CHAPTER12

GOOD AND BAD CSR COMMUNICATION: HOW TO DESIGN EFFECTIVE AND RESPONSIBLE CSR DISCOURSES

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Introduction

In today's world, organizations are increasingly held accountable for the social and environmental impact of their activities. As a result, effective corporate social responsibility (CSR) strategies have now become a widespread requirement. Evidence of this can be seen by the increasing number of CSR rankings, indexes, and monitoring institutions, and by the ever-widening nature of CSR issues (e.g., child labor, sweatshops, workplace discrimination, corruption, gene-modified organisms, pollution, etc.). Expectations regarding responsible corporate behavior are now common to many, if not all, industries.

The result is that organizations face growing demand from stakeholders for exhaustive information about whether they conform to acceptable standards of behavior. As a consequence, CSR issues are being increasingly drawn into organizational discourse. While the first wave of CSR reporting in the early 1990s (i.e., communications designed and released by organizations about their CSR efforts for the purpose of mitigating financial and reputational risks) originally came out of the most heavily criticized industries (e.g., chemical and petrochemical sectors for their adverse environmental aspect), this behavior has since spread to other industries.

The need for and benefits of proactive, transparent CSR communication are now widely recognized. As a consequence, CSR reports have become an integral part of the business mainstream. According to a recent KPMG survey of the top 250 organizations worldwide,[1] nearly 80% issued CSR reports in 2008, up from about 50% in 2005. And a large body of research shows that effective CSR communications can increase positive attitudes toward an organization and protect it against multiple risks (business or reputational). But using CSR as a mere public relations tool—touting ceremonial conformity to behavioral standards over substantive CSR actions—can prove seriously detrimental to an organization's legitimacy, and even its ability to operate. This article discusses the differences between good and bad CSR reporting and proposes several ways to build an effective, responsible CSR communications program.

The benefits of CSR communication

Benefits with regard to employees and consumers

It is now well established that disclosing information about corporate social responsible initiatives is likely to elicit positive reactions and appraisals from an organization's stakeholders, both internally and externally. For instance, surveys of employees working for socially responsible organizations show that such employees tend to demonstrate greater loyalty and pride toward their organizations, and develop stronger identification with them, which in turn leads to lower turnover rates. Internal communication media, such as in-house newsletters, have

[1] KPMG, 2008.

become an important means of communicating the organization's involvement in CSR activities to employees.

Similarly, recent research in the field of marketing suggests that CSR programs have become a popular corporate strategy[2] and that CSR is now considered as an important component of corporate imagery[3] that can significantly influence a consumer's overall evaluation of an organization and its products.[4] Consequently, organizations are now increasingly incorporating CSR elements into their corporate branding and corporate communication strategies.

Benefits with regard to investors

Ultimately, good CSR reporting can deliver improved investor relationships. Previous research showed that investors react immediately to the release of new information about an organization's environmental performance. For example, within one day of the release of the U.S. Environmental Protection Agency's Toxics Release Inventory (TRI), organizations that showed significant toxic releases experienced an average market capitalization loss of $4.1 million.[5] More recently, the BP group saw $100 billion in market capitalization value vanish in the weeks following the Gulf of Mexico oil spill disaster. Meanwhile, research shows that releasing positive information about an organization's environmental performance reduces the organization's unsystematic stock market risk.[6] By releasing

[2] Pirsch, Gupta, & Grau, 2007

[3] Grunig, 1979; Guhran & Batra, 2004; Sen & Bhattacharya, 2001.

[4] Brown & Dacin, 1997; Keller & Aaker, 1998.

[5] Hamilton, 1995.

[6] Bansal & Clelland, 2004.

information on their own environmental commitments, organizations can further enhance this positive relationship.

Another example of the role of CSR reporting in the investor-organization relationship involves so-called socially responsible investment (SRI). In the field of SRI, which has been developing for four decades now, investors originally used a negative screening method, whereby particular "sin" stocks (e.g., organizations involved in gambling and pornography or in tobacco, weapons, and alcohol manufacturing) were excluded from their investment funds. Today, investors increasingly use positive screening methods by selecting for their portfolios companies that are outstanding CSR leaders in their field. Such investors rely in part on the organization's CSR reporting to identify these top-performing organizations.

