



Evaluating the quality of corporate social responsibility reports: The case of occupational health and safety disclosures



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ABSTRACT

A good and safe workplace is a big challenge for the business community. Different stakeholder groups are placing pressure on firms to demonstrate their commitment to the continual improvement of working conditions. In the light of society's demands, firms design and implement Occupational Health and Safety (OHS) actions as an integral part of the general corporate strategy and they also use various communication channels to inform stakeholders about OHS performance. CSR reporting is a popular communication tool whereby stakeholders can be informed about firms' performance in various aspects of corporate social responsibility. However, a standard accounting methodology to evaluate non-financial information, such as OHS information, does not yet exist. Such a methodology would help managers and stakeholder assess the effectiveness of the OHS management practices adopted by firms. After considering the above weakness, this paper proposes an assessment methodology of OHS information disclosed in the corporate social responsibility (CSR) reports. Based on GRI indicators, this methodology develops an objective scoring system which evaluates the quality and type of OHS information. The proposed methodology was used to investigate the OHS disclosing practices from an international sample of firms assessing the impact of various factors on the quality of the OHS information. In a nutshell, the quality of the OHS disclosures was very poor. The factors which influence the quality of OHS reporting practices are the industry sector, the continent in which firms operate and the OHSAS certification.

1. Introduction

Today, OHS issues are an integral part of the corporate social responsibility agenda and sustainability reports. Many policy documents have promoted OHS topics in the context of CSR management practices. Specifically, the Green Paper of the European Commission (2001) for “promoting a European framework for Corporate Social Responsibility” mentions explicitly that OHS issues should be examined in the context of CSR encouraging firms to undertake voluntary initiatives and reach OHS goals which go beyond the standard legal requirements. Many voluntary tools and frameworks have been proposed to help firms to deal with OHS issues such as the Swedish TCO labeling scheme, the Dutch Safety Contractors checklist and OHSAS 18001 (Fernández-Muñiz et al., 2012; Abad et al., 2013).

Firms make every endeavor to avoid undesirable situations related to the workplace (e.g. work accidents) which could damage their reputation and lead to fines or sanctions (Nikolaou, 2016). In this context, many large firms, especially those which face a great number of risks associated with occupational accidents, due to the nature of their operations, (e.g. the chemical, mining, construction and oil and gas

industry) (Hudson, 2003; Grote, 2012), have adopted OHS voluntary tools and have integrated OHS issues into their CSR strategies. Also, the growing interest in OHS issues, is also corroborated by the quantity and the quality of information disclosed in various corporate reports (Montero et al., 2009; Koskela, 2014).

Despite the significant consequences of OHS issues, a widely accepted framework which solely focuses on recording and disclosing OHS information does not exist yet and this is impeding the evaluation of corporate reputational and financial risks. Actually, various parameters, such as institutional factors, legislation regime and maturity of the financial sector, seem to have a strong effect on firms' decisions to incorporate OHS aspects in their strategies and disclosures (Buhr and Freedman, 2001; Lattemann et al., 2009). Theoretically, the extent and the quality of OHS disclosures (through CSR reports) could be explained through strategic management-driven and social-driven theories, such as stakeholder theory, institutional theory and legitimacy theory (Roberts, 1992; Chauvey et al., 2015).

Pressures and demands from various stakeholder groups can play an important role in OHS strategies adopted by the business community. Local communities and employees put enormous pressure on mining

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industries to effectively manage OHS issues (Chen and Zorigt, 2013; Page et al., 2013). As for the OHS disclosure practices adopted by the business community, stakeholder theory goes hand in hand with accountability theory which demands complete and comprehensive information for stakeholders in order to make correct decisions (Brown and Butcher, 2005). Furthermore, legitimacy theory explains that the non-financial disclosure practices provide firms with the means to legitimise their operations and gain the “social license” to operate (Chauvey et al., 2015). Consequently, the publication of OHS information either by stand-alone OHS reports or CSR reports is the result of firms’ efforts to build relationships with local communities and their employees so as to avoid adverse criticism. Finally, institutional theory implies that firms voluntarily implement OHS practices in order to comply with regulatory regimes or to adjust their strategies to the latest trends toward sustainability (Jennings and Zandbergen, 1995). Indeed, various institutional factors could explain the fact that firms (especially multinational firms) adopt different OHS practices in relation to the country or region in which they operate. Firms enhance their OHS performance not only to comply with the regulations, but also to respond to the demands that emanate from the institutional conditions of each country.

This paper contributes to the OHS literature by improving the OHS accounting and management practices by focusing on accountability and institutional theory to identify differentiations of OHS disclosures among different firms. Particularly, it aims to address two distinct research questions as follows:

1. What is the accountability level of firms regarding OHS disclosures?
2. How do institutional factors impact on the level of OHS disclosures?

