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Corporate social responsibility reporting in professional accounting firms

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ABSTRACT

This paper examines the corporate social responsibility (CSR) reporting undertaken by the 20 largest professional accounting firms in the United Kingdom. Professional service firms are knowledge-intensive organisations, eager to communicate their legitimacy, status and reputation, to an external world. These social evaluations (prestige) allow them to enhance their intellectual capital and consequently charge premium fees and, effectively increasing partner wealth. This investigation undertakes a content analysis of firms' annual reviews, corporate social responsibility reports, websites, and recruitment literature.

1. Introduction

This paper aims to contribute to our empirical understanding of corporate social disclosure (CSD) undertaken by professional accountancy firms in the United Kingdom (UK). This aim is achieved by an examination of CSD undertaken by the largest 20 accountancy firms operating in the UK, using annual reviews, corporate social responsibility (CSR) reports, websites, and recruitment materials. Disclosures are categorised into disclosure form, i.e., monetary quantified, non-monetary quantified, narrative/discursive, and pictures.

CSD research has been a vigorous area of activity for accounting scholars over the past four decades with quantitative content analysis providing the dominant form of investigation. The paper draws on Gray, Kouhy and Lavers' (1995a, 1995b) seminal classification of CSD with the development of their comprehensive database, identifying six CSR categories. The theoretical framework employed is institutional theory one component of which - legitimacy - has been previously applied in CSD scholarship (e.g., Adams et al., 1988; Campbell, 2003; Deegan, 2002).

Accountancy firms provide a unique, unexplored and fecund pasture for CSD research as professionals: first, operating with a public interest remit, i.e., an obligation to serve the public before self; and second, as knowledge-intensive enterprises that represent one of the largest recruiters of graduate talent. It is argued that the CSD undertaken by professional accountancy firms is motivated by a need to seek legitimacy, communicate status and enhance reputation: a source of significant external (relational) capital (MERITUM, 2002) within the accounting industry where the economics of quality in professional services allow firms with higher reputations to charge premium fees (achieve quasi rents) (Arruñada, 1999). The present study is novel for four reasons, by: (i) examining CSD within professional accounting firms, an underexplored site of CSR; (ii) using a wide range of corporate reports including recruitment literature; (iii) addressing the form of disclosure made

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within corporate reports including visual material; and (iv) considering the external communications of a relatively unexplored entity, the professional accounting firm.[1]

The research has two significant and attendant findings. First, the reporting of CSR activity is a precursor of signalling legitimacy, status and reputation (prestige) within and about the accountancy profession. Second, CSD, particularly within websites and recruitment materials, assists the process of attracting large numbers of high quality graduates to convey an image of excellence, counter to the accountancy profession's unexciting, and periodically irresponsible, public persona.

This paper is structured as follows. Section two discusses CSR and the accountancy profession. The third section describes the theoretical framework employed for the analysis: institutional theory with legitimacy, status, and reputation as its subcomponents which collectively create 'prestige'. Section four provides a review of prior empirical literature. The content analysis used as the principal research method in the investigation is explained in section five – research design. Empirical results are reported in section six. The final section concludes.

2. Corporate social responsibility in accountancy firms

The European Commission in its Green Paper (EC, 2011 p.4) defines CSR as "essentially a concept whereby companies decide voluntarily to contribute to a better society and a cleaner environment". For the purposes of this study, CSR reporting relates to organisational disclosure of its, largely voluntary, approach to making a positive impact on society and the environments in which it operates. The EC (2011, p.4) goes on to explain the motivations for organisations to increase efforts towards CSR, reflecting stakeholder concerns and expectations, social criteria influencing investor decision making, concerns about environmental damage, and demands for transparency of business activities stimulated by media technologies.

According to the Professional Oversight Board (POB) (2013), nearly 320,000 members of six chartered accountancy bodies were employed in the UK and the Republic of Ireland in (ROI) 2012.[2] Alongside professional accountants sit significant numbers of student trainees, with the six UK and Irish accounting bodies reporting more than 165,000 student members located in the UK and ROI in 2011 (POB, 2014). Three of the institutes (ICAEW, CAI, and ICAS) focus their training efforts almost exclusively in the area of public practice, which covers the provision of audit and related accounting services. One institute (ACCA) also trains significant numbers in public practice. It is common for many students to leave public practice on qualification to take up employment in industry, commerce, public sector accounting, or in more general employment. For example, only 25%–30% of members of ICAEW, CAI, and ICAS were employed in public practice in 2012 (POB, 2013). Consequently accounting firms play an important role in the training and socialisation of the UK professional accountant, wherever s/he is employed.

Professional accounting firms as economic entities have two distinctive features relative to other for-profit enterprises. First, they aim to fulfil a social obligation to serve the public. The public interest is at the heart of a profession that carries the benefit of an enhanced occupational status (Dellaportas & Davenport, 2008). Consequently, an orientation to serve the needs of the public becomes a defining feature of a profession (e.g., Lee, 1995; Mitchell, Puxty, Sikka, & Willmott, 1994). However as Dellaportas and Davenport (2008, p.1080) identify:

> Current conceptions of the public interest are inadequate to define a principle which must stand as a measure of public policy. Who exactly is the public, what are the interests of the public, and what does it mean to serve the public interest? Consequently, members of the accounting profession are expected to comply with a principle that is vague and ambiguous.

Thus the term 'public interest' remains contested and difficult to define. Disclosing corporate and social responsibilities provides one means by which professional accounting firms can demonstrate their regard for the public interest and provides an important motivation for CSD.

Second, a defining feature of any profession is its close association with high levels of educational attainment (Abbott, 1988; Larson, 1977). Public accounting is generally a graduate profession, with between 82% and 98% of students registered with ICAEW, CAI, and ICAS possessing a degree (POB, 2011). These professional accounting firms are highly dependent on recruiting large numbers of young people with cohorts in excess of 1000 individuals. Consequently, social evaluations of firms by graduates are important as a talent management strategy.

To summarise, accounting is a significant and well-established profession in the UK. Professional accounting firms play an important role as a site for training and leadership of the profession. As a profession, accountants need to fulfil a public interest role which at times has been ambiguous. Unlike other professions, and the accounting profession internationally, direct links with university accounting departments are limited, which poses a challenge to the legitimacy of accounting as a profession in the UK. These factors potentially challenge the reputation of UK accounting firms, an antecedent of premium fee income. Firms' active involvement in CSD provides a means of managing this reputational threat (Bebbington, Larrinaga, & Moneva, 2008) and as an avenue to protect and enhance constituents' social evaluations of individual firms.

[1] A search suggests only one study exists of accounting firms' annual reviews (Duff, 2011) which makes no specific reference to CSD.

[2] The six chartered accountancy bodies are the: Association of Chartered Certified Accountants (ACCA); Chartered Institute of Public Finance & Accountancy (CIPFA); Chartered Institute of Chartered Management Accountants (CIMA); Institute of Chartered Accountants in England & Wales (ICAEW); Institute of Chartered Accountants in Ireland (CAI); and Institute of Chartered Accountants of Scotland (ICAS).