Sustainability Performance and CSR Disclosure: The Missing Link

Siyuan Seth Li, Terry College of Business, University of Georgia, Athens, GA, USA
Marie-Claude Boudreau, Terry College of Business, University of Georgia, Athens, GA, USA
Mark Huber, Terry College of Business, University of Georgia, Athens, GA, USA
Richard T. Watson, Terry College of Business, University of Georgia, Athens, GA, USA

ABSTRACT

Sustainability disclosure is a topic of great interest among academics and practitioners. As a key means of disclosing an organization’s sustainability information, the corporate social responsibility (CSR) report is adopted by most organizations nowadays. It also becomes an important information source for stakeholders. However, there is a concern that many stakeholders perceive CSR reports are reflections of the sustainability performance of organizations. This misunderstanding could lead to undesired outcomes (e.g., lower the expected risks than actual risks). In this study, the authors explore the relationship between organizations’ CSR disclosure and their sustainability performance. Their result shows that there is a significant relationship between an organization’s sustainability performance and its sustainability disclosure level. At the same time, they observe many organizations that have inconsistent levels of sustainability performance and disclosure (e.g., good sustainability performance but low level of CSR disclosure). In order to have a comprehensive view of all possible scenarios, the authors propose four archetypes that categorize organizations according to their CSR disclosure levels and sustainability performances. Underpinning theories and rationales are discussed for each archetype.

Keywords: Corporate Social Responsibility (CSR) Report, Global Reporting Initiative (GRI), KLD Index, Legitimacy Theory, Sustainability

INTRODUCTION

To attract future investments, maintain their public image, and retain competitive advantages, many organizations are adding environmental sustainability as an important organizational goal (Clarkson, Li, Richardson, & Vasvari, 2010; Dhaliwal, Li, Tsang, & Yang, 2011; Dreesen 2010; Lo & Sheu, 2007). To demonstrate their organizational commitment to stakeholders and wider audiences, some organizations are using a corporate social responsibility (CSR) report as a key means to disclose sustainability-related information, including environmental and social concerns. As more and more organizations worldwide committed to this type of...
disclosure, the number of CSR reports based on the Global Reporting Initiative framework (the most widely accepted reporting framework), grew from very few in the mid-1990s to over 2,185 CSR reports in 2011 (GRI, 2011). Research conducted by KPMG in 2011 indicates that 95% of Global 250 companies disclosed their environmental data in 2011, compared to 45% in 2002. Stakeholders of all kinds use CSR reports to learn about an organization’s sustainability performance (Rowbottom & Lymer, 2009). Regardless of CSR reports’ popularity with organizations and stakeholders, an important question remains: do CSR reports accurately and reliably depict the sustainability performance of an organization? This study examines different patterns of relationships between CSR disclosure and organizational sustainability performance.

An organization that publishes a CSR report chooses to initiate an information exchange about its social and environmental impacts, and its CSR report prompts a conversation among interested parties and key stakeholders. Because, in most countries, sustainability reporting is voluntary, the quality and quantity of information disclosed within CSR reports vary across organizations and may even vary within a single organization over time. Such variations lead to inconsistencies and confusions for stakeholders to evaluate an organization’s sustainability performance. Given these concerns, recent studies raised several issues related to CSR reports. Aras and Crowther (2009) argue that a CSR report might mislead investors to think that a firm’s level of risk (especially environmental risk) is lower than it actually is. Looking internally, Adams (2004) finds differences in organizations’ motivations for achieving sustainability and greater accountability. Hess and Warren (2008) argue that voluntary reporting can work against the attainment of sustainable development goals by hampering the implementation of other mechanisms that would be more effective in advancing these goals. Partly because these reports are written for a readership of existing or potential customers, employees, and investors, it has been suggested that CSR reports tend to over-emphasize the positives, and thus deemphasize the less effective aspects of an organization’s sustainability efforts, or lack thereof (Frost, Jones, Loftus, & Van Der Laan, 2005; O’Dwyer & Owen, 2005). Accordingly, a CSR report might be used to improve an organization’s green reputation, while not really impacting the organization’s efforts towards becoming more sustainable (Makower, 2010). Hence, the relationship between an organization’s sustainability performance and its CSR disclosure level (i.e., via CSR report) remains uncertain.

In this research, we intend to achieve three objectives: (1) test the relationship between an organization’s sustainability performance and its CSR disclosure level; (2) articulate different archetypes of relationships between an organization’s sustainability performance and its CSR disclosure level, and (3) qualitatively assess organizations within these archetypes to better understand the intricacies of the relationship between an organization’s sustainability performance and its CSR disclosure level. In the next sections, we first discuss CSR reporting and sustainability performance; second, we investigate the relationship between sustainability disclosure level and performance, suggesting a matrix of their archetypes; and finally, we discuss each archetype in detail, providing implications for academics, practitioners, and suggest future research to build upon our findings.

**CORPORATE SOCIAL RESPONSIBILITY REPORT**

The Global Reporting Initiative (GRI) is the most widely used sustainability reporting framework. From nine reports in 1999 to 1,851 in 2010 and more than 2,750 expected reports in 2011 (PRIZMA, 2011), the number of GRI reports is increasing at a significant rate (see Figure 1). European organizations are more frequent GRI reporters; indeed, in 2011, 44.5% of GRI reports were from European organizations. For 2011, the countries that were most active
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