To do so, a benchmarking-scoring methodology was introduced in order to assess the quality of OHS disclosure provided through CSR reports published by a large sample of firms that operate in various industry sectors and regions/continents. A follow up statistical analysis was used to investigate the differentiation of OHS disclosures among firms.

The outline of this article is organized as follows: in section two the theoretical background of this research is described. The third section analyzes each step of the proposed research methodology. The findings of the research are highlighted in section four. Section five discusses the contribution of this paper to the OHS literature and the final section draws some conclusions and points out some limitations as the starting point for further research in the field of OHS disclosures practices.

2. Theoretical background

This section is divided into three sub-sections which provide the theoretical background of OHS disclosures on which the proposed methodology is built. In particular, the first section focuses on examining the current status of previous studies regarding CSR reports and OHS disclosures. The aim of this section is to identify the attitude of firms toward OHS disclosures. The second section analyzes the current methodologies and techniques which have been developed to evaluate CSR reports regarding OHS issues and the third section places emphasis on a set of institutional factors which might affect the quality and the content of OHS disclosures.

2.1. The status of CSR reports regarding OHS disclosures

This section discusses previous experience regarding OHS disclosures and CSR reports. It focuses on analyzing the basic types of OHS information published through CSR reports. It is known that a large part of the current OHS disclosures literature focuses on CSR reports because firms disclose many relevant policies and initiatives in such reports. In general, CSR reports cover a wide range of sustainability challenges which firms face. Recently, the majority of such reports have been

prepared under the triple bottom line thinking which puts equal emphasis on the three aspects of sustainability, namely economic, environmental and social dimensions (Painter-Morland, 2006).

Although, there are several examples of countries which set down legal requirements for disclosing non-financial information (e.g. 2014/95/EU for firms which employ over 500 employees), the mainstream literature maintains that firms voluntarily provide corporate disclosures as a response to pressures from societies (e.g. the mining industry is subject to strong pressures from local communities) and the modern economic environment (e.g. the modern stock exchange and the banking sector). Specifically, through non-financial disclosures, firms aim to enhance communication with the community so as to strengthen their accountability, thus gaining society’s approval (i.e. legitimacy) for their daily operations. Parker (2005) classifies the theories which underpin the corporate non-financial reporting into two general categories: (a) agency theory, stakeholder theory, legitimacy theory, and accountability theory, (b) political economy accounting theories, deep green and social ecology theories and feminist and communitarian-based theories. Additionally, some other scholars propose institutional theory and consistency theory to explain the voluntary initiatives of the business community to prepare non-financial reports (Bouma and van der Veen, 2002).

The above theories are also utilized to explain the content of CSR reports. For example, great pressure on firms from stakeholder groups regarding social issues can lead them to provide comprehensive information on social issues in their CSR reports in order to improve their accountability level. Similarly, due to a rise in employees’ concern over working conditions firms may disclose more information about OHS issues in CSR reports (Cahaya et al., 2017; Evangelinos et al., 2018). Moreover, institutional factors have an impact on the content of CSR reports. A regulatory regime that sets strict standards for workplace safety could force firms to ameliorate the level of OHS disclosures in order to improve their OHS profile and in this way avoid a backlash from society which would likely damage their reputation.

Although there is progress in the quality and the context of OHS information disclosed in CSR reports (Montero et al., 2009; Cahaya et al., 2017), it is difficult to reach an overall conclusion with respect to the quality and the quantity of OHS information due to the limited number of studies which focus on CSR reporting. There are studies that reveal a limited amount of OHS information disclosures in the CSR reports. More specifically, Al-Hamadeen and Badran (2014) examined the CSR reports from the Jordanian public shareholding and found that only 8.1% of the total disclosures refer to OHS topics. Montero et al. (2009) analyzed CSR tools (including CSR reports) and identified a limited number of OHS topics. Such topics pertain to general human resources of firms such as: human resources, time between family and work, human rights as well as safety and public health issues. Koskela (2014) identified that the quantity of OHS information is approximately 11% of the overall CSR reports. She also pointed out that a major part of OHS information pertains to occupational health (44%) and less than 22% refers to employees well being.

Few studies demonstrate that firms publish a satisfactory level of OHS information in CSR reports. Deegan and Islam (2012) have analyzed eight Australian firms which provide detailed OHS disclosures in management remuneration plans, mainly as a result of the failure of firms to achieve OHS goals. Also, Roca and Searcy (2012) found that OHS information is highly disclosed in CSR reports. They showed that high risk industry sectors, such as mining, and Oil and Gas industries, provide much more OHS information than the banking sector.

2.2. Methodologies for evaluating CSR information

CSR or sustainability reports are valuable sources of data and information regarding different aspects of corporate sustainability performance. To analyze and investigate the data from CSR reports a wide array of methodologies have been suggested (Morhardt et al., 2002;

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