



# Assessing quality assessment of corporate social reporting: UK perspectives

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## Abstract

This paper examines evaluation systems of UK corporate environmental and social reporting (CSR). Three issues are addressed: what do corporations and quality assessors (QAs) regard as quality CSR; problems with quality assessment in practice, and; formal monitoring processes and award schemes as a determinant and driver of CSR. Findings are informed by interviews with four UK-based assessment organisations and 60 corporate representatives. The paper concludes that: corporations adopt less comprehensive definitions of quality than QAs; QAs adopt more stringent definitions of quality than academics; methodological problems of quality assessment highlighted in the academic literature are experienced by QAs; and that benchmarking and award schemes are important drivers of CSR.

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## 1. Introduction

This paper is concerned with formal monitoring and evaluation procedures of corporate social reporting (CSR<sup>1</sup>). Such protocols typically assess the quality of CSR by checking corporate disclosure against predetermined reporting elements. Scores are typically imparted for disclosure, with additional marks being awarded for increased levels of scope, breadth and depth of reporting, thereby enabling direct benchmarking between peers. This

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<sup>1</sup> References to 'social disclosure' and CSR/CSP are taken to include all facets of environmental, ethical and social disclosure/performance.

benchmarking fulfils an important role in encouraging corporations to engage in voluntary<sup>2</sup> disclosure, and once engaged to disclose in a more comprehensive manner. There are, however, a number of problems related to quality assessment of CSR in practice, as many protocols are highly subjective. Given the importance of formal monitoring procedures in encouraging disclosure and the problems associated with quality assessment, the subject deserves further investigation.

This study makes a number of contributions to the literature. Firstly, it is one of the few studies to adopt a qualitative perspective on CSR (also see Buhr, 1998; O'Donovan, 1999; O'Dwyer, 2002) via a direct enquiry approach. It therefore partially fills a research gap given the dearth of in-depth qualitative evidence relating to CSR. Second, the paper is somewhat unique in that it's focus is on reporting the views of both professional quality assessors (QAs) and corporate representatives on the process, content, impact and problems associated with the quality assessment of CSR. Thirdly, quality assessment protocols have been the subject of academic scrutiny (Jones & Alabaster, 1999; Kolk, 1999) but the extent to which quality assessment influences corporate disclosure, although acknowledged (Gray, Owen, & Adams, 1996, p. 170; Kolk, 1999, p. 236) is largely ignored.

Expert opinion is sought from four UK quality assessment organisations; three that focus exclusively on CSR quality and one that also assesses corporate social performance. In addition, the study draws on corporate opinion from 60 UK executives. Three issues are examined:

1. What do corporations and quality assessors regard as quality CSR disclosure?
2. Problems with quality assessment in practice
3. Formal CSR monitoring protocols and award schemes as a determinant and driver of CSR

## 2. Quality assessment of CSR

An examination of the quality assessment of UK CSR is of paramount importance. A political system that leaves social disclosure to market pressures will only work effectively if there are perceived consequences for failing to behave according to the values commensurate with society (Gray et al., 1996, p. 46). This relies on the ability of stakeholders first to demand disclosure and second to be able to assess, in a robust and reliable fashion, its quality in relation to actual performance. Given the weight of evidence in the literature regarding the growth of CSR,<sup>3</sup> the first point is taken as given (quality issues excepted). The second issue is problematic given the diversity of practice that has evolved through a lack of mandatory regulation, sketchy adoption of voluntary guidelines, and variable quality of verification. High quality CSR is not necessarily synonymous with responsible performance, and indeed

<sup>2</sup> The majority of CSR disclosure is currently voluntary in the UK. Mandatory disclosure does exist with regards, for example, to political & charitable donations, employment data, pension fund adequacy, employee involvement, employee share ownership schemes, employment of the disabled, contingent liabilities and provisions for health and safety and environmental remediation and period for payment of suppliers.

<sup>3</sup> See Adams and Roberts (1995), Beets and Souther (1999), Deegan and Gordon (1996), Deegan and Rankin (1997), Gray et al., (1995b), Hackston and Milne (1996), Kolk (1999) and O'Dwyer (2001).

research indicates this (UNEP/SustainAbility, 1997). However, for CSR to be viewed as a useful undertaking it is imperative that users of this information are able to assess the extent to which the two do not conform. What results is an onus on the credibility of assessment procedures. Three forms exist: formal monitoring procedures; award schemes, and; academic quality assessment.

### 2.1. *Formal monitoring protocols*

A combination of demand and the array of methodological issues involved in the assessment of a complex and dynamic subject has culminated in a plethora of professional scoring protocols and ranking exercises. Examples include BiE (1999), Deloitte Touche and Tohmatsu (1997), PIRC (1999), The Centre for Tomorrow's Company (1995). These protocols have traditionally focused on environmental, not ethical or social, disclosure, although a minority (for example, UNEP/SustainAbility, 1997) are inclusive.

### 2.2. *CSR award schemes*

A number of annual award schemes have evolved. Examples include the Association of Chartered Certified Accountants (ACCA) Environmental Reporting Award (ERA), the ACCA/Accountability social reporting award and the ACCA Sustainability award. These aim to highlight and reward best practice as opposed to ranking the CSR of all entrants. A scoring system may be imparted, but the details are not publicised. Alternatively, feedback is usually provided via an overview, such as a report of the judges, highlighting strengths, weaknesses and trends.

