



# Theories of Corporate Social and Environmental Reporting (CSER): An Overview

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## Abstract

Corporate Social and Environmental Reporting (CSER) is not anymore a new concept in the corporate domain. Over the years it has become a common practice in the corporate sector of many parts around the globe. The concept got huge attention from both the professionals and the academicians. Over the years the academicians used several theories to explain the motivations behind CSER practices. The objective of this conceptual study is to identify and explain the main theories that were used by the researchers to explain CSER practices. The article first describes the concepts such as Corporate Social Responsibility (CSR) and CSER. The article, then explains the main theories that are used to explain CSER practices.

**Keywords:** Corporate Social Responsibility (CSR), Corporate Social and Environmental Reporting (CSER), stakeholder theory, legitimacy theory, institutional theory, media agenda setting theory, resource constraint theory, impression management.

## 1. Introduction

Companies are social units. Business and society share a 'symbiotic' relationship (Hossain, 2017; Hossain & Chowdhury, 2012). Society, in many ways, is dependent on business as businesses provide several products and services that enhance the standard of living of the people in the society. Businesses also depend on the society as all the products and services they produce and sell are made out of the resources of the society (say, natural resources and human resources). Moreover, the product/service must get acceptance from the part of the people of the society. Otherwise the business will not be able to generate profit and thus, will not survive. As a unit of the society, businesses must also abide by the rules, regulations, ethical standards, values and

norms that are acceptable in the society where it is operating. If the society does not accept the activities of the business, it will not be able to survive. That is why, business organizations must provide products/services that adds value to the society and do not make any harm to the society. Also, the business should behave 'responsibly' while performing its activities. These days, corporate houses around the world are considered as 'corporate citizens'. That means, like the individuals of the society, business organizations must also abide by the rules and norms of the society. They should not do anything harmful to the society and care about the welfare of the society.

Carroll (1979) highlighted four types of responsibilities of a business organization. These are: economic responsibilities, legal responsibilities, ethical responsibilities and discretionary responsibilities. The organizations must perform its economic responsibilities in order to generate profit as it will help them to survive. Thus, they produce goods and services and earn profit by offering and selling these in the market. In this way, both owners and creditors gain. Other than this, the organizations also have some legal responsibilities. They have to abide by the laws of the state. Thus, they have to be law abiding 'corporate citizens'. This is also a kind of responsibility that the organizations must perform. The third kind of responsibility, according to Carroll (1979), is the ethical responsibility that highlights the need for showing respect to the norms and values of the society and follow them while performing several activities. Though, in some cases, not following some ethical standards may not be considered as 'illegal', people in the society expect the organizations to show respect to those values and norms. Lastly, business organizations, these days, also perform some discretionary activities that are voluntary and philanthropic in nature. They perform several social welfare activities such as contributing to poverty alleviation activities, assisting the health and education sector etc.

Over the past few decades, the term Corporate Social Responsibility (CSR) has become a popular catchphrase in the business domain. Companies all over the world are performing several CSR activities that are getting attention from several parties such as professionals, academics, media, human rights agencies, politicians and others. Though, till now, the scope and boundaries of CSR activities are not well

defined, it can be said that, in the main theme of CSR is 'not doing any harm to the society and working for the welfare of the society'. There are several arguments in favor and against CSR activities (Griffin, 1997). However, there is no doubt that these activities got popularity over the years.

Now a days, along with the practice of CSR, another practice called Corporate Social and Environmental Reporting (CSER) got huge attention from the researchers and practitioners. That is, these days, companies all around the world, are not only performing the CSR activities, they are also reporting these activities to the stakeholders through several media such as annual reports, sustainability reports, web sites and integrated reports. Companies are voluntarily reporting on their activities related to environmental pollution, climate change matters, social welfare, human rights, social inequality and others. The issue of CSER got immense attention from the accounting researchers over the last two decades. It needs to be mentioned here, CSER can be mostly considered as a voluntary practice by the organizations. For that reason, this issue intrigued the accounting researchers. They tried to investigate the state and nature of this kind of voluntary disclosures as well as the motivation behind this reporting practice. They explained their findings with the help of several social and psychological theories. This paper focuses on CSER practices. The objective of this conceptual paper is to provide an overview of the theories used to explain CSER activities.

