Social Accountability and Corporate Greenwashing

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ABSTRACT. Critics of SRI have said little about the integrity of corporate representations resulting in screening inclusion or exclusion. This is surprising given social and environmental accounting research that finds corporate posturing and deception in the absence of external verification, and a parallel body of literature describing corporate "greenwashing" and other forms of corporate disinformation. In this paper I argue that the problems and challenges of ensuring fair and accurate corporate social reporting mirror those accompanying corporate compliance with law. Similarities and points of convergence between social reporting and corporate compliance are discussed, along with proposals for reform.

Even with a dramatic rise in the number and assets of socially screened mutual funds and indexes (e.g., Domini 400, Dow Jones Sustainability Indexes and FTSE4Good Index) concerns about socially responsible investing (SRI) remain. Critics point to an unease with the methods of screened funds (Sparkes, 2001; Anderson, 1996; MacKenzie, 1998). Allegations that performance has not always matched unscreened funds or major indexes lead to worries that screening results in an unfortunate but predictable tradeoff (cf. Abramson and Chung, 2000; Guerard, 1997; Mallin et al., 1995). The objectives of SRI have been challenged as well (Sparkes, 1998).

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Much less has been said in the SRI literature, however, about the integrity of corporate representations resulting in a screening inclusion or exclusion. This is surprising given the growing body of social and environmental accounting research that finds corporate posturing and deception in the absence of external monitoring and verification, e.g., the structuring of corporate disclosures so as to maximize perceptions of legitimacy (Deegan, 2002). In its most favorable light, a "specious gloss" is said to characterize social reporting initiatives in the United States and Europe (Owen and Swift, 2001). A parallel literature, perhaps less mature, describes corporate "greenwashing," "bluewashing," and other forms of disinformation from organizations seeking to repair public reputations and further shape public images (Beder, 1997; Bruno, 1997).

In discussing the future of socially responsible investing, for example, a principal with Domini Social Investments recently observed that "[a]lthough an increasing number of corporations publish environmental and health and safety reports, many are simply token efforts – greenwashing – and few address the full range of social issues necessary to assess adequately a corporation's behaviour" (Lydenberg, 2002). A committee formed by the International Organization for Standardization (ISO) to examine the prospects of ISO corporate responsibility standards concurred, with an additional caveat. "In the absence of credible, verifiable information," according to the ISO report, ". . . it is difficult for shareholders, investors, and pension fund managers to make meaningful assessments and decisions about the CR [corporate responsibility] practices" (ISO 2002).

Some scholars have been even less kind (Ball

Journal of Business Ethics **43**: 253–261, 2003.

et al., 2000; Owen et al., 2000; Mitchell et al., 1994). As Gray (2001, p. 13) writes, "the quality of attestation to social and environmental reports is woefully poor." After reviewing ethical reporting in the United Kingdom, Stittle (2002, p. 349) concluded that "there are significant distortions and omissions of information concerning ethical issues in current U.K. reporting systems."

Simply relying on the integrity of corporate representations should seem increasingly naïve to those inside and outside the SRI community, particularly in the wake of the recent accounting scandals in the United States. Ensuring attestation and mechanisms by which corporate representations are systematically assessed remains an unmet challenge (Gray, 2001; Waddock and Smith, 2000). In this paper I argue that the problems and challenges of ensuring fair and accurate corporate social reporting mirror those accompanying corporate compliance with law. Similarities and points of convergence between social reporting and corporate compliance are discussed, along with proposals for reform.

Playing the rules

Elsewhere I have written that corporations received a host of incentives to join a novel partnership of crime control with the government over the past decade (Laufer, 1999; Laufer and Geis, 2001; Laufer, 2002). Following a period of intense lobbying from business associations, the United States Sentencing Commission announced guidelines that increased the threat of significant corporate punishment while, at the same time, generously offering mitigation, leniency, and amnesty. Command and control strategies of corporate regulation gave way to theories of cooperative regulation and negotiated compliance (Simpson, 2002). In aligning the interests of government and business the Guidelines support a dynamic enforcement game. With the threat of significant Guideline prescribed fines, corporations seeking to save their souls have but one choice – to trade favors with authorities by cooperating, accepting responsibility, and providing evidence of renewed compliance initiatives. The recent criminal prosecution of Arthur Andersen, L.L.P. reveals the stern consequences for those companies that choose another strategy or path.

