Does corporate social and environmental reporting really matter?

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Rutgers Institute for Corporate Social Innovation (RICSI)
QUASI Seminar Series
March 11, 2022

ACCOUNTING FOR SPICE, OR SPICY ACCOUNTANTS?

Mike Barnett @profMikeBarnett - Feb 24
Next QUASI seminar on March 11th: Does corporate social & environmental reporting really matter? Features Jody Grewal, @charlescho770, @PaoloQuattrone & Ken Pucker. Readings & signup link here:

 drive.google.com
 QUASI seminar series Mar 11 2022 flyer.pdf

1 6 21

Jerry Davis @vanishingcorp - Feb 24
Dang, you got the spiciest accountant of them all!

1 4

Mike Barnett @profMikeBarnett - Feb 24
I agree!

1

Charles Cho @charlescho7705 - 10h
I had never been labeled as “spicy” accountant until now.

1 6

Jerry Davis @vanishingcorp - 2h
As Lizza might say, you are 100% that accountant.

1

Mike Barnett @profMikeBarnett
Replying to @vanishingcorp @charlescho7705 and @PaoloQuattrone
Now, bear in mind that the bar for spicy in the accounting professorate is not real high...but yes, you leap way over it!

StarTalk
REALLY LOW
## Sociology of Radical Change

<table>
<thead>
<tr>
<th>Radical Humanist (Subjective)</th>
<th>Radical Structuralist (Objective)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revolutionary change/emancipatory for individual consciousness</td>
<td>Concentrate upon structural relationships within a realist world</td>
</tr>
<tr>
<td>Perfect opposite of functionalist view</td>
<td>« Mature » marxism?</td>
</tr>
<tr>
<td><strong>Critical accounting research</strong> fits remarkably well into this paradigm and is greatly hosted</td>
<td>Besides its contribution to conflict theory, this paradigm has received little attention in the U.S</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Interpretive (Subjective)</th>
<th>Functionalist (Objective)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Understand the world as it is</td>
<td>Status quo</td>
</tr>
<tr>
<td>Understand the fundamental nature of the social world</td>
<td>Social order</td>
</tr>
<tr>
<td>Ethnomethodology, phenomenological symbolic interactionism, and hermeneutics; did not lead to much org. theory</td>
<td>Consensus</td>
</tr>
<tr>
<td></td>
<td>Integration</td>
</tr>
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<td></td>
<td>Positivist theory and <strong>capital market research</strong></td>
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</tbody>
</table>
If a (researcher?) views the world:
✓ From a functionalist perspective (Burrell and Morgan, 1974)
✓ \( Y \) is explained by, or ‘associated with’, \( X \)
✓ With a (narrow?) focus on financial/capital markets as the dominant institution of our society
✓ From an investor’s standpoint only or mainly…

Then…
**YES**, corporate social and environmental reporting matters (a lot)!

The ‘easy’ position would then be ‘It Depends’ (??), but here I am… 😊

Should(n’t) **social and environmental** reporting address (or at least aim to) **social and environmental** issues?…

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**IFRS FOUNDATION CONSULTATION PAPER ON SUSTAINABILITY REPORTING**

**Consultation paper and comment letters: Sustainability Reporting**

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**03 November 2021**

IFRS Foundation announces International Sustainability Standards Board, consolidation with CDSB and VRF, and publication of prototype disclosure requirements
The Trustees welcomed the February 2021 public statement by the IOSCO Board, announcing IOSCO’s intention to work with the IFRS Foundation in developing a plan to establish a new board for setting sustainability reporting standards that meet the needs of the capital markets. This will include consideration of future endorsement of the new board and its standards. The Trustees recognise the importance for the public interest of reporting standards that address enterprise value, which captures expected value creation for investors in the short, medium and long term and is interdependent with value creation for society and the environment.

Based on the feedback to the 2020 Consultation, and encouraged by the IOSCO Board statement, the Trustees have reached the following views about the strategic direction of a new board:

- **Investor focus for enterprise value**: the new board would focus on information that is material to the decisions of investors, lenders and other creditors.

- **Sustainability scope, prioritising climate**: due to the urgent need for better information about climate-related matters, the new board would initially focus its efforts on climate-related reporting, while also working towards meeting the information needs of investors on other ESG (environmental, social and governance) matters.

