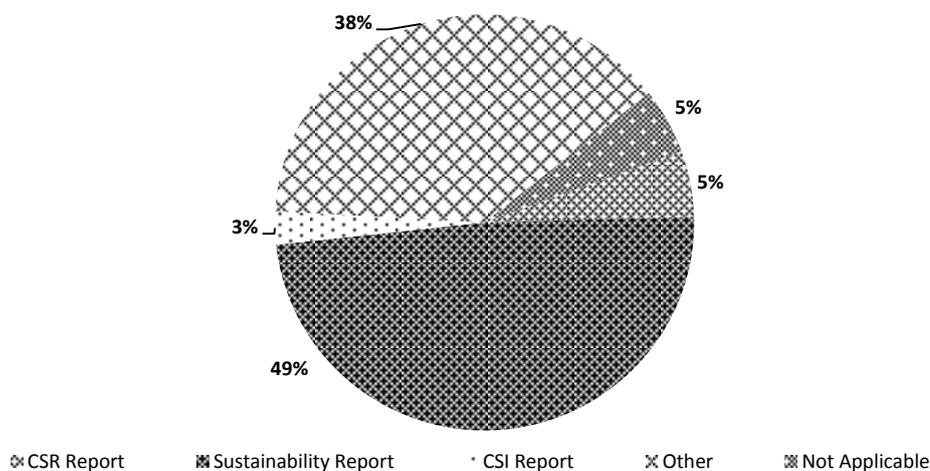


Figure 7 reveals that 19 respondents (49%) indicated that their respective companies called their CSR reports a “sustainability report”; two (5%) called it a “CSR report”; one (3%) called it a “CSI report”; 15 (39%) called it something else; and two (5%) indicated that the question did not apply to their respective companies. The category ‘other’ includes the related terms of ‘integrated annual report’; ‘sustainability report’; ‘carbon disclosure project submission’; ‘governance and sustainability report’; ‘sustainability development report’; ‘governance report’; ‘integrated reporting’; ‘social and labour plan report’; and ‘the good business journey report’. Confirming an emerging reporting company trend to use the term sustainability, the majority of CSR-related disclosures were included in ‘sustainability reports’ with only two in ‘CSR reports’. Nevertheless, as previously explained, the term CSR is preferred for this study.

Figure 7. CSR report titles

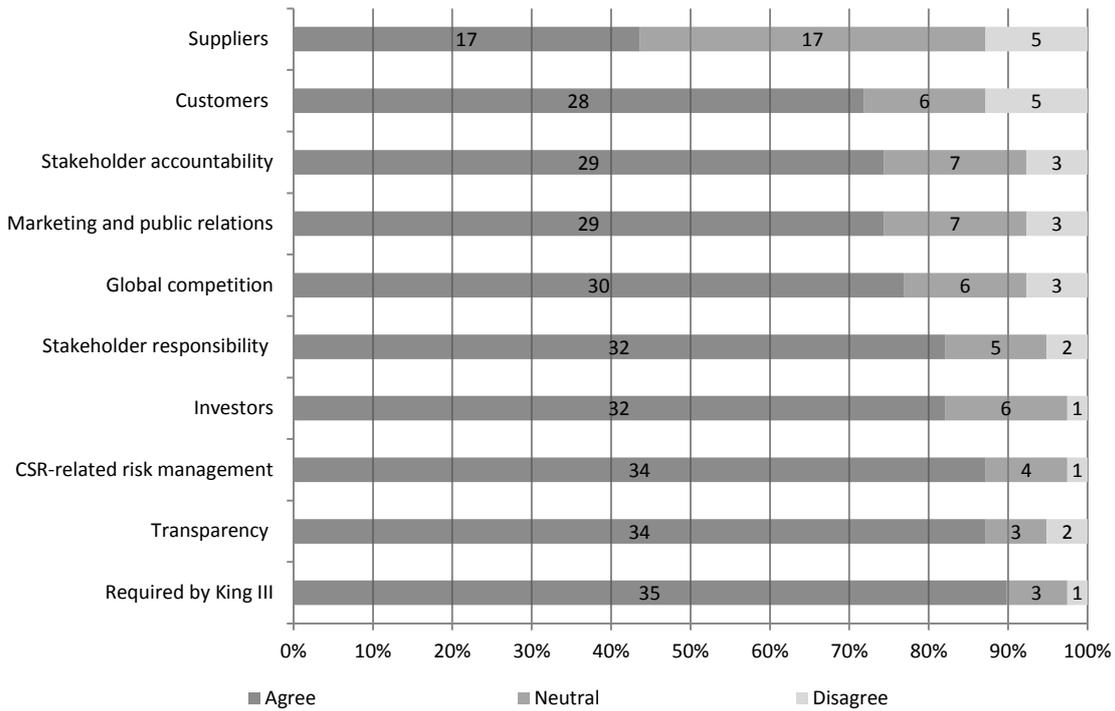


Reasons suggested by respondents for companies disclosing CSR performance reflected in figure 8 include:

- A majority of 36 respondents (92%) agreed with the assertion that CSR reporting assists the company in reputation management by projecting a positive corporate image; three respondents (8%) were uncertain (neither agreeing nor disagreeing) and no respondents (0%) disagreed.
- A majority of 36 respondents (92%) agreed with the assertion that CSR reporting improved company legitimacy by reflecting a commitment to being a good corporate citizen; two respondents (5%) were uncertain and one respondent (3%) disagreed.
- A majority of 35 respondents (90%) agreed with the assertion that CSR reporting was provided to comply with King III; three respondents (8%) were uncertain and one respondent (3%) disagreed.
- A majority of 34 respondents (87%) agreed with the assertion that CSR reporting enhanced company transparency; three respondents (8%) were uncertain and two respondents (5%) disagreed.
- A majority of 34 respondents (87%) agreed with the assertion that CSR reporting provides stakeholders with important information about how the company was managing its CSR-related risks; four respondents (10%) were uncertain and one respondent (3%) disagreed.
- A majority of 32 respondents (82%) agreed with the assertion that CSR reporting reflects the reporting company's commitment to improved stakeholder responsibility; five respondents (13%) were uncertain and two respondents (5%) disagreed.
- A majority of 32 respondents (82%) agreed with the assertion that investors want to know the company's CSR track record and risks; six respondents (15%) were uncertain and one respondent (3%) disagreed.
- A majority of 30 respondents (77%) agreed with the assertion that CSR reporting improves the company's ability to compete favourably in global markets; six respondents (15%) were uncertain and three respondents (8%) disagreed.
- A majority of 29 respondents (74%) agreed with the assertion that CSR reporting reflects the company's commitment to improved stakeholder accountability; seven respondents (18%) were uncertain and three respondents (8%) disagreed.
- A majority of 29 respondents (74%) agreed with the assertion that CSR reporting is a useful marketing and public relations tool; seven respondents (18%) were uncertain and three respondents (8%) disagreed.
- A majority of 28 respondents (72%) agreed with the assertion that customers want to know the company's CSR track record; six respondents (15%) were uncertain and five respondents (13%) disagreed.
- Only 17 respondents (44%) agreed with the assertion that suppliers want to know the company's CSR track record; 17 respondents (44%) were uncertain and five respondents (13%) disagreed.
- Other reasons advanced for the provision of CSR-related information included "it is simply the right thing to do" and even the cynical comment that "legislation and public sentiment drive companies to display a positive social impact, even if this is for window dressing". These qualitative comments provide deeper insights into the perceived reasons for companies disclosing CSR performance, since respondents were required to think about their responses, and not to simply tick the 'right box' from a list of predetermined options.

The five primary reasons advanced by respondents for companies disclosing CSR-related performance are that it reflects a commitment to good corporate citizenship; it assists to project a positive company image; it is required by King III; it enhances transparency; and it provides pertinent information about how the company manages its CSR-related risks. These reasons all support the argument advanced that CSR reporting provides the company with significant instrumental benefits. It is noteworthy that even when the majority of respondents did not agree with the assertion advanced, they tended to be ambivalent, neither agreeing nor disagreeing. The highest rate of disagreement to any assertion in this question were by only five respondents (13%), suggesting a broad acceptance that CSR performance should be disclosed. However, as CSR becomes more embedded into company practice, it is expected that respondents will become more aware of its impacts, improving the quality of responses even further.

