Accounting Forum 38 (2014) 132–144

Contents lists available at ScienceDirect

Accounting Forum

journal homepage: www.elsevier.com/locate/accfor

Standalone CSR reporting by U.S. retail companies

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ARTICLE INFO

Article history:
Available online 24 January 2014

Keywords:
Social and environmental accounting
Standalone CSR reporting
U.S. retail industry
Content analysis

ABSTRACT

We investigate first-time use of standalone CSR reporting in the U.S. retail industry. We find it is limited to publicly traded companies and that environmental rather than other social disclosures are most prominent. We document that firms focus on discussing CSR initiatives and programs as opposed to providing performance data, suggesting the reports are more about image enhancement than transparent accountability. We explore impacts of the choice to disclose, and our findings suggest that standalone CSR reporting by the retail companies appears to positively influence perceptions of company reputation, and may be leading to increased appeal to socially responsible investors.

1. Introduction

There is no universally agreed upon definition of corporate social responsibility (CSR), but Golub, Lah, & Jancic (2008, p. 84) claim that its main principle "is that no company can act in opposition to, or in isolation from, the issues in society." Particularly since the 1970s, businesses worldwide have faced increasing public demand to show they are socially responsible, and one of the major ways they have attempted to demonstrate this is through the use of CSR reporting (Hooghiemstra, 2000; Buhr, 2007). And while investigations of this reporting also go back to at least the 1970s (see, e.g., Ernst & Ernst, 1978), the overwhelming majority of the examinations focus on samples compiled across a variety of different industries. But as noted by Guthrie, Cuganesan, & Ward (2008a, p. 2), "the levels of social and environmental impacts can vary greatly from industry to industry," and as such, they argue that it is important to assess reporting at the industry specific level. Accordingly, in this study, we examine CSR reporting by retail companies in the United States, but we focus more specifically on one form of disclosure, the issuance of a standalone CSR report.

The retail sector represents a major component of the U.S. economy, and as documented by Wagner, Bicen, & Hall (2008), Jia (2008), and Iwanow, McEachern, & Jeffrey (2005), among others, the industry is subject to social exposures across a variety of issues including labor relations, community impacts, and supply chain concerns. The use of standalone CSR reports has been argued as a potentially powerful tool for communicating with stakeholder groups in regard to social exposures (Dingwerth & Eichinger, 2010; Unerman, Bebbington, & O'Dwyer, 2007), but it has also been criticized as being an exercise designed not for transparent accountability, but instead for nothing more than image enhancement (Aras & Crowther, 2009; Cho, Michelon, & Patten, 2012; Hopwood, 2009). Accordingly, we attempt to assess both the degree to which companies in the retail sector have adopted the use of standalone CSR reporting and what type of information they choose to provide in their first-time standalone reports. Beyond a descriptive analysis of the disclosure, however, we also attempt to determine whether the choice to begin reporting on CSR issues through a standalone report appears to influence perceptions of corporate environmental reputation and take-up by socially responsible mutual funds.

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0155-9982/$ – see front matter
http://dx.doi.org/10.1016/j.accfor.2014.01.002

Examining 76 of the largest retail companies in the U.S., we document that approximately a third of the firms had issued at least one standalone CSR report by the end of 2012. Interestingly, we find that the existence of this reporting is limited to publicly traded companies, which we argue suggests that the documents would not appear to be about increasing appeal to the consumer market. We then analyze the available first-time reports using a content analysis scheme differentiating disclosure related to discussions of programs and initiatives versus actual social and environmental performance data across five broad social areas (environment, human resources, supply chain, community, and 'other'). Our results indicate that, in contrast to our expectations, the retail firm reporters devote the highest amount of spatial coverage, on average, to environmental as opposed to other specific social issues. We also find that the information provision is much more heavily weighted toward discussions of programs and initiatives as opposed to disclosure of actual performance data.