The dangers of instrumentalizing CSR discourse

While CSR messages are typically associated with desirable organizational outcomes, the practice of CSR communication has also attracted critical attention and is the subject of numerous debates. CSR communications, for example, have been widely criticized as superficial "window-dressing" or mere public relation ploys meant to improve the issuer's image. Indeed, it is often argued that an organization's symbolic behavior is divorced from its substantive actions.[7] Such behavior is frequently encountered in sectors where organizations face strong normative pressure to

[7] Meyer & Rowan, 1977.

incorporate new, leading-edge practices.[8] With respect to CSR, this takes the form of greenwashing and bluewashing.

Greenwashing

Greenwashing refers to issuing disinformation that falsely promotes an organization's actions as environmentally responsible. The BP group, for instance, has made frequent claims about its environmentally-friendly behavior (specifically in the field of global warming), but was denounced at the 2002 Earth Summit in Johannesburg for its ever-more-damaging ecological footprint. The recent Deepwater Horizon oil spill in the Gulf of Mexico sadly proved BP's critics right. Such greenwashing behavior was frequent enough to lead a group of NGOs to hold a "Greenwash Academy Award" during the Earth Summit, publicly denouncing organizations that indulge in the practice.

Bluewashing

Bluewashing is the social responsibility equivalent of greenwashing. The term was originally coined to describe organizations that superficially adhered to the U.N. Global Compact, but hid behind the Compact's legitimacy while indulging in workers' rights abuses or corrupt practices. The term now more broadly refers to misleading claims regarding an organization's commitment to socially responsible practices.

Consequences of greenwashing and bluewashing

Although greenwashing and bluewashing activities may temporarily lure stakeholders into believing that an organization is acting responsibly, once discovered, such practices may be severely punished if the law has been broken. For instance, in 2007 the U.S agrochemical giant Monsanto was found guilty of

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[8] Westphal & Zajac, 1998, 2001

false advertising and fined in a French court for misleading the public about the environmental impact of its 'Roundup' herbicide. In cases where the law per se has not been broken, greenwashing or bluewashing may trigger severe social backlash and cause financial losses or a damaged reputation. For instance, Wal-Mart was heavily castigated by several watchdog organizations for recent corporate image campaigns that emphasized its alleged environmentally-friendly actions. Wal-Mart was specifically criticized for using greenwashing tactics to hide its poor performance in terms of social responsibility. This resulted in several campaigns to boycott the retailer's stores. Therefore, "instrumentalizing" CSR reporting to achieve unearned legitimacy or a heightened reputation is likely to backfire and instead damage the organization's goodwill and market value.

How to design responsible, effective CSR reporting programs—six criteria for effective and responsible reporting

One challenge with CSR reporting is that no legal rules stipulate how organizations must disclose CSR information. Despite increasingly salient social expectations regarding CSR communication, disclosure requirements are voluntary and not fully specified. As a consequence, organizations have great discretion regarding both the nature of the information they can report and how they report it.

For instance, according to widely accepted accountability principles, organizations must disclose environmental liabilities in their financial statements. In practice, however, the extent of a firm's liability at the moment of the infraction is highly uncertain, meaning the organization enjoys significant discretion regarding the content and timing of the disclosure. Such leeway regarding

CSR information disclosure can lead to information manipulation and irresponsible CSR reporting, as discussed in the previous section. But it may also lead to ineffective CSR reporting, wherein organizations fail to emphasize what they actually do, and thus fail to convince audiences that their CSR actions are more than mere words. In order to assess whether a CSR report is effective and responsible, Professor Guido Palazzo (University of Lausanne) has developed a framework composed of six criteria: materiality, transparency, control, accountability, collaboration, and standardization.