### 2.3. *Academic quality assessment*

The development of CSR scoring protocols has also been the focus of academic attention (Clausen & Fichter, 1996; Davis-Walling & Batterman, 1997; Krut & Munis, 1998). As quality is unquestionably related to the range of issues reported on, assessment is typically checked against areas of disclosure utilising content analysis<sup>4</sup> (for example, see Roberts, 1991). Attempts have been made to distinguish different types of disclosure on the same issue. For example, Wiseman (1982) utilised an indexation procedure based on whether disclosure was monetary, quantitative or discursive. To this classification Guthrie and Matthews (1985) added an assessment of whether the statements reflect well, badly or neutrally on the reporting entity (also see Deegan & Gordon, 1996). Academic quality assessment has further progressed towards a more comprehensive assessment by examining coverage (business areas, geographical areas, scope and time period) (Adams & Roberts, 1995; Adams, Hill, & Roberts, 1998). Academic assessment indirectly influences professional monitoring processes in an advisory capacity or via panel representation.

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<sup>4</sup> Content analysis is a method of codifying the text (or content) of a piece of writing into various groups (or categories) depending on selected criteria (Weber, 1988).

### 3. Problems with quality assessment

Robust, reliable and replicable quality assessment is problematic. Four issues are highlighted here: reliability, statistical inaccuracy, source data examined, and the definition of quality.

#### 3.1. Reliability

In attempts to increase the reliability and consistency of quality assessment, academics have utilised content analysis. However, this relies on the pre-determination of a coding structure and ‘key-word’ identification which unless carefully constructed can produce misleading results. Furthermore, if scores are awarded on the basis of disclosure/non-disclosure (1 or 0 marks awarded) assessment will be limited as this precludes assessment on scope, coverage, completeness, relevance, reliability, and other such desirable qualities of external financial statements (Accounting Standards Board, 1995). Professional protocols are more sensitive to corporate pressure resulting from misclassification than academics, due to the high public profile that results are given. Consequently, although more time consuming, the majority of professional protocols apply manual assessments and many have adopted the four-point performance levels of compliance, system development, integration and total quality, developed by GEMI (1992).

Krippendorf (1980) states that reliability is dependent upon the process employing shared meanings, which recreate the same referents in all coders, for example, in determining what constitutes a particular type of disclosure. Moreover, scoring is value laden and dependent upon prior knowledge (Jones & Matthews, 2000). Views on contested knowledge claims about environmental issues<sup>5</sup> further complicate matters. In practice consistency is difficult to achieve. Milne and Alder (1999) suggest a training session of around 20 reports is necessary to accomplish reliable results. Gray, Kouhy and Lavers (1995a, p. 80) argue that the correctness of definition becomes a ‘negotiated matter between the scientists working in that paradigm’. Consequently, negotiation is frequently cited as a means of maximising academic (Adams et al., 1998) and professional (Jones & Alabaster, 1999) consistency.

#### 3.2. Statistical inaccuracies

Credibility can be damaged by statistical inaccuracies. Jones and Alabaster (1999, p. 27) examine the four basic levels of measurement scales (nominal, interval, ordinal and ratio) utilised in seven scoring systems (academic and professional), concluding that the axioms of the scales employed are rarely obeyed, creating skewed and misleading results.

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<sup>5</sup> The notion of contested knowledge claims is central to Beck’s Risk Society theory (1992, 1995, 1999), where scientific uncertainty (and the associated risk attached to the development of technologies and continued practice of certain activities in spite of such uncertainties) is a defining feature of late modernity. Examples include global warming, pollution and the commercialisation of genetically modified plants.

### 3.3. *Source of disclosure*

Social disclosure studies and scoring protocols principally focus on the annual report (Adams & Harte, 1998, p. 784), as it is the main form of widely available corporate communication. Exclusive assessment of the annual report will however bias results (Neimark, 1992). Furthermore, although more appropriate disclosure exists,<sup>6</sup> consistent identification of all forms over a period of time is problematic (Unerman, 2000).

### 3.4. *The definition of quality*

Quality is not synonymous with quantity (KPMG, 1999). As noted by Deegan and Gordon (1996), Gray et al. (1995a) and Unerman (2000), it is often incorrectly assumed that the significance of a disclosure can be meaningfully represented by the quantity disclosed. The literature, as detailed above, has advanced to include a more comprehensive descriptive assessment of quality to include: the range of issues reported, style of disclosure, nature of disclosure, scope, coverage and time period. Although it is relatively straightforward to assess, for example, the style of disclosure and time period, scope and coverage are more problematic as each requires knowledge of corporate and industrial activity. Further problems arise in assessing the quality of social disclosure, which is more complex than environmental issues, highly charged with ethical concerns and clearly political.

## 4. Methodology

The complex and often nuanced issues addressed here do not lend themselves readily to a closed questioned survey approach. However, comparisons between respondents are important in order to assess the similarities and differences between and within corporate and QA opinion. Consequently, the selected methodology is semi-structured interviews. In addition to permitting some comparisons to be made between responses, this also gives the potential to reduce ambiguity, encourage spontaneity and to follow-up interesting lines of enquiry, thus enabling a richer data set to be created (Silverman, 2000).

