WHO AM I TO TALK ABOUT THIS?

My primary research is can be broadly classified into the social and environmental accounting (SEA) category, under the umbrella of corporate social responsibility (CSR) and accountability.

Fundamentally speaking, this research is based on the notion that (1) business, and particularly accounting, has a much broader scope than the traditional checks and balances of an organization’s financial and economic situation and (2) accounting could play a role in examining more of the human and social side of a firm’s existence.

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1. I will first introduce and explain “corporate social responsibility (CSR)” and “sustainability reporting” from my perspective.

2. I will then delve into the notion of “stakeholder conflicting demands” and “organized hypocrisy” (Don’t let the word “hypocrisy” turn you off).

3. I will share some examples and illustrations about these notions throughout the presentation.

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**SOME DEFINITIONS AND CONCEPTS**

- Creating economic, social, environmental conditions and enterprises for all forms of life to flourish on earth forever.

  
  “Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs”

- Requires the reconciliation of **economic**, **environmental**, **social** and demands – called the “three pillars” of sustainability, the **triple bottom line**.
DIFFERENT PERSPECTIVES

Corporate Perspective: The Economy is “Too Big to Fail”

Nature’s Perspective: The Ecosystem is “Too Big to Fail”

Based on Bob Doppelt, The Power of Sustainable Thinking, Peter Senge et al., The Necessary Revolution

NEO-LIBERAL MINDSET STILL PREVALENT IN TODAY’S BUSINESS WORLD

“There is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud.”

Milton Friedman

“If products are sort of mispriced and there’s an opportunity, we will act appropriately in terms of doing what I assume our shareholders would like us to do.”

“My primary responsibility is to Valeant shareholders.”

J. Michael Pearson
Valeant Pharmaceuticals, CEO
“...[SEA]" involves extending the accountability of organizations (particularly companies) beyond the traditional role of providing a financial account to the owners of capital, in particular shareholders. Such an extension is predicated upon the assumption that companies do have wider responsibilities than simply to make money for their shareholders” (Gray et al., 1987).

Social and environmental accounting (used interchangeably with "CSR or sustainability accounting").

→ The hope is to increase the social accountability of business through the provision of better information.

“At the very least, social accounting means an extension of disclosure into non-traditional areas such as providing information about employees, products, community service, and the prevention or reduction of pollution” (Mathews and Perrera, 1995).
And that’s what distinguishes CSR research in accounting from CSR research in other business disciplines – its primary (although certainly not exclusive) focus on accountability and disclosure.

Medawar (1976) made the point that sustainability reporting (he actually calls it “social accounting” or “social auditing”) is not the same thing as social accountability.

He defines (p. 393) social accountability as:

“a process in which those within corporate bodies, with decision-making powers, propose, explain and justify the use of those powers to those without.”
“What counts can’t always be counted; what can be counted doesn’t always count”

Albert Einstein

- Traditional thinking misses the mark:
  - the **people** that make and remake an organization every day by showing up to work or to buy;
  - the **planet**, which supplies the raw materials for creating the products or the environment in which to provide the service.

- PPP stands for **“People Planet Profit”**
  - coined by John Elkington
  - Triple Bottom Line (TBL)

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**STAND-ALONE “CSR” or “SUSTAINABILITY” REPORTING**
Positive –
“Just as conventional management and financial accounting has been a powerful tool in the management, planning, control and accountability of the economic aspects of organizations, broader techniques of sustainability accounting and accountability” can also be powerful tools for addressing the impacts of firms’ social and environmental actions.

Negative –
Many critics of the sustainability accounting trend see the reports as little more than public relations tools designed to “win (or maintain) the approval of those stakeholders whose continued support is crucial for the survival and profitability of the business.”
Underlying theoretical reasoning

- **Voluntary Disclosure Theories**
  - Neo-classic economics-based
    - Signaling theory / Agency theory

CSR disclosure is important “in reducing information asymmetry and uncertainty” regarding CSR projects with implications for future cash flows (Dhaliwal et al., 2011, p. 62).

“Investors can infer useful information from nonfinancial disclosures such as those concerning CSR activities” (Dhaliwal et al., 2012, p. 726).

Companies use CSR reporting “to create transparent reports that provide accurate and reliable data, as well as a fair picture of overall performance” (Ballou et al., 2006, p. 65-66).