A central concern with this partnership is that corporations will find ways to further "play the rules" or "game" regulators in an effort to fully insulate the entity from liability. This may be accomplished, for example, by offering to prosecutors culpable subordinate employees as evidence of cooperation in exchange for leniency or mitigation – reverse whistle blowing (Laufer, 2002). This is especially concerning in cases where top management is involved in the commission of an offense. Managing such risk translates into a simple strategy: push liability down the hierarchy, and away from the firm. Recasting corporate violations as those committed by employees across the organization is now such a familiar a reputational script that recently released federal prosecutorial guidelines explicitly caution against such a practice.

A related concern is that some corporations will hold themselves out as fully committed to compliance when the commitment is in fact absent. Without metrics for assessing compliance effectiveness, regulators and prosecutors often rely on little more than corporate representations. Evidence of compliance, such as a rise in the number of calls to an ethics office or a ethics hot line, may be indicative of effectiveness (i.e., the existence of procedures reasonably capable of preventing law violations), ineffectiveness (i.e., an increase in the extent of deviance within the firm), or both. Regulators, prosecutors and courts may be able to determine that a firm has adopted the prescriptive steps in the Guidelines, but this may be quite different from assessing effectiveness. It is not surprising that many corporations are equally clueless. According to the National Center for Preventive Law (1997), "[w]hile some rudimentary tests are contained in the Sentencing Guidelines and other legal standards, these tests provide little concrete direction on how to create effective programs."

Survey research produces findings that are intuitively pleasing: Ethics programs are perceived to be most effective in firms with strong ethical cultures and credible ethical leadership (Trevino et al., 1998; Weaver et al., 1999). When are

ethics programs least effective? The answer, according to Trevino and her colleagues, is companies with "an ethical culture that emphasizes self-interest and unquestioning obedience to authority, and the perception that the ethics or compliance program exists only to protect top management from blame." How are regulators and prosecutors to tell the difference? Left largely unregulated and unchecked unless or until a failure is disclosed internally or externally, compliance often devolves into a creative blend of risk and reputation management in firms with less than inspired ethical leadership (Laufer, 1999).

Social accountability and managing legitimacy

An impressive stream of social and environmental accounting research makes parallel arguments with comparable assumptions. Leading proponents of legitimacy theory, for example, reason that social and environmental disclosures are generally made for strategic reasons having little or nothing to do with perceived responsibilities or obligations (Deegan et al., 2002; O'Donovan, 1999; Brown and Deegan, 1998; Deegan and Gordon, 1996). These institutional and managerial strategies range from those designed to "gain or to extend legitimacy, to maintain its level of current legitimacy, or to repair or to defend its lost or threatened legitimacy" (O'Donovan, 2002, p. 349). Unsubstantiated and unverified social and environmental disclosures often amount to little more than public relations – issued to manage public perceptions, to respond to public pressure, or to react to perceived public opinion (Hooks et al., 2002; Adams, 2002).

Efforts to achieve corporate legitimacy, according to Milne and Patten (2002), reflect organizational myths, or words and actions that are decoupled from the operational code. These initiatives may be nothing more than an "elaborate and convincing façade designed or adopted to conceal the "back stage" activities from prying eyes" (Milne and Patten, 2002, p. 375). Distinct threats to an organization's legitimacy prompt deception, as "[f]irms have an incentive to offset or mitigate the negative image portrayed through the required disclosures with information exhibiting other, presumably more positive, aspects of environmental performance" (Milne and Patten, 2002, p. 381).

Greenwashing

In recent years, social activists and, in particular, environmental activists, have raised identical concerns about corporate deception, sometimes imbedded in fiery rhetoric. With a mix of anecdotal evidence these allegations of deception extend far beyond the problem of concerted lobbying, political and corporate cronyism, and the instrumental use of media by "big" business (Vogel, 1989). The emergence of the terms "greenwash" and "bluewash" (washing through the reputation of the United Nations) reflect an increasing apprehension that at least some corporations creatively manage their reputations with the public, financial community, and regulators, so as to hide deviance, deflect attributions of fault, obscure the nature of the problem or allegation, reattribute blame, ensure an entity's reputation and, finally, seek to appear in a leadership position (see, e.g., Quirola and Schlup, 2001).