### 4.1. *Corporate interviews*

Sixty individuals from 31 companies were interviewed between June 2000 and January 2001<sup>7</sup> (Table 1). The majority of interviews were conducted face-to-face by 2 researchers.

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<sup>6</sup> Social disclosure studies have focused on: advertisements and brochures, Zéghal and Ahmed (1990); environmental reports, Harte and Owen (1991); third party verification statements, Ball et al. (2000); securities exchange filings, Buhr and Freedman (1996); and websites, Jones and Walton (1999).

<sup>7</sup> Participating companies ultimately selected representatives following a written request to interview those responsible for developing and authorising CSR and/or responsible for stakeholder management. This resulted in a range in the number of personnel offered for interview as well as their seniority and department. A quality assessment exercise was undertaken concurrent to the corporate interviews. Consequently, 11 corporate interviews were undertaken prior to the first QA interview. Issues raised by the QAs informed later interviews, however, this did not result in a dramatic change in the original semi-structured interview script.

Table 1  
Detail of corporate interviewees

Industry	Number of companies	Number of interviewees
Banking and Finance	4	8
Chemical	2	3
Construction	2	4
Electricity	2	3
Retail	4	6
Telecommunications	2	2
Tobacco	1	2
Transport	2	3
Utilities	6	17
Waste management	1	1
Water	5	11
Total	31	60

In 8 cases conference telephone interviews were conducted. All interviews lasted between 60–100 minutes, were recorded and transcribed. All transcripts were analysed using QSR Nud\*ist Vivo. Quotes from corporate respondents are identified by a random numerical code (1–60) in response to a majority request for anonymity. Industrial connection is also indicated.

#### 4.2. Quality assessor (QA) interviews

Four assessment associations were purposely sampled: UNEP/SustainAbility, Oxford Economic Research Associates (OXERA) Environmental Ltd., Business in the Environment (BiE) and ACCA. Interviews were conducted with six representatives between August 2000 and January 2001 (Table 2). These protocols were selected because of their different approaches. For example, the objective of each varies, which in turn affects the adopted

Table 2  
Details of CSR quality assessment organisations sampled

Organisation	Number of interviewees	Date of interviews	Assessment scope
OXERA	2	19.09.2000	CSR. UK FTSE-250, around 100 assessed at time of interview
BiE	1	24.08.2000	CSP. All UK FTSE –350, plus the leading companies in the Dow Jones Sustainability Index and BiE's leadership team
ACCA ERA	1	10.01.2001	CSR. UK ERA open to all UK companies. Only companies entering competition are assessed
SustainAbility	2	15.09.2000	CSR. International best practice corporations

definition and interpretation of quality and the associated rating of companies.<sup>8</sup> ACCA ERA focuses on the characteristics of excellent *environmental reporting*, rather than using a strict checklist approach like OXERA. UNEP/SustainAbility aims are wider including promoting *sustainable development reporting* internationally. BiE has been created to increase public awareness of the extant state of *environmental reporting and performance* whereas OXERA focuses only on *environmental reporting* and is more consultancy driven, impacting the level of assessment covered and the level of feedback given. In addition, all four are UK based and all have a prominent position in the UK assessment arena, UNEP/SustainAbility, for example, has provided the core structure for other protocols (*The Centre for Tomorrow's Company*, 1995; *Deloitte Touche & Tohmatsu*, 1997). Details of the four assessors are portrayed in the next section.

## 5. Quality assessment organisations

### 5.1. ACCA ERA

This is an annual UK environmental reporting competition. Being connected to an accountancy body it is highly regarded by corporations (Miles, Hammond, & Friedman, 2002). Eleven independent judges, from industry and academia, assess the completeness and credibility of reports and how effectively data has been communicated. The criteria are a significant factor for selecting the shortlist, but once established, other factors are considered. Consequently, the judges are not constrained to a strict scoring system. Previous factors considered include environmental themes, sectoral issues and innovating reporting approaches. The awards could be criticised for being too design focused as 25% of marks are awarded for communication.<sup>9</sup> However, the two remaining categories are well thought-out. Completeness is a recognised attribute of quality (Adams & Roberts, 1995; Adams et al., 1998) and ACCA ERA capture this more clearly than UNEP/SustainAbility or OXERA, with a 40% weighting. Instead of adopting a sliding score for all disclosure, such as the GEMI (1992) 4-point system, credibility is weighted 35%, capturing issues such as the scope of third party verification and the reporting of absolute and normalised environmental impact data.

### 5.2. BiE

An annual 'Index of Corporate Environmental Engagement and Performance' of participating companies<sup>10</sup> is compiled via a voluntary, self-assessment 'tick-box' questionnaire.

<sup>8</sup> For example, the short-listed companies in the ACCA ERA 1999 competition included Anglian Water plc, BP Amoco, Thames Water plc and BT plc. All of these companies were ranked higher than the overall winner of the competition, United Utilities, and joint runner-ups BAA plc and Scottish Power, in the BiE index for that year.; BAA plc, 21st; BP Amoco 4th; BT plc 1st; Scottish Power 6th; Thames Water 3rd; United Utilities 27th.

