

## Chapter 42

# Disclosure Alignment and Transparency Signaling in CSR Reports

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### ABSTRACT

*This chapter investigates companies' disclosure alignment and transparency signaling within the 2011 CSR annual reports of 36 U.S. firms in the Global Forbes 2000. DICTION 6.0 was used for the text analysis. The study found that CSR reports are fairly similar to corporate financial annual reports but can be classified more accurately as a hybrid discourse with normative elements matching genres emanating from science, business, government, religion, and social movements. Despite the relatively short time that CSR reports have been in existence, this chapter provides evidence that CSR reporting has become institutionalized quickly. The measures of transparency signaling and disclosure alignment reveal that companies know the rules for reporting and are following them. CSR reporting on societal and environmental impacts and performance receive the most focused discussion, while human rights, labor, and product responsibility discussions are at minimal levels. The study ends with future research directions.*

### INTRODUCTION

Public calls for companies to make their activities that impact society more transparent has led to an increased linkage between corporate social performance (CSP), corporate social responsibility (CSR), and corporate transparency. CSP refers to companies' CSR behaviors. These behaviors include maximizing positive contributions to

and impacts on society and minimizing negative behaviors and impacts. One way in which organizations respond to demands for more transparency is by issuing CSR reports, by which companies seek to legitimize their behavior, demonstrate transparency, and influence their corporate reputations in positive ways (Brown & Deegan, 1998; Hooghiemstra, 2000; Neu, Warsame, & Pedwell, 1998; O'Donovan, 2002).

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The goal of transparency is to allow a wide variety of stakeholders to inspect for themselves what is going on inside a firm, particularly when they do not have direct or immediate access to the information first-hand. Various global initiatives desiring to advance CSR offer reporting guidelines for organizations. In a growing number of instances, these initiatives ask companies to publicly go on record and declare adherence to standards for reporting on CSR. Companies have little choice but to cooperate with such growing initiatives and requests. They cannot question these standards, or at least, they cannot *be seen* to do so openly, because such behavior signals a lack of transparency.

We suggest that when companies comply with CSR reporting initiatives, they are engaged in two closely related activities: First, they seek to reveal themselves as transparent, with little or nothing to hide; second, they seek to reveal themselves as rule-followers, meeting the demands of their stakeholders, particularly on the nature of their CSR activities and their societal impacts. We call these activities transparency signaling and disclosure alignment. *Transparency signaling* refers to organizational efforts to demonstrate transparency. Transparency signaling includes both positive signals and negative signals, with positive signals suggesting a move towards transparency. Examples of positive transparency signals include balance (discussing the good and the bad), taking ownership of one's messages, guidance and direction (specifying who, what, when, where), accuracy, concreteness, and timeliness. However, transparency signaling also includes negative signals that need to be mitigated, moderated, or eliminated for transparency to be present. Examples of such negative transparency signals include ambivalence, too much praise, embellishment, or lack of focus.

Second, as firms attempt to conform to CSR reporting guidelines, they are engaging in disclosure alignment, which is a form of institutional plausibility alignment (McMillan, 1988). *Disclosure alignment* refers to organizations' public

attempts to align their disclosure practices with the expectations of their audiences. Disclosure alignment includes meeting expectations for CSR report contents and quality. It signals to primary CSR audiences that the organization has taken its audience's needs into account, a rhetorical strategy Ihlen (2009) recommends. Disclosure alignment is a useful concept because it provides a way to recognize that organizational disclosure in and of itself is not sufficient unless organizations do so in ways that let their publics recognize, accept, and approve of, or take action or make decisions, in response to such demands. *Institutional plausibility alignment* occurs when organizations adapt their language to the expectations of their publics so that the organization's stakeholders construe the organization as legitimate.

One question is whether increases in disclosure necessarily mean more transparency. Previous studies have examined stakeholder *perceptions* of corporate transparency (Rawlins, 2009), but researchers have paid little attention to organizations' attempts to rhetorically signal transparency. We explore the relationship between these concepts here by content analyzing the CSR reports of 36 U.S. global companies using the computer-aided text analysis program DICTION 6.0.

## BACKGROUND

CSR research has a rich and varied history (De Bakker, Groenewegen, & Den Hond, 2005). CSR is "a socially constructed value, and legitimacy is a core principle both for defining CSR and for determining the success of CSR activities" (Lee & Carroll, 2011, p. 117). Llewelyn (2007) suggests that the real objective of CSR activities is to gain public acceptance of the corporation's right to exist. A firm's public acceptance depends upon its first identifying and then meeting certain civic demands (Ihlen, 2011; Saiia & Cyphert, 2003). Ihlen (2011) has identified three research streams emanating from CSR rhetoric—corporate

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