Chapter 13
Environmental Disclosures and Impression Management

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ABSTRACT
A significant stream of social and environmental accounting research investigates the relationship between a corporation’s self-reported disclosures of its own social responsibility and environmental activities and third-party evaluations of that corporation’s actual social responsibility and environmental performance. Generally, researchers have utilized one of two theories to motivate and test this relationship. One theory—signaling or voluntary disclosure theory—argues that corporations with superior corporate social responsibility or environmental performance use disclosure to signal to interested parties a level of performance that poorer corporate performers cannot disclose. A second theory—legitimacy or impression management theory—argues that corporations use disclosures to manage impressions, often masking their actual social responsibility and environmental performance. In this chapter, the authors seek to comment on how DICTION has been and can be utilized to advance this stream of social and environmental accounting research.

INTRODUCTION
Corporations prepare and disseminate numerous types of narrative disclosures. These disclosures include, for example, press releases, earnings announcements, narratives within corporate annual reports, and stand-alone corporate publications. Although some narrative disclosures are mandated by regulatory agencies such as the United States Securities and Exchange Commission, many corporate narrative disclosures are produced voluntarily by the corporation. Corporate voluntary disclosures can, therefore, address a wide variety of topics that management believes to be relevant to one or more stakeholder groups.
Environmental disclosures are one area of corporate voluntary reporting that has received and continues to receive increasing interest from a broad range of stakeholder groups and from society at large (Berthelot, Cormier and Magnan, 2003). These disclosures are important for several reasons. First, as society has learned more about the environmental impact of business activities, especially as a result of greenhouse gas emissions and ecological accidents, the responsibilities and accountability for corporations’ decisions and actions that affect the natural environment have increased (Berthelot et al., 2003; Mäkelä and Laine, 2011). Heightened public concern about environmental issues and corporate environmental performance has placed considerable pressure on corporations, especially those operating in environmentally sensitive industries such as energy and mining, to demonstrate a greater willingness to act environmentally responsible (Patten, 2002). Corporate management is now expected to consider the natural environment as a stakeholder (Bansal and Clelland, 2004) and many corporations have responded to these pressures by increasing their reporting of activities that attempt to demonstrate responsible environmental stewardship.

Second, society’s increased interest in corporate environmental performance and its demand for environmental disclosure can have capital market effects as investors sort out how a corporation’s environmental reporting impacts firm value (Bansal and Clelland, 2004; de Villiers and van Staden, 2011). Some researchers posit that voluntary corporate disclosure strategies are often undertaken as a means to signal to the market a particular area of superior performance, with the expectation that the disclosure of this performance will enhance firm value (Merkl-Davies and Brennan, 2007). The inherent tension between investor demands for corporate management to maximize shareholder returns and the costs that a corporation must absorb if it internalizes environmental expenses that have previously been considered externalities (e.g., release of toxic gases), places corporate management in a situation that makes it difficult, if not impossible, to balance conflicting stakeholder demands successfully (Berthelot et al., 2003). Thus, the strategy that management utilizes for voluntary environmental disclosures may not be identical to the strategy adopted for other types of discretionary disclosures.

Third, as corporate stakeholders, activists, academic researchers, and the general public became more aware of the severity of climate change, the limits of the natural environment to sustain human activity, and the strains of conflicting stakeholder demands on corporations, the veracity and completeness of corporate voluntary environmental disclosures came under a great deal of scrutiny as each group attempted to better understand the motivations and meaning of these disclosures (Cho and Patten, 2007; Gray, 2010). The importance of corporate environmental performance and disclosure has generated a tremendous effort directed towards researching (see Berthelot et al., 2003; Gray, 2010), standardizing (e.g., the Global Reporting Initiative), and developing third-party assurance (e.g., the International Auditing and Assurance Standards Board statement on assuring greenhouse gas emissions) on corporate voluntary environmental disclosures regardless, of their format or method of dissemination.

The purpose of this chapter is threefold. First, we provide background on the general reporting and research issues that relate to corporate environmental disclosure. We will not provide an extensive review of the literature but will point out published articles that can be beneficial to gaining an understanding of the literature. Second, we use one of our published papers (Cho, Roberts and Patten, 2010) to illustrate how DICTION can be employed to further the research literature on environmental disclosure. Third, we provide future directions for research on environmental disclosure, focusing on the role that DICTION can play in future research. We then draw overall conclusions.