Turning to the potential impacts of standalone CSR reporting, we examine first, whether environmental reputation scores as reported in *Newsweek* magazine's first ranking of the 'greenest companies in America' differ for the retail companies that had issued a standalone CSR report prior to the reputation survey in comparison to those firms not engaged in the activity up to that time. We show that the firms having issued a standalone report enjoy significantly higher environmental reputation scores, in spite of the fact that they actually exhibit worse environmental performance assessments (based on data also reported in the *Newsweek* rankings). Finally, we compare the holdings of report-issuing firms' stock by a sample of 16 social responsibility mutual funds in the period prior to, and the period after CSR report issuance and find that while the average holdings are substantially increased, the difference is not statistically significant.

Overall, our investigation of standalone CSR reporting within the U.S. retail industry indicates that, like companies in other sectors, there is a growing use of the disclosure tool, but that it appears to be, at least in the first-time issuances, more about image enhancement than about providing meaningful performance data within the social and environmental domain. Thus our analysis of an industry that, while having social issues to contend with, is not normally considered environmentally or socially exposed, provides additional support for arguments that CSR disclosure within a voluntary regime is not leading to transparent accountability (Bouten, Everaert, Van Liedekerke, De Moor, & Christiaens, 2011; Gray & Bebbington, 2000; Patten, 2012). We begin with a discussion of prior investigations of CSR disclosure.

2. Background and Development of Research Questions

2.1. Prior Studies

Explorations of corporate social and environmental reporting date back to at least the 1970s and the yearly summarization of annual report disclosures compiled by Ernst & Ernst (e.g., Ernst & Ernst, 1978). However, most of the studies investigating this phenomenon examine either broad-based samples (e.g., Patten, 1991; Roberts, 1992; Gray, Kouhy, & Lavers, 1995) or firms from industries typically classified as being 'environmentally sensitive' or 'socially exposed.' For example, with respect to the former, Rockness, Schlachter, & Rockness (1986), Patten (1992), and Magness (2010) examine the environmental disclosures of companies in the chemical, petroleum, and mining industries, respectively, while both Moerman and Van der Laan (2005) and Tilling and Tilt (2010) investigate social responsibility disclosures for firms in the tobacco industry. A finding common to all of these investigations is that CSR disclosure appears to be much more about reducing exposures to social concerns than about providing meaningful assessments of corporate social and environmental performance.

Importantly, a relatively few studies focus on CSR disclosure within more limited sample groups. For example, Campbell (2000) analyses the annual report social disclosures of the major UK retailer Marks and Spencer over the period from 1969 to 1997, inclusive. Among other things, he notes that the volume of the disclosures varies substantially over time. More recently, Islam and Deegan (2010) explore the corporate social disclosures of Nike and Hennes and Mauritz, a pair of international clothing retailers, and report that negative media coverage of social and environmental issues led to increased positive social disclosure by the companies. This was particularly strong for coverage of labor concerns in developing countries, the issue the authors cite as most prevalent for the firms, and as such, the findings appear to be in line with the results of broader-based investigations.

In contrast to Campbell (2000) and Islam and Deegan (2010), and more relevant to our study, Guthrie et al. (2008a; 2008b) focus on CSR disclosure across an entire sector - the Australian food and beverage industry. Their studies document both that CSR disclosure within their chosen industry is more prevalent on websites than through annual reports (Guthrie et al., 2008b) and that development of an industry-specific disclosure metric leads to better assessments of CSR disclosure than reliance on broader-based measures such as those focused on Global Reporting Initiative (GRI) guidelines (Guthrie et al., 2008a). In this study, we extend the industry-themed analysis of Guthrie et al. (2008a; 2008b) by focusing on a different industry sector – the U.S. retail industry – and a different disclosure medium – standalone CSR reports.[1]

2.2. The U.S. Retail Industry

We examine the U.S. retail industry because, like the food and beverage industry in Australia (Guthrie et al., 2008a), it represents a major component of the U.S. economy. For example, the 2011 Fortune 500 included 45 retail companies, and

[1] Guthrie et al. (2008a; 2008b) specifically note that none of their sample companies had issued a standalone CSR report.