With titles like *Global Spin: The Corporate Assault on Environmentalism; Battling Big Business: Countering Greenwash, Infiltration and Other Forms of Corporate Bullying; Greenwash: The Reality Behind Corporate Environmentalism* the case is made that such corporations as Royal Dutch/Shell, Mobil Corporation, Dow Chemical, and many other familiar Fortune 500 companies engage in complex strategies and counter strategies that serve to shift the focus and attention away from the firm, create confusion, undermine credibility, criticize viable alternatives, and deceptively posture firm objectives, commitments, and accomplishments. Environmentalists refer to countless examples:

> The World's leading Ozone destroyer takes credit for leadership in ozone protection. A mammoth greenhouse gas emitter professes the precautionary approach to global warming. A major agrichem-

> ical manufacturer trades in a pesticide so hazardous it has been banned in many countries, while implying it is helping feed the hungry. A petrochemical firm uses the waste from one polluting process as raw materials for another hazardous process, and boasts of an important recycling initiative. Another giant multinational cuts timber from virgin rainforest, replaces it with monoculture plantations and calls the project "sustainable forest development." (Bruno, 1997)

It is alleged that corporate activism, in response to increased regulatory activity and heightened public concern about environmental matters, includes a panoply of evils associated with greenwashing, from manipulating public opinion to explicit attacks against environmentalists (Beder, 1998). As Figure 1 reveals, greenwashing turns on three elements of deception: confusion, fronting, and posturing.

At first, this deception appears to be far more elaborate than tactics employed defensively by corporations when allegations of deviance surface. After all, what civil society activists allege involves multiple stakeholders, third parties, as well as the participation of senior management. The extent of these differences, however, may be more significant than their direction. As with greenwashing, the defensive strategies employed

Confusion	Fronting	Posturing	Examples
	Cast doubt on the severity of the problem or danger	Employ "front groups" or coalitions of firms to oppose solution or legislation	Promote image that assumes ethical leadership in the field
	Disclose or publish exaggerated claims	Employ "front groups" or coalitions of firms to support solution or legislation	Unveil projects that have negligible value but appear on surface to be significant
	Emphasize uncertainty associated with problem or accusation	Use front group to promote moderate "middle ground" positions	Promote image of a committed corporate culture
	Acknowledge problem by questioning available solutions	Use data to suggest that front groups enjoy widespread public or "grassroots" support	Publicly align firm with NGOs that are sympathetic to cause or issue
	Rebrand to avoid past association; use image advertising to suggest a "green" association	Employ front groups to examine, define, and redefine industrial standards	Publicly align firm with NGOs that offer certification, accreditation, or award without provisions for accountability or verification
			Counter threats to an organization's legitimacy
			Manage expectations of stakeholder groups
			Thwart increased regulatory requirements
			Seek publicity for recognition from or membership in an "ethics" organization

Figure 1. Elements of greenwashing, adapted from Beder (1997).

by firms to protect against entity liability are aimed both inside and outside the organization. Internally, *Confusion* flows naturally from the complex nature of the corporate form, reliance on decentralized decision making, and the practices of managerial winking. *Fronting* is accomplished through the representations of retained counsel, compliance officers, ethics officers, and ethics committees. *Posturing* seeks to convince internal customers, as much as external stakeholders, of the organization's collective commitment to ethics. Finally, both sets of strategies, interestingly, rely heavily on the advice of a large cottage industry of public relations and reputation management firms (see, e.g., Beder, 1997). The effect in both cases is that ethics codes and programs are perceived internally as if designed to manage a firm's reputation (Lordi, 2000). Externally, the firm achieves *confusion* by careful document control and strict limits on the flow of information made available to regulators and prosecutors. *Fronting* is realized by subordinate scapegoating or reverse whistle blowing. *Posturing* is accomplished through active use of the corporation's public affairs department and, if necessary, the retention of an outside public relations firm.

If there is one striking similarity, it is the potentially perverse nature of these strategies. Both internal and external strategies have the potential to give an organization the appearance of ethicality and leadership, when no such commitment exists. In cases of deviant organizations, I have argued that this may result in a moral hazard. The purchase of the "commodity of compliance" sufficient to shift the risk of liability and loss, in certain firms, may result in decreased levels of care by senior managers. This is especially concerning in companies where top management fosters an environment of tacit acceptance of illegalities and winks at deviance. With constant pressure on middle and lower management to produce results, levels of deviance may increase throughout the corporate hierarchy. The purchase of compliance for purposes of liability shifting and cost internalization results in a redefinition of this deviance. Acts that were once held to be those of the firm, running a risk of being attributed to the organization as a whole, now remain those of individual employees. The result is that certain compliance orientations, particularly those that prize the purchase of compliance as insurance or hedges against liability, may have the counter intuitive effect of increasing white collar deviance.