<sup>9</sup> This is rated by an assessment of layout and appearance, use and appropriateness of graphs, how understandable reports are, how easily they are accessed, the degree of innovation present as well as the media adopted, with enhanced scores for utilising the Internet and referring to other websites.

<sup>10</sup> 'FTSE 350, top UK companies, the leading companies in the Dow Jones Sustainability Group Index and BiE's leadership team' (BiE, 1999, p. 3).

This covers four performance parameters and ten environmental management parameters (BiE, 1999), each receiving 50% of the total score. Assessment is restricted to environmental issues but covers performance as well as reporting. Reporting quality is assessed via scope (energy, transport, carbon dioxide emissions, waste and water consumption) quantification, extent of disclosure and the establishment of targets. Evidence of an environment-focused supplier programme and environmental product stewardship are highly weighted management parameters (16.7% each). These issues receive much lower weighting in all the other protocols assessed. The Index is a major UK public peer benchmarking exercise as corporations are ranked according to overall position, FTSE position and sector. BiE is highly regarded by corporations, partially due to its strong public profile (endorsement by the UK Government, the National Association of Pension Funds and The Financial Times).

### 5.3. OXERA

OXERA act as consultants to organisations, benchmarking environmental reporting against peers using a similar, but more complex approach to UNEP/SustainAbility. The 17-page protocol (OXERA, 2000) assesses the two broad areas of engagement and enactment. Scoring is based on the disclosure/non-disclosure of a specified item, with a three-point distinction employed, thus marks of 5, 3 or 1 are awarded depending upon the level of commitment for each issue. In addition further sub-issues are analysed for all enactment criteria. At the base level credit is given for reporting performance data. The reporting of normalised data, thereby enhancing comparability and the disclosure of reporting policies, plans and targets and progress to date are further rewarded.

### 5.4. UNEP/SustainAbility

A pioneer of CSR assessment, UNEP/SustainAbility has a high UK and International profile. It aims to document CSR progress and highlight best practice, weaknesses and strengths through international, longitudinal, best practice surveys. Assessment is generally restricted to pioneer reporting. Reports are scored according to 50 attributes classified under 6 categories: management policies and systems (receiving a 23% weighting), inputs and outputs (weighted 37%) finance (9%), stakeholder relations and partnerships (19%), sustainable development (10%) and report design and accessibility (2%) (UNEP/SustainAbility, 1994). The inclusion of a reporting ingredient raises the score. However, in order to reflect fully the comprehensiveness with which a topic is addressed, the GEMI (1992) 4-point system is used.<sup>11</sup> The protocol also sets the results against a five-stage model of CSR development. Assessment covers all aspects of CSR, although environmental issues are predominant; ethical and social disclosure accounts for 19% of the total score. The relatively high weighting given to sustainability (10%) reflects the fact that this protocol was designed to assess best practice. Under this protocol there is a closer connection between good performance and receiving a high score, compared to the other protocols assessed. This is due to a combination of the four-point scoring distinction, a 37% weighting assigned to inputs and outputs, the aforementioned focus on sustainability and almost disregard for ‘glossiness’: design factors

<sup>11</sup> Except for awards and charitable contributions, which are either 0 or 1.

achieve a 2% weighting. However, provided disclosure was comprehensive and transparent with evidence of an embedded reporting process a relatively weak social/environmental performer could do well.

## 6. Findings

The findings relate to 3 issues:

1. What is regarded as quality disclosure?
2. Problems with quality assessment in practice
3. Formal CSR monitoring protocols and award schemes as a determinant and driver of CSR

### 6.1. What is regarded as quality disclosure?

The following were suggested as attributes of quality CSR:

- Quantitative disclosure

The most frequently cited attribute of quality was the disclosure of quantitative data (46 executives from all industries and 6 QAs), provided the information was relevant: 'hard scientific fact. . . numbers that are significant to the business' [Utilities 21].

- Third party verification

Verification was generally considered a stamp of quality, increasing the credibility of reports (40 executives). However, only a minority, from the utilities and water sectors, differentiated between an attestation statement and an organisation-wide audit: 'verification is not a good sign of quality as verification varies. . . the standards of verification are not high enough and many verifiers do not verify, they are merely tendering for contracts on environmental consultancy' [Utilities 21]. In contrast, all QAs recognised varying audit quality due to the scope and objectives of the audit, the criteria used, the type of verifier and the level of assurance given, yet when considering the current state of CSR all QAs stated that any form of verification was preferable to none: '... you've got to be careful about how you interpret and read a report, if its not verified. [However]. . . with the growth of the issue of verification . . . attestations versus verification, independence and credibility. . . it's quite difficult . . . to make it just a PR exercise or green wash'. (ACCA)

Historically methodologies have not reflected the variety of verification practice, particularly where a tick-box assessment is made. This has caused some dissatisfaction amongst corporate respondents. For example, respondents 24 and 25 (both water company executives) claimed that both BiE and ACCA penalised their organisation for failing to verify disclosure because no verification statement was disclosed. This was despite a fully certified and verified EMS (ISO14001), which the respondents viewed as more comprehensive than the verification undertaken and reported on by their peers.