The common theories that were used to explain CSER activities include political economy theory, stakeholder theory, legitimacy theory, institutional theory, media agenda setting theory, resource constraint theory and impression management theory. This paper gives an overview of all these commonly used theories in CSER research.

## 2. Theories of CSER

The nature of corporate reporting has gone through many phases over the years. At one point of time, companies used to publish the annual reports that included the financial statements only. The economic performance of the company was the main focus of these reports. However, over the years, because of the greater social awareness from the part of the different stakeholders, companies started reporting

on their social and environmental performances in the annual reports along with the financial statements. The issue of CSR became popular over time. For that reason, companies, especially the multinationals, felt a pressure to disclose more information on the social and environmental performances. They came up with a new separate kind of report called sustainability report. Also, because of the dramatic improvement in the field of information technology, companies started reporting on CSR issues in their web sites. All these different types of reporting got attention from the accounting researchers. Over the last two decades, a good number of research articles were published on corporations of both developing and developed economies. As mentioned earlier, the researchers used several theories to explain CSER practices. In this section of the paper, a summary of all these theories are presented.

### 2.1 Political Economy Theory

The researchers who explained CSER practices from political economy perspective believe that, this kind of reporting is happening within a socio-political and economic framework (Gray, Owen & Adams, 1996). According to them, explaining any social phenomena will be impossible if we do not consider the social framework, political arrangements and ideological themes within which it is taking place (Deegan & Unerman, 2006). Thus, CSER also gets affected by several social, political and economic phenomena.

### 2.2 Stakeholder Theory

This is one of the most popular theories that were applied by the earliest researchers of CSER. At one point of time, both the companies and the society focused only on the financial performance of the business. However, over the years, it was found that a business can affect several parties. Other than the shareholders, there are several stakeholder groups (Crowther, 2004). There are multiple interest groups who are interested and get affected by the activities of the company (Hossain, 2017). As a result, companies have to take care of the interests of these different groups. The stakeholder group include shareholders, debtors, creditors, consumers, suppliers, employees, the government, media, special interest groups (such as human rights groups and environmentalists) and the whole community (Alam, 2006). All these groups need different sets of information. Companies, these

days, are trying to meet the information needs of these different groups. That is why, companies are going for CSER as many of these stakeholders are interested in the social and environmental performance of the business.

### 2.3 Legitimacy Theory

Legitimacy theory is the most widely applied theory in CSER research. This theory originates from the theory of social contract (Deegan, 2006). Social contract represents a set of expectations from the part of the society. These are the expectations on how an organization should operate in a society. That means, society expects the businesses to operate in a certain manner. The activities of the organization should be considered 'legitimate' by the people in the society. If the society thinks that the activities of the organization are doing harm to the society, a legitimacy gap may arise. This legitimacy gap may result in several social and political pressures such as, lawsuit, demand for banning the product/service of the organization, or complete rejection of the product/service from the part of the consumers (Hossain, 2017). For that reason, the business organizations try to remain aware about the perception of the stakeholders. According to Freedman and Jaggi (2005), social and environmental reporting can be considered as a means to manage the impression and handle the social and political pressure of legitimacy gap. Through CSER, companies try to convey the society that their social and environmental performance meet the expectations of the stakeholders. In this way, legitimacy gap is either minimized or eliminated.

### 2.4 Institutional Theory

Institutional theory is another popular theory through which accounting researchers explained CSER practices. According to institutional theory, institutional norms and pressures can play an important role to introduce change in an organization (Islam, 2009). Organizations try to maintain norms and meet internal and external expectations in order to survive in a society (Hossain, 2017).

