Standardized CSR Reporting: Rationales as Points of Departure

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The scope of the relevant framework (what should be reported, by which firms, to whom, mandatory vs voluntary) should follow from the rationale for undertaking the exercise. We can characterize two families of rationale for extending reporting beyond traditional financial matters.

Profits. A "P-type" (profit-based) rationale starts from the premise that a range of matters not currently included in financial reporting are relevant to corporate profitability and hence ultimately to investor returns. A key theoretical issue here is that where there is variance in market participants' ability to value different projects, then "hard to value" projects will suffer a valuation discount that can lead stock-price-focused managers to substitute corporate investment away from them. A P-type rationale can be constructed for standardizing disclosure of more information about such activities to reduce the incidence of such biases. This can encompass investment in compliance with current regulation and anticipation of matters likely to experience regulation in the longer term (such as carbon emissions). The P-type rationale is based on a traditional investor-facing framework, and focuses on the ability of investors to value certain types of activity. Reporting obligations should be driven by the identification of relevant activities, and their implementation (mandatory, to investors) could match the footprint of regular financial reporting.

Values. A "V-type" (values-based) rationale starts from the premise that a material set of the firm's stakeholders have preference sets that include some element of values relevant to firms' activities. The value to these stakeholders of their relations with the firm (as consumers, employees, or investors) includes an element determined by the extent to which the firm's activities accord with relevant values. As their relations with the firm encompass a varied bundle of components, such stakeholders can trade off other dimensions in return for a value component. This creates contracting problems as firms have incentives to claim compliance with values in order to capture "value premium". Standardized reporting to stakeholders can facilitate signalling and bonding by firms about their value compliance. Where a V-type rationale exists, this also interacts with the P-type rationale, because a value premium (discount) generates greater (lesser) returns for investors.

Opt-in version. To be sure, there is much variation in how, if at all, people care about particular values. Yet it is increasingly apparent that firms may seek opportunities to signal and coordinate particular types of values commitments to their stakeholders. This implies a sorting process whereby stakeholders can align themselves with firms with relevant values. Where this happens, an option to subscribe to reporting on matters pertinent to their commitments would be valuable both to firms and their stakeholders. A standardized framework would reduce opportunities for confusion and facilitate comparability. Thus a minimal framework for extending reporting based on V-type rationale would provide a set of standards to which firms could opt in. Mandating that all firms report on all dimensions of such a standardized framework would clearly be going too far, because the justification turns on the presence of V-type stakeholders.

Mandatory version? Where values are shared by all, or a majority, of stakeholders, then—more contentiously—it may be possible to construct a V-type case for mandatory extended reporting for all firms over a minimum size threshold. A Rawlsian framework would suggest that all stakeholders would in principle prefer to be able to identify whether corporations are engaging in "sociopathic" behaviour: skimping on compliance, undermining the functioning of the political process, contributing to climate change. Hence a V-type case may be made for mandatory reporting on corporate compliance endeavours, lobbying and political expenditure, GHG emissions and net zero progress.