Research to serve the public interest

Professor Robin Roberts analyses company practices in disclosing information about the environmental and social impacts of their activities

What prompted your interest in corporate social responsibility (CSR)?

I studied accounting as an undergraduate at the University of Texas at Austin, and in the Governmental Accounting course, Dr Michael Granof assigned Dr Aaron Wildavsky's *The Politics of the Budgetary Process* as reading. Wildavsky explained accounting as a social science and as a powerful tool to rationalize and support political goals. Suddenly, accounting was interesting and exciting.

During my PhD at the University of Arkansas, Drs Bill Glezen and Jim Millar encouraged me to leverage my interest in society and politics to explore my own research path. I realized later just how rare their student-dedicated approach to mentoring is, and how it gave me the opportunity to study aspects of accounting that I am passionate about. If I had enrolled in another programme, my career probably would have been very different.

How do CSRs relate to business performance?

CSR is rooted in the notion that organizations have stewardship obligations to broader society and should be called to account for their disposition of these obligations. These organizational responsibilities are socially legitimate, because they are determined and enforced through democratic processes. Examples of CSRs include product safety, workforce diversity, employee safety and fairness, environmental sensitivity and transparency in political activities.

To what extent can environmental, social and governance (ESG) factors affect corporate financial value?

CSR research is attempting to determine whether a firm's ESG activities and reporting are valued by the financial markets, and if so, how and why. Some argue that ESG disclosure quality might act as a proxy for overall management quality without focusing on particular activities. Others, however, point to positive, long-run firm financial performance outcomes that are associated with superior CSR performance and reporting.

While research points to firms' ESG activities and reporting as representing something of recurring value to long-term investors, the CSR research community is not yet sure of the overriding source of this value. The strongest contenders as the sources of ESG/CSR value are better investment opportunities, reduced regulatory risks and improved relationships with customers, employees and suppliers. Some worry, however, that a firm is more interested in managing its CSR image than its actual impacts. It is very important to keep in mind that CSR disclosures are mostly voluntary: management is selective in its reporting and tends to focus on good news.

You had early success with your paper introducing stakeholder theory to the CSR accounting field. Can you briefly explain its significance?

During my PhD, I read a vast amount of CSR and political research in accounting, including an article by Arieh A Ullmann that used stakeholder theory to theorize relationships among corporate economic performance, social performance and social disclosure. I loved that article. Over the next few years I thought a great deal about it.

I eventually completed a paper that applied stakeholder theory to explain differences in levels of CSR disclosures. My paper was innovative because it looked beyond corporate management's relationship with and accountability to stockholders to examine how other corporate relationships might influence disclosure decisions. Stakeholder theory held that management made strategic decisions that in essence optimized all of their important relationships – with creditors, employees, regulators, communities, stockholders and any others with a stake in the corporation's success. My empirical model explained the level of corporate CSR disclosure as a function of its observable responsibilities to all of its stakeholders.

Does your research have potential implications for policy or the business world?

I believe that CSR research has significant public policy and practical business applications. If markets continue to focus on short-term profits and ignore climate change, planetary sustainability and social justice, then economic growth will do much more harm than good. Our research informs policy makers and business leaders of the risks.

Finally, how do you see your interests developing over the next five years?

First, I am keen to learn more about how corporations deal with the hypocrisy inherent in their business strategies in relation to planetary sustainability. The fact is obvious – there is no business sustainability without planetary sustainability.

Second, I am interested in corporations' legal accountability and potential liability for what they include in sustainability reports, as the investing community relies on those to make financial decisions. It is only a matter of time before these reports will be scrutinized and challenged in court. That is when sustainability reporting and assurance will gain significance in the mainstream accounting community.

Hypocritical oaths: the politics of mainstream accounting

As continuing economic development is fuelling global climate change, investigations at the **University of Central Florida** present the case for a paradigm shift in mainstream accounting research concerning corporate social responsibility disclosures

In 1970, when Milton Friedman argued that the only social responsibility of business was to increase its profits, things were very different from how they are today. Then, pollution was largely a local issue and the term 'global warming' had not been coined; today, there is global concern about climate change effects on the environment and society, and it is known that economic growth fuelled by corporate aspirations is the primary exacerbating force. The environmental regulation landscape is also much more developed. However, even in 1970, Friedman did introduce the caveat that his argument applied only as long as business 'engages in open and free competition without deception or fraud'.

Though corporate social responsibility reporting is much more extensive today than 40 years ago, it fails to provide relevant information for setting a firm's value

The FTSE4Good ethical investment and the Dow Jones Sustainability World indices, both launched near the turn of the century, are examples of how things have changed. Such indices track the stock performance of leading companies in terms of economic, environmental and social criteria and are designed to guide the growing population of investors for whom sustainability is key in populating their portfolios. Linked to such indices are ratings of businesses in terms of environmental, social and governance (ESG) factors.

