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Accounting, Corporate Social Responsibility and Politics

KTM, HK Hannele Mäkelän laskentatoimen alaan kuuluva väitöskirja "Interpretations of Corporate Talk About Social Responsibility" tarkastettiin Tampereen yliopistossa 21.12.2012. Vastaväittäjänä toimi professori Carmen Correa-Ruiz (Universidad Pablo de Olavide de Sevilla) ja kustoksena professori Salme Näsi (Tampereen yliopisto).

A couple of months ago, there was a case in which a Finnish chocolate company announced that it would build a school in Africa. With good intentions, it launched a marketing campaign, promising to donate a portion of its sales to building a school in Ivory Coast. The campaign was a success and it now seems that the school will be built. At the same time, however, the campaign was widely criticized as a case of "greenwashing," in which the negative impacts resulting from the production of chocolate were hidden. The company in question was accused of using a process that relies on child labor, and was blamed for spending hundreds of thousands of euros on a large first-page advertisement; a big sum of money that could have been used for more directly taking care of its responsibilities.

In another case, a large Finnish company in the forest sector was facing problems with financial profitability and decided to reorganize its operations. This included laying off almost a thousand employees. Some time later, after the biggest criticism had subsided, the CEO of the company stated in the annual report, that "Today, I believe the divestment was the right thing for all our stakeholders."

The common link between these cases is that they involve issues of corporate social responsibility, CSR. They deal with different aspects of responsibility and how companies balance social and economic concerns, as well as the demands of different stakeholders. Both of these were also cases in which stakeholders had very different opinions from the company about

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what was considered responsible behavior and what was expected from the company. Beyond this, they were examples of how companies communicate their responsibilities towards stakeholders.

The great importance of the field of corporate responsibilities is indicated in a fact that every global political institution, including OECD, the European Union, the United Nations, and even Prince Charles of Wales have released official policies on CSR. These statements encourage or require multinational companies and business in general to address issues of corporate social responsibility in their business activities, as well as in their communications to stakeholders. This can be seen as proof that, despite the perspectives of cynics, companies do have to carry responsibility beyond shareholder value only, keeping in mind the broad effects of their operations on society. Companies must, to a certain extent, take into account the needs of employees, local communities, and NGOs, for instance, as well as environmental impacts. It is highly recommended that they report and communicate about these aspects to the parties that are affected. This is often done through some form of corporate social reporting, in which companies publish reports within which they communicate their impact on society. These reports include both numerical information, in the form of quantitative indicators, and textual information in narrative form.

Accounting is often said to be "the language of business," and as such, is used to account for and report corporate performance to inside and outside stakeholders. Common examples of this kind of accounting information would be related to the financial profitability of a company, the amount of wages paid, or even accounts of carbon emission allowances. Accounting is also the language of corporate social reports. It defines what is important and what is not; in other words, what is included in the calculations and in the reports, and what is perhaps left out or given minor value. In this way, accounting has the ability to create "a particular conception of organizational society," by determining what kinds of corporate responsibilities are seen as important and necessary. For instance, what kinds of environmental risks are included in the calculations and to what value. Furthermore, accounting influences the relationship between business and society to a great extent by, for instance, defining the financial profit for taxation purposes or to be given out as an increase in shareholder value.

Accounting usually portrays the relationship between corporations and the surrounding society as straightforward, conflict-free, win-win situation, where consensus is seen to be reached on the basis of objective knowledge. The bottom line, that is the financial profit calculated by accounting, is an exact figure used on many occasions. When used for decision-making purposes, it is rarely questioned whether, for example, depreciation and asset valuation have been calculated based on principles of prudence and conservatism, or whether investment decisions have been based on a correct rate of return or an appropriate time period. The value-laden decisions concealed by accounting information are often ignored, and only the final result, the exact financial figure, is considered.

In addition, in their narrative reporting, companies tend to portray their operations and effects on a wider set of stakeholders in a similar manner. This kind of unitarist perspective is based on assumptions of shared purpose and on the denial of any conflict between different parties in society. However, as explained earlier, CSR builds on the idea that companies should acknowledge a wider set of stakeholders and broader corporate impact on society. It is important to notice that different stakeholders often have conflicting expectations of responsible company behavior, as in the examples that I have mentioned.