Materiality

The *materiality* criterion measures whether or not the report covers relevant CSR issues. Materiality means that, given the industries in which they operate, reporting organizations should focus on the most salient, relevant aspects of CSR performance. Nowadays CSR expectations cover a wide range of issues, from sweatshops, child labor, union assembly rights, and workplace discrimination to genetically-modified organisms and climate change. These issues cover any and all CSR issues that could arise at different stages of the organization's supply-chain—from management of suppliers to production of final output. If these issues extend across multiple industries, it does not mean that each organization must be concerned by each and every issue. Rather, each organization faces a unique set of CSR issues, depending, for instance, on the industry in which it operates, its size, or its geographical location. In turn, organizations are not required to cover the entire range of issues in their CSR reports. Rather, they are instead expected to appropriately identify and address the distinct, central CSR challenges they face. For instance, a fast-food industry organization whose CSR reports

discusses its philanthropic activities in the field of environmental protection rather than addressing obesity-related issues would receive a low score on the materiality criterion. Conversely, a diamond industry organization that discusses potential social and environmental problems arising from supply-chain stages ranging from extraction to retailing (e.g., corruption, child or slave labor, complicity in financing guerillas, environmental damage) would score high in terms of materiality.

Transparency

The *transparency* criterion is used to evaluate whether the report includes both positive and negative information regarding the organization's CSR performance. The credibility of a report emphasizing only the positive aspects of an organization's CSR performance would be questionable under this criterion. On the other hand, by including accounts of weaknesses and failures alongside achievements, an organization could provide a communication whose honesty and credibility is far easier to assess.

In terms of an audience's appraisal of CSR communications, describing progress (or lack thereof) toward reaching CSR goals matters as much as glorifying achievements.[9] For instance, Chiquita's 2000 CSR report is often cited as an example of transparent CSR reporting. This report was ranked by SustainAbility, an international consulting organization specializing in sustainable development, as number one in the food industry and among the top 20 worldwide for the year 2000.

In this report, the U.S. banana producer covered the ecological and social impacts of its operations by providing

[9] Philippe & Durand, *Forthcoming*

detailed information on its strength and weaknesses. It is important to note, though, that being transparent does not mean an organization should disclose all its data. In fact, prior research suggests that too much transparency can lead organizations to attract critical, unwanted stakeholder attention.[10] Some researchers even argue that focusing excessively on CSR activities may lead consumers to believe that the organization is trying to hide something.[11] There may be psychological barriers to achieving transparency, too, as organizations are generally not used to communicating negative information about themselves.

Control

The *control* criterion is used to check whether or not the report builds upon facts verified by a third party. A "first party control" is performed by the organization upon itself and is thus under its exclusive control. Such self-assessments are by nature subjective, even when conducted properly. "Second party control" is typically carried out by people who do not belong to the audited organization but who have direct relationships with it. Suppliers or customers, for instance, may evaluate the organization's activities. In contrast, "third party control" is developed by an independent, outside party not directly involved with the organization. In the context of CSR reporting, third parties could be stakeholder panels, subject matter experts, or even professional assurance providers (e.g., ISAE 3000 standard certified groups that focus exclusively on non-financial data auditing).

To ensure the reliability and objectivity of report data, it is important that the information be externally audited by

[10] Ashforth & Gibbs, 1990.

independent actors. The risk of greenwashing and bluewashing cannot be eliminated without such a control mechanism. As reported in the KPMG survey, the use of third-parties to assess CSR report quality significantly increased between 2005 and 2008.

Accountability

The *accountability* criterion seeks to assess the extent to which the organization formulates clear, serious objectives, and if those objectives are adequately discussed in comparison to actual achievements in later reports. An organization that relies on mere declarations of intention (e.g., "we are committed to environmental stewardship") or formulates objectives so vague that their attainment cannot be assessed (e.g., "we plan to reduce our energy consumption in the next few years") would score low in terms of accountability. Conversely, an organization that provides clearly stated objectives (e.g., "we plan to reduce our water consumption by 15% within the next two years"), and later assesses its performance with regard to those objectives would score high on the accountability criterion.