It is reported that the performance of stocks included in ethical investment indices generally matches that of those in others, such as the FTSE 100, showing investors that a clear social conscience need not lose them money. ESG ratings and corporate social responsibility (CSR) disclosures are seen as fundamental to financial performance in the 21st Century; for example, competition for company inclusion in the Ethisphere Institute's annual list of the World's Most Ethical Companies has become fierce over the last few years.

The analysis of CSR measures and reports falls to accountants, who are tasked to ensure that cost/benefit analyses are carried out in accordance with professional standards and practices that serve the public interest. These standards and practices, in turn, are developed and maintained in line with state-of-the-art knowledge largely informed by academic accounting research; as firms seek to show reductions in energy usage or improvements in governance, accounting researchers have thus turned to how sustainability reporting and assurance is best carried out.

CSR DISCLOSURE THEN AND NOW

According to Dr Robin Roberts of the University of Central Florida, current mainstream research into CSR reporting, as opposed to critical study, is based on the premise that sustainability activities and their disclosure should be measured and assessed primarily in terms of their costs and benefits for corporate management and investors. Investigations therefore cover topics such as how sustainability reports should be audited, the impact of CSR reporting on regulatory risk and how sustainability efforts affect the cost of capital for firms. Current researchers pay scant attention to previous work carried out on early CSR reporting and the nature of corporate social and environmental reporting over the last few decades. If they did look back, Roberts maintains, they would find clear evidence that CSR disclosure is essentially driven by corporation interests in their own legitimacy and image, and serves to perpetuate a business environment where, by paying lip service to the notion of CSR, firms can fulfil public relations purposes.

It is on these failings in mainstream accounting research that Roberts recently focused, analysing trends in industrial firm CSR reporting over the past 40 years. Using Fortune 500 data from Ernst & Ernst from 1978 and a sample of 2010 data from corporate reports, Roberts and his colleagues computed measures of disclosure breadth and compared how they had changed in terms of the influence of legitimacy factors between the two periods. They then compared the association between CSR and company values.

This analysis showed that there had been dramatic growth in the breadth of CSR disclosure of information on environmental and social matters over the years, but that the relationship between legitimacy factors for large firms in environmentally sensitive industries and CSR disclosure had not changed. When focusing only on environmental disclosure, the analysis showed a lower correlation between industry environmental sensitivity and differences in reporting, possibly attributable to the rise in standalone CSR reporting over the last couple of decades. The major finding of the study was, however, that contrary to current assumptions, CSR disclosure is in fact not positively valued by investors. Though CSR reporting is much more extensive today than 40 years ago, it fails to provide relevant information for setting a firm's value. Roberts is keen to help new mainstream accounting researchers to take a more holistic view, validating their assumptions by taking into account the substantive prior research available.

Roberts also conducts research into the US accounting profession's involvement in federal politics, especially into corporate and accounting firm lobbying and donations for campaigns in US federal politics, which he views as "an important part of understanding the role of accounting in broader society".

THE COLLECTIVE ACTION PROBLEM

As the Intergovernmental Panel on Climate Change 2014 Synthesis Report Summary for Policymakers says, climate change has all the hallmarks of 'a collective action problem at the global scale', observing that 'effective mitigation will not be achieved if individual agents advance their own interests independently'. Roberts thinks that every accounting scholar should read this report and reflect on how they can individually take action to help solve the problem.

Framing corporate sustainability research within the confines of economic action and an economic definition of public interest is clearly insufficient. Roberts posits that a rigorous, more inclusive definition of 'public interest' is now required, so that accounting academics can help companies, markets, regulators and accountants turn away from how to maximize short-term profit-taking and market returns and turn towards their relationships with all stakeholders, the sustainability of the planet and delivering long-term value. Their research would then positively contribute to society's understanding of how companies actually meet their obligations, and of the impact their activities have on distant communities and regions.

FUTURE ACCOUNTING MEASURES FOR SUSTAINABILITY

In terms of an increased focus on CRS, Roberts is encouraged by the emergence of initiatives such as Triple Bottom Line reporting, the Sustainability Accounting Standards Board and the Global Reporting Initiative, though he sees these as amounting merely to incremental change when transformational change is needed. "Business sustainability is still about business and not about planetary sustainability," he asserts. "The best way for the academic and practicing accounting communities to meet their public interest responsibilities is to focus on the net financial benefits a corporation receives from selectively reporting on its sustainability activities and on obfuscation in corporate reporting." As the link between businesses, climate change and human rights becomes increasingly reflected in regulatory frameworks, and accountability to society at large becomes a driving business force, short-term profit-taking will inevitably be proven to be a high risk business strategy.

CORPORATE SOCIAL RESPONSIBILITY

RESEARCH INTERESTS

- Corporate social responsibility
- Environmental, social and governance factors
- Business ethics
- Sustainability

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