Ball, Owen, and Gray (2000) has highlighted the lack of recognition of the differentiation in audit quality by professional assessors, namely ACCA ERA. However, all QA respondents stated that methodological revisions to protocols were underway to reflect

the growing awareness of these issues: ‘... there was only 2 or 3 bullet points. ... now [this includes] ... What was their exact remit? What kind of things have they left out or not looked at? How was their verification conducted? ... How many different people did they speak to, How many sites did they ... visit.’ (ACCA).

- Establishment of appropriate targets and reporting progress against targets

Fourteen executives, predominantly from utility, water and electricity companies, considered the establishment of appropriate targets or key performance indicators as indicative of quality, for example: ‘If we set benchmarks at the beginning of ... the cycle, then ... reported against those benchmarks in a clear and concise fashion that showed whether we’d made progress or not. I think that’s the definition of quality. And are they the right benchmarks for your industry? ... Quantitative indicators. ... are very important because it shows you are making progress and not just paying lip service to it.’ [Transport 50]. Eight of these respondents, all from the utilities and water sectors, also added that it was important to report on progress against targets previously set.

- ‘Warts and all’ reporting

Only six executives identified ‘Warts and all’ reporting as a quality attribute: ‘very raw. ... very naked data. ... doesn’t disguise anything. ... a very honest view’ [Construction 12]; ‘... number of prosecutions, here’s the fines, here’s the story in terms of why our fuel use has gone up. ... a fairly hard, solid document.’ [Utilities 39]; ‘a willingness to report failure’ [Chemical 14]. One executive [Water 19] was exceedingly sceptical about the ‘current trend’ towards disclosure of ‘all statutory compliance warts’. In his opinion, this disclosure, often of data that was already publicly available, merely acted to divert attention from more serious issues. This view was supported by the acknowledgement of the majority of corporate respondents to alluding to utilise CSR as a reputational management tool, particularly following adverse media attention. This has been reported elsewhere (Gray, Kouhy, & Lavers, 1995b, p. 65; O’Dwyer, 2002).

- The adoption of reporting guidelines and standards

The adoption of reporting guidelines and standards was believed to indicate quality and is recognised as such under all protocols except BiE. For one respondent, this indicated scope of disclosure: ‘you will naturally pick up all of the environmental interfaces that are involved’ [Banking and Finance 56]. However, not all shared this view, with issues of sector relevance being raised: ‘it’s a lazy man’s way of saying, well I don’t need to think about what the really important issues for this company are’ [Utilities 41] and ‘if something like the GRI doesn’t convey the message of what kind of company you are and want to be, then there’s no point in adopting it’ [Utilities 9]. In addition one QA expressed the following concern ‘... a lot of these companies are hiding behind the fact that they’ve actually used these guidelines.’ [OXERA1].

- The ability to accurately assess performance from disclosure

Four QAs, but only 1 executive, highlighted the ability to accurately assess performance from disclosure as a clear quality indicator. However, all believed that this was difficult: ‘... giving a lot of really good, thoughtful information on social performance doesn’t mean that your social performance is good. ... some of the best reporters are the companies with the most troubled histories of environmental impact and continue those sorts of practices.’ (SustainAbility 1); ‘... clearly a lot of these companies have spent a fortune on consultants to acquire a green image because of their shameful past.’

[Water 19]. Likewise, particularly in light of methodological issues, the ranking of CSR does not imply the highest scoring companies have the best environmental performance (Hopkinson & Whitaker, 1998). On the contrary, the incentive to excel in ranking exercises/awards may be to gain the credibility associated with such accolades in an attempt to further deflect attention.

- Clear statement of vision from Chief Executive

The first indicator that the GRI proposes is the provision of a CEO statement exhibiting a description of commitment to sustainability. However, only one executive suggested this: ‘a clear statement of vision from the Chief Executive, which is pertinent to the business. . . an analysis of how environmental issues are going to effect his business and where he’s going to go’ [Water 26].

- Good coverage of significant issues

Five executives suggested good coverage of significant issues as a quality indicator of CSR, for example: ‘I would expect a good report to address material issues’ [Telecommunications 18]; ‘. . . what are the big issues for that company’ [Water 26]; ‘if it is an international company, it has to be an international report’ [Utilities 58]. The majority of these executives had previously been awarded CSR accolades. Four QAs also highlighted this attribute: ‘. . . what sector is this organisation coming from? . . . What types of things should it be reporting on? So its all very well . . . Shell talking about CO<sub>2</sub> . . . but it also should be talking about . . . oil refinery, oil production, alternative fuels, solar power . . . key impacts . . . in relation to the industry which they’re in.’ (ACCA).

- Wide access

The extent of stakeholder access to CSR documents was raised by 3 executives (utilities, tobacco and retail), with particular redress to the publication of documents on the worldwide web: ‘if you can put this on the internet and let the world see it, that has to be a sign of confidence which a lot of companies don’t have’ [Utilities 21].

- Reporting of normalised data

No corporate executive suggested that the reporting of normalised data was a sign of quality reporting, but 3 QAs did. This may be explained by the fact that this is part of the criteria ACCA ERA use for assessing credibility and OXERA use in differentiating basic and advanced disclosure relating to energy and material use, emissions to air and water, waste to land, ecology and biodiversity and transport management.