As world leaders meet in Glasgow for COP26, the UN global summit to address the critical and urgent issue of climate change, the IFRS Foundation Trustees (Trustees) announce three significant developments to provide the global financial markets with high-quality disclosures on climate and other sustainability issues:

- The formation of a new International Sustainability Standards Board (ISSB) to develop, in the public interest, a comprehensive global baseline of high-quality sustainability disclosure standards to meet investors’ information needs;

- A commitment by leading investor-focused sustainability disclosure organisations to consolidate into the new board. The IFRS Foundation will complete consolidation of the Climate Disclosure Standards Board (CDSB—an initiative of CDP) and the Value Reporting Foundation (VRF—which houses the Integrated Reporting Framework and the SASB Standards) by June 2022;

**Proven demand**

Financial markets need to assess the risks and opportunities facing individual companies which arise from environmental, social and governance (ESG) issues, as these affect enterprise value. This is driving significant demand for high-quality information. Investors and other providers of capital want global sustainability disclosure standards that meet their information needs. Voluntary reporting frameworks and guidance have prompted innovation and action, although fragmentation has also increased cost and complexity for investors, companies and regulators.

Many investors and regulators have called for the IFRS Foundation to build upon market-led initiatives and to use its experience in creating accounting standards used in more than 140 jurisdictions to bring globally comparable reporting on sustainability matters to the financial markets.
**Neo-classic economics-based underlying theoretical reasoning**

CSR disclosure is important “in reducing information asymmetry and uncertainty” regarding CSR projects with implications for future cash flows (Dhaliwal et al., 2011, p. 62).

“Investors can infer useful information from nonfinancial disclosures such as those concerning CSR activities” (Dhaliwal et al., 2012, p. 726).

Companies use CSR reporting “to create transparent reports that provide accurate and reliable data, as well as a fair picture of overall performance” (Ballou et al., 2006, p. 65-66).

→ Focus is on the value of social and environmental information in explaining firm financial performance and investor-based capture of that value.
→ Such perspective “can only hinder the ultimate development of better accounting and disclosure for all of the impacts of business.”

**Sociopolitical-based underlying theoretical reasoning**

“The vast majority of corporate reporting practice is . . . voluntary, partial, and, mostly, fairly trivial” and “with such data, no reader could make any kind of reliable estimate of the organisation’s social or environmental performance” (Gray, 2006, p. 803).

→ Legitimacy and impression management tool
Companies with poorer environmental performance:

- exhibit higher levels of environmental disclosure (Cho and Patten, 2007; Patten, 2002)
- exhibit more optimistic & less certainty in their language (Cho et al., 2010)

Companies claim that they care about the environment but lobby hard to push for environment-damaging (i.e., drilling) legislation (Cho et al., 2018)

Organizations engage in hypocrisy & develop façades, severely limiting prospects that sustainability reports will ever evolve into substantive disclosures (Cho et al., 2015)

“ExxonMobil is committed to operating responsibly everywhere we do business by implementing scientifically sound, practical solutions to meet energy needs in an environmentally responsible manner.”

“Environmental stewardship means more than keeping track of emissions and waste statistics. It is a genuine commitment to minimize the impact our operations have in the communities where we live and work.

“Chevron works to protect sensitive ecological habitats and species around our operations by focusing on biodiversity conservation.”

“XYZ facilities budget for and contribute to community-specific needs and charities. XYZ employees give generously of their time, talents and resources to local charities and civic organizations.”
This chart shows carbon dioxide emissions from Xcel Energy's owned generating fleet in total tons and by intensity (pounds per megawatt hour).

**Graph Discrepancy Index**

-52.04% / -6.59% = 689.98%
ENVIROMENTAL CAPITAL EXPENDITURES

1 Year Projection Errors

Projection Error Amounts

ENVIRONMENTAL DISASTER: EXXON VALDEZ
If we only care about investors…

✓ Then, yes, it matters because it’s ESG disclosure ≠ social and environmental (or planetary sustainability) disclosure (e.g., see the ISSB fiasco)...because they need to maintain and grow their stock portfolio to become richer?! 😊
Hmm... maybe our world and society are (should) not exist around financial markets and investors, especially when it comes to social and environmental issues... (?)

- The hope is (was!) to increase the accountability of business through the provision of better information (via SER).
- However, we are still a long way from having relevant and reliable disclosure that truly addresses the social and environmental accountability and sustainability of organizations.

- So, no, SER does not really matter (yet?) for broader societal stakeholders.

THANK YOU FOR YOUR ATTENTION!
COMMENTS AND QUESTIONS ARE WELCOME 😊

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