SUSTAINABILITY REPORTING FRAMEWORKS

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ABSTRACT

The am of this paper is to explore the literature regarding sustainability and extended reporting frameworks.

We starts by defining corporate social responsibility (CSR) and sustainability and adopting the view that these terms have similar meanings and are often used interchangeably to mean the same thing. Next, we outline a brief overview of the historical development of the concepts of sustainability, which will lead into an analysis of the five major frameworks covered in the literature: (1) agency view; (2) corporate social performance view; (3) resource-based view; (4) supply and demand view; and (5) the stakeholder view, which is the dominant view.

Following this, we look at understanding stakeholders and their importance in sustainability and conclude with some observations about sustainability frameworks, and the motivations of companies for increased disclosure with their stakeholders. These motivation focus on the long-run corporate benefits including improved financial performance of the firm, increased competitive advantage, profit maximisation, and the long-term success of the firm.

DEFINING CSR AND SUSTAINABILITY

Corporate Social Responsibility (CSR) is defined as operating a business on a reliable, sustainable and desirable basis that respects ethical values, people, communities and the environment (Anderson, 1989). The focus on this definition suggests a short-run view focusing the attention of the company on current issues. There are four constituent components (RepuTex, 2003) that together influence an organisation's ability to be socially responsible: (1) environmental impact; (2) corporate governance; (3) social impact; and (4) workplace practices.

Consistent with the definition that has been adopted in this paper, the terms CSR and sustainability are used inter-changeably to mean the same thing (e.g. Caswell, 2004). This is because CSR is a sub-set of sustainability. For any organisation to be sustainable in the long term it firstly needs to be financially self-sufficient. Once this primary need for financial capital has been met, the organisation then needs to be socially responsible. This is achieved by ensuring that its governance and workplace practices and its environmental and social impact are self-monitoring and conform to society's expectations and ethical values. Only then can a company achieve sustainability in the long term.

HISTORICAL DEVELOPMENT OF SUSTAINABILITY

The concept of social responsibility, or social responsiveness, is an evolving concept (Mays Report, 2003, p.12) and means different things to different stakeholders (Arlow & Gannon, 1982). However, the concept of social responsibility has been with us since the beginning of mankind (Anderson, 1989).

A significant amount of research has been undertaken over the past decades in understanding the nature of and motives for corporate social responsibility (e.g. Anderson, 1989; Arlow & Gannon, 1982; Carroll, 1979; Clarkson, 1995; McWillians & Siegel, 2001; Pava & Krausz, 1996; Waddock & Graves, 1997; Wood, 1991) Increasingly, the importance placed on corporate social responsibility by investors, analysts, commentators and academics has grown, indicating a shift in attitudes.

This shift in attitude started with the Agency view, which is the first framework identified in the literature. The next framework in the literature is the Corporate Social Performance (CSP) view, followed by the Resource-based view (RBV), the Supply and Demand view, and finally the Stakeholder view is identified.

The Agency View

Initially, the idea that a corporation was using shareholders' funds to engage in social projects was criticised (Gelb & Stawser, 2001, p. 3). Freidman (1962, 1970) is generally credited with the "agency view" of the corporation and its responsibility to society. Freidman, recipient of the 1976 Nobel Memorial Prize for economic science, proposed that engaging in CSR is symptomatic of an agency problem or a conflict between the interests of managers and shareholders. Freidman argues that managers use CSR as a means to further their own social, political or career agendas, at the expense of shareholders (McWillans & Siegel, 2001, pp. 118).

According to Friedman's agency view, the business entity is accountable only to its shareholders and its sole social responsibility is to maximise the value of the firm (Gelb & Stawser, 2001, p. 3). To paraphrase from Capitalism and Freedom (Freidman, 1962, pp. 133-135);

> *"The view has been gaining widespread acceptance that corporate officials and labour leaders have a 'social responsibility' that goes beyond serving the interest of their stockholders and their members…Few trends could so thoroughly undermine the very foundation of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stockholders as possible. This is a fundamentally subversive doctrine…The claim that business should contribute to the support of charitable activities…is an inappropriate use of corporate funds in a free enterprise society."*

The agency view started to lose favour in the literature as the corporate social performance view gained attention in the 1980's.

The Corporate Social Performance (CSP) View

Early research by Preston (1978) and Carroll (1979) outlined a "corporate social performance" (CSP) framework, which includes the philosophy of social responsiveness, the social issues involved, and the social and economic responsibilities. Waddcock and Graves (1997) empirically tested the CSP model and reported a positive association between CSP and financial performance (McWillams & Siegel, 2001, p. 118). Researchers such as Pava and Krausz (1996) hypothesized that, according to the agency view, greater levels of CSR would lead to reduced levels of financial performance. Their findings persistently showed the opposite: that firms perceived as socially responsible performed as well as or better than their counterparts that do not engage in costly social activities. The authors concluded that "sometimes a conscious pursuit of corporate social responsibility goals causes better financial performance" (Pava and Krausz, 1996, p. 333).