- Awards/accolades

One executive, a recipient of an ACCA ERA [Water 54], considered accolades and awards bestowed on corporate disclosure and indicated as such in the reports, to be a clear sign of quality.

Respondents raised a range of characteristics of quality CSR. These included: Quantitative disclosure, third party verification, establishment of, and reporting against (appropriate) targets, ‘warts and all’ reporting, the adoption of reporting guidelines and standards, the ability to accurately assess performance from disclosure, a clear statement of vision from the Chief Executive, good coverage of significant issues, wide access, reporting of normalised data and the achievement of awards/accolades. What was highly apparent from interviews was that the assessment of high quality CSR is relatively straightforward. It is the direct comparison of mediocre or weak reports that presents difficulties, particularly

when ‘quality’ characteristics are incorporated in a second-rate manner. This was most commonly noted with the issue of verification. It was also acknowledged that it is much harder to assess social reporting than environmental issues, due to the ‘woolly nature’ of many social concepts [Transport 50] and the different cultural ideological perspectives on what is regarded as ethical practice [Water 26].

## 6.2. *Problems with quality assessment in practice*

Many problems raised by interviewees reflect those discussed in the literature. For example; subjectivity is an inherent problem, particularly when attempting to classify or categorise disclosure; scoring is inherently value laden and dependent upon prior knowledge, and; analysis is often restricted due to the incomparability of source data. The issue of statistical inaccuracies raised in the literature was not perceived to be problematic.

In the construction of protocols a judgement has to be made on what to assess, how to assess it and how much importance is attached to specific issues. Even a carefully constructed scoring system will not necessarily capture the spirit of why a particular category is being assessed: ‘... you give them a lot of credit for setting a target and then achieving it but [nothing] if they don’t set a target and still reduce emissions. ... [also] for the exercise of reporting but not actually doing anything on the way.’ (OXERA1) and; ‘... one of the major weaknesses ... was that it relied far too much on just providing certain indicators. ... a company got a certain number of points because it put in certain types of information.’ (SustainAbility 1).

Subjectivity leads to application and replication problems. These can impact protocol reputation if methodologies are perceived to be unscientific. For example: ‘It’s still really hard to apply...it’s not a magic equation that you can ... pump a report into and it spits out the score. ... It does vary by people [assessors]. ... there are inherent weaknesses and replicability is one of them’. (SustainAbility 1); ‘we’re trying ... to make it replicable so that it doesn’t matter who uses it ... but, of course, things vary.’ (SustainAbility 2).

OXERA and SustainAbility achieve calibration by ensuring a minimum number of pre-assessed reports are analysed by all new assessors. In addition Jones and Alabaster (1999, p. 47) report that SustainAbility ensures that more than one analyst scores the highest-ranking reports and that analysts from different countries score some reports. ACCA ERA tackles subjectivity through the size and diversity of its judging panel, and BiE reduces subjectivity by gathering data via tick-box assessment as the closed-ended nature of questions should eliminate the need for interpretation. However, where a decision cannot be reached, principally due to the option restrictions of the questionnaire, many corporations annotate the questionnaire, sometimes referring directly to CSR disclosure. Two respondents claimed that BiE ignore such annotation and their result was adversely affected because the appropriate box was not ticked [Chemical 14, Banking and finance 51].

All QAs meticulously revise methodologies in light of perceived limitations and in response to stakeholder inputs. Jones and Alabaster (1999, p. 47) rate UNEP/SustainAbility highly on this account. Recent revisions include the addition of criteria relating to: ‘... verification. ... stakeholder communication, social responsibility, core product.’ (OXERA1); ‘... performance measurement ... what they measure, how accurately they measure it and whether they’re setting targets.’ (BiE); ‘... not just does it report. ... but ... how deeply and

broadly does the company understand its impacts in these areas? How well is it integrated into management structures and strategy and priorities?’ (SustainAbility 1).

All QAs and several corporate respondents undertaking benchmarking in-house stated that variations in prior knowledge led to scoring inconsistencies. Consequently, corporations may feel unfairly penalised, in this instance for sectoral considerations being ignored: ‘We perchance will have. . . non-compliance because our sewage works are biological systems and the weather changes. . . Many other companies don’t actually have prosecutions so when they. . . see we’ve had nine this year. . .’ [Water 19].

As many corporations utilise consultants, it is not surprising that innovative CSR is a growth industry (Plender, 1999). However, such diversity in reporting styles confounds comparability (Beets & Souther, 1999; Cairncross, 1995), raising the issue of what to assess: ‘. . . it is difficult to compare . . . some are on the Web. . . summary reports. . . videos. . . CD Roms.’ (ACCA). All QAs stated that assessment was an evolving art, and the innovative nature of CSR is reflected in the range of methodologies available: ‘. . . there are . . . over 20 and they are incredibly different. Some . . . are very objective, some . . . subjective . . . linear . . . weighted.’ (OXERA1). From the corporate perspective, this can be confusing: ‘. . . OXERA . . . take a different approach to ACCA and BiE. . . which one do you follow?’ [Retail 3]. And possibly detrimental to reporting: ‘. . . the danger is if there’s too many . . . [managers] lose sight of the importance of the BiE one, which does make a difference.’ [Banking and finance 45].