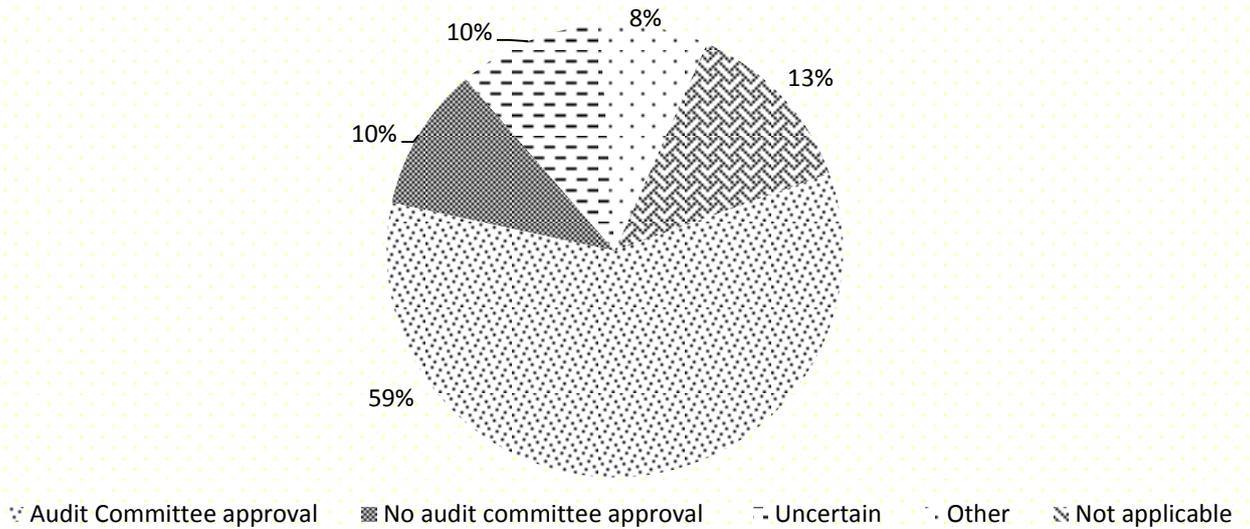
Figure 8. Reasons for disclosing CSR-related performance



4.4 CSR governance and risk management

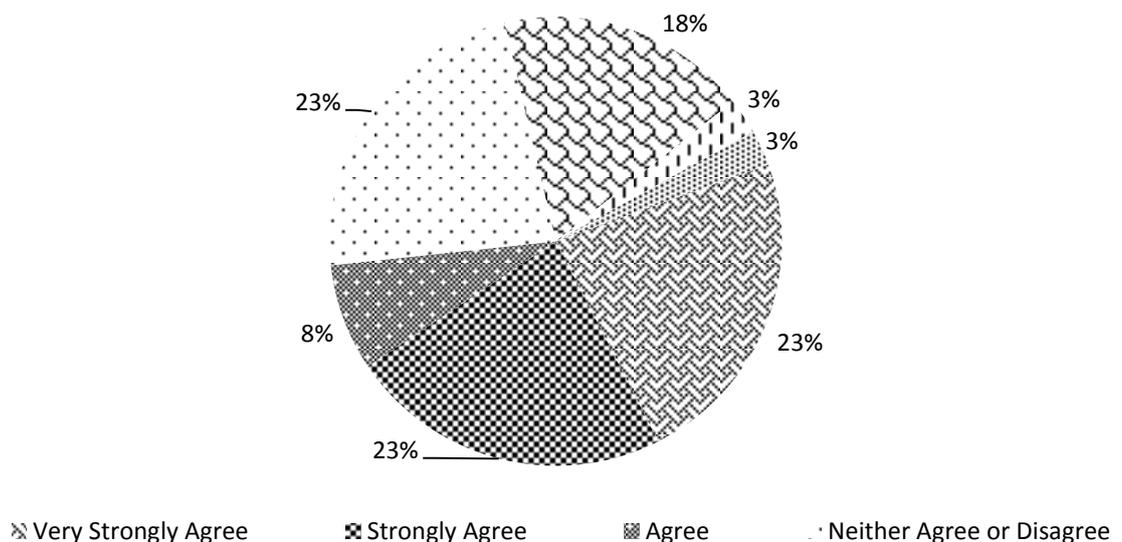
Since it is widely accepted that the board of directors [board] has a fiduciary responsibility to ensure that the company has effective governance practices, it is appropriate for the audit committee to approve the CSR reports on behalf of the board, prior to publication. Figure 9 reveals that a majority of 23 respondents (59%) confirmed that the audit committee approved their CSR reports prior to publication; four (10%) did not; four (10%) were uncertain; three (8%) referred to ‘other’; and five (13%) indicated that the question did not apply to their respective companies. The category ‘other’ includes CSR reports being approved by the board, the risk management committee and the sustainability committee. Despite revealing that their CSR reports were not approved by the audit committee prior to publication, these ‘other’ responses imply that approval is not disregarded, but dealt with by other company structures.