Institutional theory explains any organizational change with the help of a concept called 'isomorphism' (DiMaggio & Powell, 1983). Isomorphism can be defined as the process through which 'external institutions permeate internal structures and

procedures' (Moll, Burns & Major, 2006, p. 187). There are three types of isomorphism: coercive, mimetic and normative (DiMaggio & Powell, 1983). In coercive isomorphism organizations change themselves because of pressures from several stakeholders such as customers, suppliers, government, politically powerful groups or some authorities (Hossain, 2017). Organizations may go for CSER because of the pressure from any of these groups. The process of mimetic isomorphism occurs when organizations try to mimic certain practices of similar organizations in order to improve their own practice (DiMaggio & Powell, 1983). When similar kind of organizations go for CSER, organizations (that are not practicing CSER) may try to improve their reporting practices by imitating the CSER practices of those organizations. The non-practicing organizations try to identify the best practices and improve themselves through benchmarking (Hossain, 2017). Normative isomorphism is a process where the people in an organization go for a change because of the pressure from the profession. People in the organization change their practices because the members of the same profession are following a particular practice. When member of the same profession follow a particular practice, it becomes a common standard or norm. That is why the non-practicing members start practicing this. An accountant may go for CSER because the others in the same profession are reporting on social and environmental issues.

### 2.5 Media Agenda Setting Theory

These days, media has become a powerful stakeholder. Media try to influence and change 'public opinions and reactions' (Hossain, 2017, p. 94). Sometimes media popularizes a particular discourse and thus it becomes a community concern. Whenever a particular issue gets popularized by the media, if relevant to them, organizations try to change themselves and try to meet the expectations of the public. These days, various social and environmental issues such as environmental pollution, climate change and global warming, human rights, social inequality and others are getting attention from the public as media is constantly focusing on these issues. For that reason, in order to meet the public expectation, organizations go for CSER. It helps them to minimize the legitimacy gap.

### 2.6 Resource Constraint Theory

Sometimes, the issue of availability of resources may also have an effect on CSER practices. Companies that are rich with financial and technological resources and skilled employees are more likely to practice CSER (Luo, Tan & Lang, 2013). Lack of resources may lead to lack of disclosures (Luo, Tan & Lang, 2013). That is why, according to Luo, Tan & Lang (2013), companies in the developed economies go for better disclosure in comparison to the companies in the developing or underdeveloped economies.


### 2.7 Impression Management Theory

These days, authors are explaining the nature of CSER from impression management perspective. Impression management perspective originated in the discipline of psychology. It needs to be mentioned here, CSER is mostly qualitative in nature and it is done through narratives. As CSER is also voluntary in nature, there is no particular framework for disclosing this type of information. In this case, companies can use the language in their narratives in such a way that can create positive impression in the minds of the stakeholders. According to Brennan et al. (2009), impression management is a process through which individuals try to control the impression of other people. The main objective of impression management is self-representation (Jaworska & Bucior, 2017). In many cases, companies disclose only some selective information that can create positive image of the organization in the minds of the stakeholders (Ahmad & Hossain, 2019; Hossain, Ahmad & Siraj, 2017). They choose the information and the words carefully so that stakeholders get impressed with the performance of the organization. This helps in reducing legitimacy gap.

## 3. Conclusion

This paper describes the main theories applied by the accounting researchers in explaining CSER practices. In this respect, short descriptions of the theories (such as political economy, stakeholder, legitimacy, institutional, media agenda setting, resource constraint and impression management) are presented here. It can be seen that these theories are highly interrelated and are mostly concentrating on issues such as pressure from multiple stakeholder groups, gaining legitimacy in the eyes of the people of the society and managing the stakeholders'



impression. These days, the organizations all over the world get blamed for their activities leading to environmental pollution, human rights violation, creation of social inequality and others. These issues are getting huge media attention. Also several parties such as the government, politicians, human rights activists and environmentalists are showing keen interest in the activities of the businesses. Thus, the chance of creation of legitimacy gap is increasing. A legitimacy gap can harm an organization in many ways. CSER is considered as a tool to mitigate legitimacy gap. Through CSER, the organizations can provide arguments in favor of their activities and create a good image in the eyes of the society. 

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