Problems experienced by QAs in practice reflect those highlighted by the academic literature: reliability is a major concern rendering verification of scores difficult. This is fuelled by the cultural and ideological relativism of different coders, and by varying levels of prior knowledge of both technical and industrial issues. This has resulted in increasingly complex protocols that require manual assessment and relatively extensive training sessions/judging panels. Consequently OXERA, SustainAbility 1 & 2, and ACCA all viewed their protocols as time-consuming, thereby limiting the range of reports analysed.

### 6.3. Formal CSR monitoring protocols and award schemes as a determinant and driver of CSR

Eighty-five percent of executives from all industries stated that feedback on prior year reports and benchmarking peer reporting is a vital component of the CSR process: ‘it’s a huge advantage. . . to be able to benchmark. . . it shows you where the real opportunities for improvement are and to learn from the best.’ [Chemical 14]. Of these respondents 40% examine a diverse range of reports, 32.5% focus primarily on competitors, 17.5% on pioneers and award winning/short-listed companies, and 10% on FTSE 100–350 company disclosure. Those examining award-winning reports tend themselves to be better reporters. Not all companies undertook this analysis in-house, relying on professional organisations such as OXERA. In addition, some rely solely on public rating exercises, changing practices as a result of ranking and direct feedback from QAs.

The BiE index and ACCA ERA were considered by 19 respondents to be fundamental in encouraging continual disclosure and helping to establish best practice: ‘ACCA ERA is a positive incentive, it is a positive confirmation’ [Utilities 9]; ‘If you’re consistently doing poorly in something like the ACCA awards . . . the documents you’re producing just

aren't aimed in the right way and so [practice] should be changing' [Electricity 11], and; '... BiE... is absolutely fundamental ... [one of two] key drivers that help me inside the organisation drive things through. ... BiE have just got everything right. ... Government backing ... pitched. ... as a ranking on the FTSE 100 [sic] ... BiE is taken seriously.' [Banking and finance 45].

One respondent also rated the index because the National Association of Pension Funds uses it as a CSP indicator. Likewise, the association of ERA with a major accountancy body was deemed by 5 executives (3 respondents from the banking and finance sector) to be essential in bringing the relevance of CSR to finance departments. For example: '[it helps to] ... persuade cynical accountants that this is another dimension of reporting' [Banking and finance 38], and; '... being able to quote ACCA ... because accountants will be often [sic] the people that resist this [CSR]. ... The biggest hurdle. ... ACCA are playing a fundamental role' [Banking and finance 45].

All companies that achieved a high ranking or one above peers felt proud that real achievements had been made. The four ACCA ERA recipients sampled noted enhanced employee morale, raised internal profile and CSR expenditure justification as direct benefits: 'The BiE ranking gives a lot of positive feelings internally but it's also been used by our business development teams in terms of driving in new business because it is seen as a very good accolade' [Water 24].

Five interviewees stated that BiE's sectoral reporting of results greatly enhances its usefulness. Consequently, it is viewed as a valuable benchmarking exercise that adds a competitive element into the arena. The strong publicity of the index also raises CSR profile. Interestingly BiE is viewed as a driver from both good and bad reporters' perspectives: 'BiE was very useful because our Chief Executive saw where we were in the first year ... really low [compared to peers]. ... and that drove through an incredibly fast response. ... it's a good internal driver. It has lots of credibility.' [Utilities 41].

Two interviewees stated that their strategy backfired when they failed to enter the index in attempts to escape bad publicity of a low ranking: '... we didn't take part the first year and found that we probably got more criticism ... than we would have done if we'd taken part and come in the bottom group.' [Banking and Finance 35].

All QAs believe they have a duty to lead the way in raising the profile and quality of CSR. The ACCA launch of the social reporting and sustainability awards schemes, being one example: '... we hope that's been a motivator for an increasing number of companies to produce a report. Companies are then aware of other reporters and reporting activity going on.' (ACCA), and for OXERA; 'The database was set up in order to support... clients in terms of understanding how to improve their environmental reports ... the quality of reporting. ... getting businesses to think that it's important to do it. Knowing the arguments to keep telling people why they should do it. ... get people who haven't been doing it before to do it.' (OXERA1).

The above evidence suggests that these QAs are, at least in part, achieving the goal of encouraging improved CSR practices by establishing best practice and promoting competition, although this is predominantly in the area of environmental reporting. In addition, the QAs are indirectly providing invaluable support for many corporate social, environmental and/or community executives struggling to justify and secure corporate funds for continued reporting activity.

## 7. Conclusions

This paper has examined 3 issues through direct inquiry techniques with corporate representatives and professional QA.