In my doctoral study I have analyzed the corporate social reporting of large multinational companies and how they discuss their social responsibilities. The generally accepted perception is that accounting is a provider of objective knowledge, and this perception is used in mainstream accounting research and as a basis for decision making in the private and public sectors. In contrast, my approach is based on the idea that accounting is an interested endeavor that can and has been used to advance particular interests. My study of CSR reporting shows that by including certain issues within reporting and omitting others, accounting can encourage a particular way of seeing the corporate performance. A good example of this is the case of the Finnish chocolate company, in which reports on the positive event of building a school created a limited picture of the company's responsibilities and impact on society. And in a situation with no legislation for CSR reporting, companies are free to do so.

So what then? Should this lead to full-on criticism of companies' attempts to live up to their responsibilities? Isn't it good that these companies are at least trying? Haven't they indeed tried and done an enormous amount to account for human wellbeing, clean water, soil, and even air? How can such abstract areas even be measured? Why can't we give credit to these forerunners, these companies who take the initiative, and encourage them to proceed further in this undeniably challenging field of accounting?

Of course we can, and oftentimes, we should. One should not take the criticism heard as a critique towards a certain company or a particular individual and request them to stop whatever actions they have initiated to pursue sustainability. There are many examples of companies and multinational corporations doing good. No doubt the school in Ivory Coast is very significant to the local community, and enables a better life for many children and their families. In a similar manner, securing financial profitability by restructuring and relocating operations may save many future jobs.

However, this is not the whole picture, and should not be taken as such. Corporate reporting, and corporate talk in general, have broader implications too. Presenting corporations and their impacts in a certain light creates a certain perception on the general role of business in society. If corporate reports cover mainly positive impacts on society, there is a danger that the negative impacts will be silenced or paid less attention, preventing us from seeing a comprehensive picture of corporate performance. Based on my analysis of corporate social reporting, as well as on previous studies in the field, accounting often fails to provide a true and a fair view of corporate social performance. However, this is not often acknowledged in public debate. And even when it is, accounting information is still used in decision-making processes as if it was neutral and objective. It is important to keep in mind that, as corporations themselves are often the only ones possessing the information necessary to evaluate corporate performance, the stakeholders are left with insufficient means of analyzing corporate impact on our society.

DISCUSSION

Moreover, accounting, through its ideological ability to naturalize certain understandings, has the ability to create and reshape "corporate reality" by giving certain ways of seeing the corporate performance authority in terms of how we understand the world, and simultaneously and silently excluding other ways of understanding. For instance, stating that lays-offs have been "the best for all stakeholders" overlooks negative impacts on society and portrays the interests of the company as the shared interest of all stakeholders, implicitly asserting that the company is considering the wellbeing of society as a whole, without any explicit conflict of interest. Yet one could reasonably argue that massive lay-offs do have severe negative effects on at least some stakeholders, such as individual employees facing unemployment or the local community in question. In addition, companies very typically emphasize the need to cut costs in the name of efficiency and increased profitability by relying on the rhetoric of necessity and no choice, again universalizing the interests of shareholders.

People may feel that it is no surprise that companies use such strategies and accounting information in their own interest. However, these people should familiarize themselves for instance with the accounting studies provided in any business school, which teach future accountants and business leaders a view of accounting as a provider of neutral and objective information, without any reference to the political and interested role of accounting.

But only when the financial profits calculated by accountants are not seen as "the Truth" of corporate performance might we be able to have a real, serious debate on corporate social responsibility. This debate would include questions like: What is the role, value, and price of an employee within a corporation? How much does a chocolate bar really cost? Why do we have cases like that of Talvivaara? What is a reasonable rate of return on equity and why? What is the real value of an asset based on? What is the meaning of a chosen time-period? Who is entitled for an access to accounting information? And so forth. At the moment this kind of serious debate has been silenced, and we live in the illusion that these concerns have been taken care of or do not exist at all.

Corporate disclosure tends to present current situations as taken-for-granted, based on a "common sense" understanding of the way things are. By making these kinds of taken-for-granted perceptions visible, my thesis aims to offer critical interpretations, and other ways of seeing corporate performance and corporate responsibilities. The understanding that interests are not given, but have to be socially or ideologically constructed, offers potential for opening up new ways of seeing. Accounting has a role to play in this, because what is accounted for can shape our views of what is important. It is about time to start envisioning alternative means of accounting.