Collaboration

The *collaboration* criterion assesses the extent to which the organization collaborates with influential industry NGOs. Application of this criterion illustrates how stakeholder dialogue and CSR communications can be linked to the broader CSR management strategy. Collaborating with stakeholders in the creation of the CSR report allows organizations to move from one-way CSR reporting designed merely to inform stakeholders or respond to their claims, and toward an interactive CSR

[11] Brown & Dacin, 1997.

relationship that involves stakeholders in the CSR discussion. Involving external stakeholders in the reporting processes can be highly beneficial to the organization, as it shows the organization's willingness to let outsiders participate in the elaboration of its CSR strategy. Such engagement helps foster constructive dialogue, build trust, and earn a good reputation.[12]

One illustration of successful stakeholder collaboration is provided by Novo Nordisk, a Danish pharmaceutical company that in 2002 began involving stakeholders in reporting on its CSR performance. Novo Nordisk invited the most important stakeholders to comment on issues they perceived to be critical (e.g., access to diabetes treatments for patients in developing countries) and to voice their concerns and critiques regarding the organization's management of these issues.

Chiquita also provides an interesting business case for how an effective CSR report can emerge from stakeholder collaboration and engagement. Chiquita established close partnerships with two critical NGOs in its industry: SA 8000 and the Rainforest Alliance. Most of the data disclosed in its CSR reports, as well as the standards applied at Chiquita banana plantations worldwide, came from these two partners.

Standardization

Finally, the *standardization* criterion can be used to evaluate whether the organization follows CSR standards related to either 1) communications, or 2) operations.

On the communication side, for instance, the Global Reporting Initiative (GRI) provides a sustainability reporting framework for organizations willing to communicate their

[12] Morsing & Schultz, 2006.

economic, social, and environmental performance in a qualitative, credible, and rigorous manner. GRI, a non-profit organization established in 1997, developed an international reporting standard that seeks to ensure transparent, comparable disclosures of sustainability information worldwide. GRI thus provides outside observers with a standardized structure by which to understand and evaluate disclosed information. The reporting guidelines consist of a set of reporting principles (aimed at guiding the reporting process) and a set of reporting indicators (which provide the basis for quantitative disclosures of the organization's economic, social, and environmental performance). For example, the guidelines call for an organization reporting on its environmental performance to disclose information on its energy consumption, waste management, biodiversity protection, and initiatives to mitigate the environmental impact of its products or services. In the case of social performance, the guidelines ask organizations to disclose, among other things, information on its participation in public policy activities, management of corruption, and its position with regard to child labor. As with other non-legally-binding standards, organizations adopt GRI's reporting structure voluntarily. A recent study of the evolution of the GRI framework showed that 77% of Fortune 500 organizations reporting on CSR performance followed the GRI guidelines in 2008, from up to 40% in 2005.[13]

Similarly, on the operations side of the equation, several standards developed by the International Organization for Standardization (ISO) are closely related to CSR issues (e.g., the ISO 14001 norm for environmental management, and the forthcoming ISO 26000 standard that will provide guidance for

[13] Etzion & Ferraro, *Forthcoming.*

organizations in their implementation of socially responsible behaviors). The use of such standards and certifications allows better comparability of CSR performance, both within a single organization over time, and with other organizations in similar or different industries.

Conclusion

Two decades ago CSR reporting was a rarity, but today it is the norm, and part of mainstream business communications in most industries. Due to normative pressures, organizations are "carpet bombing" their stakeholders with CSR information via annual reports, special CSR reports, Web sites, and corporate image campaigns. Amid such an abundance of non-standardized information, and in the absence of legally binding disclosure formats, discerning mere public relations communiqués from true corporate social responsibility reporting becomes a difficult task. The *materiality, transparency, control, accountability, collaboration*, and *standardization* criteria described herein provide reporting organizations with a way to build and develop effective and responsible CSR communications programs, while giving readers tools to assess the quality, objectivity, and substance of organizational CSR reports.

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