Civil society activists regularly make the same argument. The very firms that wash their reputations through public relations, complex front coalitions, sponsored "think tanks," and who publicly lead the fight against global warming, nuclear waste, and water pollution, remain some of the worst corporate offenders. The appearance of environmental leadership, for example, like the appearance of corporate compliance, may actually serve to decrease care levels. Corporations can rely on their reputations for compliance and social responsibility with lesser scrutiny. The emblem of certification to certain standards and the reputational advantage of membership or participation in socially responsible organizations distances the firm from any alleged deviance (cf. Deegan and Carrol, 1993).

The good corporate citizenship movement of the 1990s produced many followers and few critics. Most assumed that compliance expenditures were wise investments by committed organizations. To their credit, civil society organizations and activists remained profoundly skeptical. As Greer and Bruno (1996, p. 41) conclude: "Now they say they have changed. That they are spending money for the environment. That they will regulate and police themselves. That their technologies are safe. That their products help the poor. We urge you to look critically at their real world behavior. . . ."

Rhetoric from members of the white collar bar and civil society activists, however, share the same vulnerability. Without rigorous reporting methods and assessment of corporate compliance effectiveness, no less social accountability, it is next to impossible to assess the extent of the moral hazard problem. It is also impossible to judge how significant the disconnect is between public statements of compliance or social responsibility, and a firm's genuine efforts – particularly without external, third party verification and monitoring. Environmental reports, corporate social reports, and sustainability reports

require audits, verification, and validation. Trust, intuition and speculation seem partisan, unscientific, and unfair (Swift, 2001). Assuming opportunism and manipulation also fails any test of fairness.

Social accounting research and the limits of voluntary reporting

At the heart of the practical debate over corporate social accountability are fundamental questions of regulation. Should social and environmental disclosure be voluntary? A growing consensus bemoans the quality and reliability of voluntary disclosure (Gray et al., 1995; Owen, 1994). An almost equal number raise problems with an interventionist stance (Gallhofer and Haslam, 1996). While this debate proceeds, however, a host of international standards for social accounting emerged over the past decade, including AA1000, ACCA (Association of Chartered Certified Accountants), and SA 8000 holding out the promise of something more than voluntary corporate disclosures. A comprehensive review by the ILO of all initiatives, from intergovernmental investor driven, is less than inspiring. Initiatives are credited for having variable scope, variable levels of inclusivity and engagement of stakeholders, variable levels of transparency in code and standards development, variable content, variable ability to measure and ensure compliance, variable flexibility in addressing differing operating contexts, variable quality of implementation and reporting, and most important, approaches to variable compliance verification (ISO 2002). They are, in the words of the ISO committee, much like the efforts of the first generation of corporate responsibility initiatives.

If there is an exception, a second generation effort, it is the Global Reporting Initiative (GRI). Its mission is to "[e]levate sustainability reporting practises worldwide to a level equivalent to financial reporting; design, disseminate, and promote standardised reporting practises, core measurements, and customised, sector-specific measurements; [and] ensure a permanent and effective institutional host to support such reporting practises worldwide" (Global Reporting Initiative, 2002). In the recently released *2002 GRI Sustainability Reporting Guidelines* (2002 GRI Guidelines) an impressive list of performance indicators appear in three categories: economic, environmental, and social (Global Reporting Initiative, 2002).

The 2002 GRI Guidelines are a much improved version. For all of the obvious reasons, much is now made of the need for reporting transparency, inclusiveness, completeness, relevance, and auditability. Indeed, independent assurance of corporate reports is repeatedly encouraged in the 2002 GRI Guidelines. Unfortunately, however, they fail to require external audits and simply reports that the way in which the GRI may play a "constructive role" in ensuring the validity of sustainability reports is still being considered. Companies are left with the caveat: "In designing data collection and information systems, reporting organizations therefore should anticipate that internal auditing and external assurance processes may be used in the future" (GRI, 2002, p. 25).