### 7.1. *What do corporations and quality assessors regard as quality CSR disclosure?*

The CSR literature indicates that disclosure, which is quantitative and/or financial, ‘warts and all’ and comprehensive with respect to coverage would be classified as of a higher quality than discursive, self-laudatory, selected disclosure. Consequently, such characteristics have been utilised in scoring systems (Adams et al., 1998; Deegan & Gordon, 1996; Roberts, 1991; Wiseman, 1982 and so forth). Through an examination of the four protocols assessed, professional QAs appear to adopt similar definitions, with some important exceptions. Both UNEP/SustainAbility and OXERA attempt to assess quality at a deeper level via the multi-point scoring systems adopted. This recognises the characteristics of reporting quality data but permits recognition of the processes behind CSR, for example, via the establishment of targets and reporting progress to date and the degree of integration or embeddedness of the process within the organisation. These issues, although recognised by academia (for example, Adams & Roberts, 1995), are given more prominence in professional assessment models. Corporate representatives, on the other hand adopt less stringent definitions of quality, perhaps reflecting lower expectations for disclosure. Issues highlighted as significant by the QAs, such as the reporting of normalised data, good coverage of significant issues and the ability to assess performance from disclosure, did not feature with any frequency in the responses from corporate representatives. The majority of executives did suggest the provision of quantitative data and 3rd party verification. However, only a minority indicated that CSR data should be relevant to organisational or industrial objectives and few corporate respondents differentiated between questionable levels of assurance and comprehensive verification. This is of great concern as the aspect of completeness must be central to an audit of CSR quality. The findings also suggest that ‘warts and all’ reporting is a dubious quality indicator as it may be used as a legitimisation device to detract attention from more serious issues. In many instances the bad news disclosure is selective, or reflects information that is already in the public domain, as opposed to providing honest coverage. Although reflected in the academic literature as indicative of quality, this issue is not examined under the protocols assessed. Both QAs and corporate executives perceived high quality environmental reporting to be relatively easy to assess, but found that poor or mediocre quality environmental reporting and all social reporting difficult to evaluate in any robust fashion.

### 7.2. *Problems with quality assessment in practice*

Corporate and professional assessors experience similar methodological uncertainty with applying scoring protocols as those perceived by academics, with the exception of perceived statistical inaccuracies. The necessary element of subjectivity involved in assessment causes the major problem in terms of replicability and training. The ability to replicate scores was further reduced by the impact of pre-held values and knowledge. In addition corporations accuse QAs of an inability to understand industrial differences (Jones & Alabaster, 1999).

Frustration and discontent must surely arise if any attempt is made at reducing the breadth of criteria into a single score (Chemical Weekly, 1994). Furthermore incorrect assessment can lead to adverse publicity for a corporation. This can occur if ratings are artificially too high or too low. A corporation may benefit from good publicity following an inaccurate high assessment but this could lead to a false sense of security if stakeholder expectations are raised accordingly, only to be lowered at a later stage. Researchers and QAs need to understand the shortcomings of the scoring protocols and the impact these have on corporate behaviour.

The tick-box approach endorsed by BiE is designed to increase objectivity but this fails if insufficient allowance is given for variety of practice, or if there is no scope to assign scores to discursive comments. Respondents offered several examples of this, for example, in distinguishing organisation-wide verification from mere attestation of performance. OX-ERA, in an attempt to enhance objectivity and hence protocol robustness, have created a very detailed scoring system. However, the time-consuming nature of such an assessment reduces the capabilities to moderate all scores and reduces scope for further methodological improvements. All protocols are progressively becoming more sophisticated, with increasing attention being given to the issues of scope, depth and breadth of reporting. However, as reporting continues to evolve, particularly with the recent groundswell of social accounts that are profoundly complex, further issues emerge, the protocols increase in complexity and consequently many problems remain.

### *7.3. Formal CSR monitoring protocols and award schemes as a determinant and driver of CSR*

A strong majority of corporate representatives (85%) consider benchmarking activities, whether executed internally or externally, to be a fundamental annual exercise and a significant part of the CSR process. At the base level, companies conduct comparisons of a range of CSR disclosures across their sector. Better reporters tend to take a wider approach, taking into account all large companies, for example, FTSE-100, and the reports of award winners. The objective to lead the way in raising the profile and quality of CSR, advocated by QAs has been met with some success from corporations. In particular the BiE index and ACCA ERA are considered to be fundamental by a significant minority (32%) in encouraging continual disclosure and enhancing best practice, although this tends to be in the area of environmental, as opposed to social reporting. The predominant reason corporations gave for this was the media attention of the publication of results and the association of these schemes with credible business organisations.

There is a need for increased sophistication in the quality assessment of CSR, as well as assessment procedures that move beyond the report to incorporate and capture corporate performance, and for 'scores' to be put into context if comparisons and impacts are to have external, more meaningful, value. Evidence provided certainly supports this, as methodological revisions identified appear to capturing scope, breadth and depth of reporting. However, the biggest challenge faced is the capture of the softer aspects of social reporting. Methodological improvements will undoubtedly have implications for practitioners and academics. As QAs, and hence stakeholders, become more astute at gauging performance from CSR, only those organisations with sincere motivations to be transparent will emerge with their

reputation intact. Corporations need to readdress environmental and social performance at the core business level, and then to adopt and develop CSR practices that communicate this commitment effectively. The adoption of GRI and AA1000 Accountability Framework (Accountability, 1999) would go some way towards achieving this. Working in tandem, QAs can support and assist companies that face this challenge, as can those working to develop suitable reporting guidelines and effective verification assessment. A welcome addition to the field, since the interviews, is the recent publication of the AA1000S Assurance standard (Accountability, 2002), specifically designed to be consistent with both GRI and AA1000.

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