Figure 9. Audit committee approval of CSR reports



Addressing a question about whether government should promulgate legislation and regulations compelling companies to disclose their CSR performance, figure 10 established that 21 respondents (54%) were in favour of mandatory government legislation; nine respondents (23%) disagreed; and nine respondents (23%) were uncertain. Compulsory regulation and legislation could facilitate CSR reporting standardisation that will accelerate the development of CSR reporting practices, which should in turn enhance the usability and comparability of CSR reports. Despite the majority of respondents supporting government legislation, company management’s aversion to government intervention, makes it is unlikely that companies would lobby government to intervene, instead preferring control the process through self-regulation.

Figure 10. Mandatory CSR reporting



5. Discussion and conclusion

The empirical results clearly reveal that companies represented by the survey respondents are already recognising the importance of CSR-related issues to their businesses and are accordingly reporting their

CSR performance. Despite possible respondent bias caused by the Hawthorne effect arising from the purposive selection of respondents, the research observations confirm a growing awareness amongst respondents for CSR reporting (McCambridge, Witton & Elbourne, 2014). However, the identification of a broad range of stakeholders who rely on CSR disclosures may necessitate the development of a sufficiently comprehensive standardised CSR reporting framework that adequately and consistently addresses their diverse interests.

The principles of transparency and accountability underpin CSR reporting providing stakeholders with pertinent information about the CSR impacts of company operations (Archel *et al.*, 2008; CorporateRegister, 2008). Unlike externally oriented financial reporting which is mandatory for all companies and usually covered by the IFRS, the largely unregulated nature of CSR reporting has resulted CSR reporting guidelines not being prescriptive and subject to inconsistent interpretation and application by the reporting company (Archel *et al.*, 2008; Morimoto *et al.*, 2005). Unless CSR reporting practices are standardised, it is not possible to provide stakeholders with confidence that the underlying CSR disclosures are both reliable and comparable. These proposed CSR reporting standards should therefore be specified in sufficient detail, similar to IFRS, to avoid inconsistent interpretation and application.

As suggested by reporting company respondents and contrary to the King III principle of voluntarism, it is suggested that to meaningfully entrench CSR reporting practices may require governments to promulgate regulations and legislation to prescribe mandatory and detailed CSR accounting, reporting and assurance standards. This proposed regulatory regime will also provide the board of directors with a suitable framework against which to measure CSR performance, facilitating their ability to effectively discharge their fiduciary responsibilities.

The development and implementation of a mandatory regulatory mechanism, should prescribe a clearly defined CSR reporting standard, based on the GRI framework that may be consistently applied by all reporting companies. Despite proposing a mandatory CSR reporting regime, sufficient flexibility should be retained to accommodate individual and regional company heterogeneity, CSR reporting experience, the size and scale of operations, and the expectations of stakeholders (CorporateRegister, 2008; De Beelde & Tuybens, 2013). These standardised CSR reporting frameworks must unambiguously address all material matters that stakeholders may consider important, with its credibility enhanced through the provision of consistently applied independent CSR assurance. Despite the emergence of various CSR reporting practices, as the practice matures these are expected to be harmonised. This may be compared to the continuing evolution of already well-established financial accounting and assurance practices which has been a mandatory requirement for centuries.

While it is conventionally accepted that companies are obliged to report on their finances to their shareholders (as owners), given the widespread impacts of operational company activity on the environment, economy and society, it may be argued that CSR reporting should be directed towards stakeholders who may be affected. However, the diversity of stakeholders implies that CSR performance information needs are not heterogeneous, resulting in the various stakeholders considering different CSR performance dimensions to be important. This diversity of stakeholder interests may be illustrated by the different motivations provided by respondents for companies reporting their CSR performance.

Since it may be argued that CSR performance is an integral component of corporate governance, and since the board are responsible for ensuring that effective governance practices are consistently applied, in a similar manner to financial reports, CSR reports should be authorised by the audit committee or the board, prior to release and publication. Irrespective of why companies report on their CSR performance, it is clear that companies are beginning to recognise the accruing benefits of responsible CSR practices. CSR reporting practices are accordingly expected to continue developing in order to comply with stakeholder requirements, albeit from an instrumental perspective.

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