How serious a problem is this omission? The emergence of countless reporting initiatives reflects a growing trend of corporations to provide more than annual financial reports. Results from KPMG's International Survey of Corporate Sustainability Reporting (2002), for example, reveal a significant increase over a three year period ending in 2002 in the number of sustainability, environmental, and social reports from the Global Fortune 250 (GFT 250) (35% v. 45%). Notably, this increase does not include health, safety, and economic ((HS)E) reports. Reporting varied by sector, not surprisingly, with higher reporting rates in industries that have the most significant environmental impact, e.g., mining, forestry, pulp and paper, chemicals and synthetics, transport, and pharmaceuticals. The United States, Japan, Germany, the United Kingdom, and France led reporting rates.

Assuring the accuracy of corporate reports, as the 2002 GRI Guidelines suggest, is still a challenge. According to KPMG's 2000 survey only 29% of the GFT250 had their report independently verified – a modest increase of ten percent over 1999. Most verified reports, approximately

two-thirds, are reviewed by major accountancy firms. Even so, the scope and approach taken by auditors differed widely. This fact and the ad hoc nature of verification more generally led authors of the KPMG 2000 survey to conclude that "inconsistency in the approach to verification has adversely impacted the overall credibility of verification with stakeholders." (p. 21). It is far from surprising, therefore, that ". . . NGOs have real concerns about the potential for companies, espousing sustainable rhetoric, to use the GRI to engage in 'greenwash' for the marketing benefit it would give their companies. Which is where the question of verification becomes relevant" (Macken, 2002).

Similar concerns have been raised with the United Nations Global Compact, an initiative credited to the leadership of Secretary General Kofi Annan, designed to promote a core set of human rights, environmental, and social principles within the private sector. Not long after its conception, civil society activist groups raised the now familiar charge ". . . that by attaching themselves to the United Nations, corporations may be able to 'bluewash' themselves throughout the developing world" (Karliner, 1999). The Global Compact, like the GRI, fails to require more than mere corporate representations of social responsibility (Deegan and Carol, 1993).

The growing conventional wisdom is that companies must produce verified accountability reports – verified reports by auditors specializing in social accounting and auditing. Some claim, however, that this does not go far enough to protect the independence of social auditors from management influence. O'Dwyer (2001) poses a critical question, yet to be answered: "Can we expect anything different if financial accountants move into the realm of social auditing, particularly as social accounting consulting services are being promoted along side social audit services as part of packages aimed at reputation assurance and risk management?"

Beyond verified disclosure: Tripartism

Answers to questions of auditor independence may rest with the engagement of stakeholders outside the firm. This is familiar ground for those who seek independent sources and metrics for "effective" corporate compliance. Ayres and Braithwaite (1991, 1992) have long argued for Tripartism, or the integration of a third party into the regulatory arena occupied by an organization and a regulator. In theory, Tripartism insures against regulatory capture, enhances communication, and allows for independent third party monitoring.

Stakeholder engagements that approximate Ayres and Braithwaite's conception of a "third" party are now codified in social accountability standards, e.g., Accountability Standard AA1000 (ISEA, 1999). Stakeholders and other elements of civil society, including NGOs, are beginning to serve an increasing role in ensuring the integrity of corporate social and environmental disclosures (Cumming, 2001; Tilt, 1994). In fact, some notable successes have been described in detail (Gray et al., 1997). Taken to a logical extreme, the future of social accounting may one day turn on stakeholder governance (Henriques, 2001).

Whether or not that day has arrived, Lydenberg (2002, p. 58) makes the incisive observation that the vocabulary of SRI and CSR are now an integral part of the "debate about the proper form and role of global capitalism." In asking whether the potential of corporations to do good can be harnessed, the potential to do bad tamed, and the goals of transnational corporations reconciled with the social objectives of national governments, he calls for corporations to fully disclose "actual" data on social and environmental impacts.

This important call must be heard not only by corporations, but by the reporting bodies and initiatives that seek a corporate constituency with integrity. If for no other reason, with accusations of greenwashing and evidence of its practice, decisions to defer third party auditing or to forgo the requirement entirely strongly undermine an appearance of legitimacy. For those who invest in socially screened funds, the stakes are just as

high. For many if not most investors, SRI is less an investment strategy than a matter of principle.

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