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An insider's reflection on quantitative research in the social and environmental disclosure domain

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ABSTRACT

In this commentary, I reflect on my use of quantitative techniques to assess corporate social and environmental accounting (SEA) and disclosure. In addition to summarizing my intended agenda in that regard, I offer my reasons for relying on quantitative methods while also acknowledging issues and concerns within the body of SEA research using these techniques. Overall, I try to make the case that multiple approaches to analysis of SEA issues are necessary to truly understand, and ultimately, improve corporate disclosure, and accordingly, there is a place for quantitative investigations within the critical arena.
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This special issue of *Critical Perspectives on Accounting* reflecting on quantitative research in the corporate social responsibility (CSR)/critical domain comes at a very opportune time. Social and environmental accounting (SEA) has been the subject of much recent self-reflection and soul searching (e.g., Brown & Dillard, 2012; Correa & Laine, 2013; Dillard & Brown, 2012; Gray & Laughlin, 2012), and even outright criticism (e.g., Spence, Husillos, & Correa-Ruiz, 2010). My intent in this essay is not to respond specifically to the recent debate, but instead, as a long-time contributor to the body of SEA research, almost all of it through quantitative investigations, to summarize briefly what I see as the agenda I've been attempting to fill and the role of quantitative methods in that pursuit, to reflect on other factors that continue to lead me down the quantitative path, and to acknowledge what I see as limitations and concerns with examinations relying on quantitative techniques. In doing so, I hope to make the case that there is a place for quantitative analysis in the CSR domain.

1. My research agenda

Let me begin by clarifying that, for the purposes of this contribution, when I use the term 'quantitative research,' I'm referring to studies employing relatively larger samples that rely on archival data in their analyses. Further, while quantitative approaches have been used to explore other CSR-related themes such as corporate philanthropy and social investing, I'm limiting my discussion to the study of corporate social and environmental disclosure,[1] the area I consider the majority of my own work to be centered within.

This is not the first time I've reflected on being a quantitative researcher in an area equally (if not more so) inhabited by more critical colleagues (see Patten, 2002b). But one of the points I tried to make in that earlier piece remains very relevant

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[1] This includes both early work in this domain that tended to focus on the provision of social and environmental information in annual financial reports (e.g., Cowen, Ferrari, & Parker, 1987; Patten, 1991; Roberts, 1992), as well as more recent investigations centering on standalone documents often referred to as triple-bottom-line, corporate social responsibility, or sustainability(sic) reports.

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and worth highlighting as a means of discussing my use of quantitative methods. I noted back then that the primary goal of my research agenda was to show that existing disclosure practices are harmful, and I claimed that in addition to documenting that environmental disclosure differs across firms, it was necessary to "make a solid case that it varies because many companies use the disclosure as a manipulative device to reduce exposures" and to further identify that "existing disclosure practices induce effects that are bad for environmental protection" (Patten, 2002b, p. 10). I believe, looking back at my research portfolio, it is easy to see how many of my works relate to these goals. With respect to manipulative disclosure, some of my earliest studies focused on documenting that companies facing greater social and political exposures due to firm size and industry affiliation tended to make more extensive social and environmental disclosures (e.g., Patten, 1991), and that when exposures, in general, changed, so too did the corporate use of disclosure (Patten, 1992, 1995). Perhaps even more illustrative of manipulative disclosure, however, are my investigations of the relation between corporate environmental performance and environmental disclosure (e.g., Patten, 2002a; Cho & Patten, 2007) showing that, controlling for other exposure factors, companies that are worse environmental performers actually disclose more extensive environmental information of a positive or neutral nature.

I also have attempted to add credence to the claim that existing disclosure has negative effects on environmental protection, although I concede that much additional work is needed in this regard. Perhaps my most interesting contribution in this area is the recent investigation with Charles Cho, Ron Guidry, and Amy Hageman where we examine environmental disclosure and perceptions of companies' environmental reputation (Cho, Guidry, Hageman, & Patten, 2012). We show that, for a sample of companies from environmentally sensitive industries, worse environmental performance is significantly associated with a greater likelihood of membership in the Dow Jones Sustainability Index (DJSI) as well as higher environmental reputation scores as reported in *Newsweek* magazine's first ranking of the greenest companies in America. We also show that these unexpected relations appear to be a function of differences in environmental disclosure. The worse performing companies tend to include significantly more extensive disclosure (consistent with findings from Patten, 2002a and Cho & Patten, 2007), and we document that this disclosure is positively related to DJSI membership and reputation scores. Thus, we argue that if, on average, disclosure successfully mitigates negative impacts of environmental performance on companies' reputations, it reduces the incentives for firms to improve their environmental practices. This is essentially the same argument Marty Freedman and I discussed relative to our investigation of disclosure's effect on market reactions to proposals for substantial changes in the U.S.'s Clean Air Act back in 1989. In that study, Freedman and Patten (2004), we documented that air pollution performance information recently made available through the Toxics Release Inventory program appeared to influence market reactions (worse performers tended to suffer more negative abnormal returns), but that more extensive environmental disclosures were associated with less negative effects. As we summarized (Freedman & Patten, 2004, p. 40), to the extent that the mitigating effects of disclosure reduced "incentives for changing actual performance, the disclosure must be seen as bad for the environment."

But, of course, the intent of this essay is not to summarize my prior body of work, but instead to reflect on why I have chosen quantitative approaches to address the issues I explore. In that regard, I would like to highlight that in each of the studies noted above, a key aspect of the analysis was making a case that expected relations held across a broad sample of firms. I believe emphasizing this point is important in that Spence et al. (2010, p. 84) form part of their criticism of legitimacy-based social and environmental reporting (SER) research on findings from other investigations suggesting SER motivations appear "to be complex and multifarious," and further, that "firms appear to be reporting on socio-environmental issues for a variety of reasons and in ways that are not consistent across firms." I agree completely with this observation, but not with the argument that this somehow negates a legitimacy (or, in other research, stakeholder) explanation. The issue here is that accounting, including our more specific subset, SEA, is a social science and practices are not driven by exact laws. Accordingly, there will always be exceptions to the norm. To me, the primary advantage of quantitative investigative approaches is that they make it easier to tease out the relations that tend to hold on average and across time, as opposed to being potentially just a one-off phenomenon. And while other research approaches can add support to the basic arguments I'm trying to champion (I discuss a few examples of this below), I'm a believer in the power of data. I'm also a realist, and I think it is also important for those of us who do rely on the use of broader samples to investigate relations to acknowledge the lack of absolute certainty. To his end, I would note that in both the summarizations above and the articles themselves, I use phrases such as "many companies," "tend to see," and "on average" because I am indeed examining social phenomena.

2. Other factors

There are, of course, other factors that play into my choice to rely on quantitative methods, and one that, again, I confessed to in Patten (2002b) is my desire to engage with the more mainstream North American literature. I'm willing to admit here, in print, that I actually read articles from *The Accounting Review*, *Journal of Accounting and Economics*, and even, on rare occasions, *Journal of Accounting Research*. Now, to be honest, I do so largely because I teach a graduate level research course and need to stay up-to-date with what is being published, but I am also always looking for ways that I might integrate my agenda with the topics and methods explored in more mainstream works.

I'd like to think I've had some successes in terms of applying more mainstream approaches to explorations of SEA themes. In addition to market-based studies such as Blacconiere and Patten (1994), Freedman and Patten (2004), and Guidry and Patten (2010), for example, I also conducted an investigation of the relation between environmental disclosure and earnings

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