Building upon Preston & Carroll's framework, another view, the Resource-based View (RBV) argues that CSP not only improves financial performance but it also adds a competitive advantage to the firm.

Resource-Based View (RBV)

Another framework has been developed by Russo and Fouts (1997). They examined CSR from a "resource-based view" (RBV) of the firm perspective. Using this framework, they argue that

CSP (especially environmental performance) can constitute a competitive advantage, especially in high-growth industries

Using the RBV framework as a foundation, the next framework, the supply and demand view, introduced the notion of optimising sustainability investment.

Supply And Demand View

McWillans & Siegel (2001) developed a 'supply and demand' framework and proposed that there is a level of CSR investment that maximises profit, while also satisfying stakeholder demand for CSR. While focusing the level of CSR investment is seen as important to maximise profits, the literature favours stakeholders as the primary focus.

Stakeholder View

A widely used framework for examining CSR is the "stakeholder" perspective. Developed by Freeman (1984), the stakeholder theory asserts that firms have relationships with many constituent groups and that these stakeholders both affect and are affected by the actions of the firm. Freeman (1984) argued that systematic attention to stakeholder interest is critical to firm success and management must pursue actions that are optimal for a broad class of stakeholders, rather than those that serve only to maximise shareholder interests (Gelb & Stawser, 2001, p. 3).

UNDERSTANDING STAKEHOLDERS

Freeman (1984, pp. 46) defines a stakeholder as *"…any group or individual who can affect or is affected by the achievements of an organisation's objectives"*. This definition is still widely acknowledged as the landmark position in stakeholder theory (Wood, 1991; Clarkson, 1995, Vos, 2003). The distinction between those who "can affect" (i.e. the involved) and "is affected" (i.e. the affected) is considered crucial in understanding and defining stakeholders. The involved have the possibility to directly influence the actions of the firm, while the affected do not have any influence over the actions of the firm.

From the firm's perspective, stakeholder identification is not easily solved, it comprises, at least, a modelling and a normative issue (Vos, 2003, p.141). The modelling issue refers to identification issues for management, such as "who are our stakeholders?" and "to what extent can we distinguish between stakeholders and non-stakeholders?". The normative issue refers to managerial implication, such as "what stakeholders will we take into account?" or "to what stakeholders are we willing to listen?". Vos (2003) argues that to identify stakeholders, both the modelling and the normative issue need to be resolved.

Mitchell *et al*. (1997) stresses the importance of risk in identifying stakeholders and points out that without risk, there is no *stake* (a stake in this sense is something that can be lost). As such, a stakeholder is a risk-bearer and from this perspective, the distinction can be made between voluntary and involuntary stakeholders. Voluntary stakeholders bear some form of risk as a result of having invested some form of capital (human or financial) or something of value in the firm. Involuntary stakeholders are placed at risk as a result of the firm's activities (Mitchell, *et al*., 1997).

The dominance of the shareholder among all stakeholders is consistent with Friedman's (1962, 1970) agency view, which largely is seen as untenable in the context of CSR. There is no denying that shareholders deserve their special position as voluntary stakeholders because of the property rights they enjoy with the organisation, and the fiduciary duty (which us based on trust) between management and the shareholders. However, the organisation should acknowledge that it also owes a moral obligation to all non-shareholder stakeholders (including involuntary stakeholders) where the freedom and well-being of stakeholders in affected by the organisation's activities (Goodpaster, 1998).

Donaldson and Preston (1995) refined the stakeholder paradigm by arguing that three aspects of this theory – normative, descriptive/empirical and instrumental – are "mutually supportive". Jones and Wicks (1999) propose converging the instrumental (social science) and normative (ethics) components of stakeholder theory to arrive at a normative theory that describes how managers can create morally sound approaches to business and make them work (Jones and Wicks, 1999, p. 206). For more recent developments in stakeholder theory, see Gelb & Stawser (2001).

CONCLUSION

Over the past few decades, the attitudes of some companies have changed, rejecting the agency view (Freidman, 1962, 1970), instead embracing stakeholders (Freeman, 1984) and sustainability concepts in their business practice. This has been motivated by a belief that adopting sustainability practices in the long-run will lead to the improved financial performance of the firm (McWilliams & Siegel, 2001; Pava & Krausz, 1996), increased competitive advantage (Russo & Fouts, 1997), profit maximisation (McWilliams & Siegel, 2001) and the long-term success of the firm (Freeman, 1984).

To achieve these goals, companies need to demonstrate to their stakeholders that they are meeting or exceeding those stakeholders' expectations of performance in the area of sustainability. To facilitate this, companies have adopted new reporting and disclosure frameworks to help them communicate with their stakeholders. These frameworks will be examined in the next section.

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