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Underlying theoretical reasoning

- **Socio-Political Theories**
  - Sociology/management-based
    - Political economy theory / Stakeholder theory / Legitimacy theory

  - Based on the assumption of a “social contract.”
  - Social disclosure is a **direct function** of social and/or political pressures faced by organizations and those facing such exposures have an incentive to use disclosure as a tool to reduce them.
  - **Impression management** → process by which individuals attempt to control the impression others form of them.

“The vast majority of corporate reporting practice is . . . voluntary, partial, and, mostly, fairly trivial” and “with such data, no reader could make any kind of reliable estimate of the organisation's social or environmental performance” (Gray, 2006, p. 803).

Carbon Dioxide

$73,254,728 \rightarrow 68,429,366$

$-6.59\%$

$-52.04\%$

**Graph Discrepancy Index**

$-52.04\% / -6.59\% = 689.98\%$

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**QUOTE BY A VERY WISE MAN**

Groucho Marx

*The secret to success is honesty and fair dealing.*

*If you can fake those, you’ve got it made.*
Hypocrisy is a way of handling situations when what is said cannot be done and when what is done cannot be talked about. Hypocrisy means that we can continue to talk about things that can be talked about and do things that can be done. What can be said is not limited by what can be done, and vice versa.

Nils Brunsson (2007)
Managing conflicting stakeholder demands can tempt an organization to adopt specific strategies that lack internal consistency, raising fundamental concerns over the behavioral integrity of the organization.

The lack of internal consistency across an organization’s talk, decisions, and actions is sometimes termed “organized hypocrisy”.

A key strategy for senior management is to orchestrate the talk, decisions, and actions of the organization in a way that forms a legitimacy “solution” that pacifies conflicting stakeholder demands and yet does not reveal inconsistencies too blatantly.
Organized hypocrisy (Brunsson, 1989; 1990; 1993; 2002; 2007) attempts to explain discrepancies between a corporation’s talk, decisions, and actions, and how these discrepancies allow corporations flexibility in their management of conflicting stakeholder demands.

- But talk, decisions, and actions are counter-coupled

Research on organizational façades (Abrahamson & Baumard, 2008) moves beyond a model of a unitary façade, setting forth the notion that rational, progressive, and reputation façades serve organizational purposes beyond societal legitimacy.

- Abrahamson and Baumard (2008, p. 437) define an organizational façade as “a symbolic front erected by organizational participants designed to reassure their organizational stakeholders of the legitimacy of the organization and its management.”
- Regarding sustainability, Cho et al. (2015) developed the idea that corporations create rational (business sustainability), progressive (social & environmental innovation and reform), and reputation (social & environmental stewardship) façades.

Examples

- **Rational façade (business sustainability)**
  At ConocoPhillips, we welcome the relentless challenge of raising shareholder value. In 2005, we strived to meet that challenge by delivering good operating and financial performances, while investing in strong, value-building opportunities (ConocoPhillips, 2005a, p. 4, emphases added).

- **Progressive façade (social & environmental innovation and reform)**
  Advancing energy technologies in ways that are market-driven and economically sound is an integral part of responsibly supplying energy. As part of our comprehensive energy development strategy, we are actively pursuing investments in alternative and renewable technologies, energy efficiency, cleaner fuels, gas-to-liquids, and a variety of other promising, practical energy solutions (Chevron, 2003b, p. 15, emphases added).

- **Reputation façade (social & environmental stewardship)**
  Protecting people and the environment is a core value for Chevron (Chevron, 2004b, p. 42, emphases added).
  Respecting indigenous communities is an important part of addressing the company’s community impact (ConocoPhillips, 2004b, p. 20, emphases added).
WHAT ARE THE TAKE-AWAYS HERE

From Cho et al. (2015)…😊

- Within the currently prevailing societal and institutional context, the prospects of sustainability reports developing into substantial disclosures is severely limited by organized hypocrisy.
- Contradicting elements and expectations within their social and institutional environment may practically force organizations to resort to hypocrisy, which also provides corporate managers with a solution for managing conflicting stakeholder demands.
- Corporations can frame their commitment to sustainability as economically beneficial (rational façade), embracing of new technologies (progressive façade) and sensitive to society and the environment (reputation façade).

→ Corporate and individual reputation can be protected and perhaps enhanced by managing conflicting stakeholder demands without too much hypocrisy (e.g., make balanced and accurate disclosures).

KIITOS

Comments and questions are welcome! 😊