A Comparison of ExxonMobil's Sustainability Reporting to Outcomes

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This paper compares public information about ExxonMobil's (EM) Corporate Sustainability Reporting (CSR) processes and report content to data about its sustainability outcomes. The paper examines archival data contained in EM's CSRs, annual reports, 10-K reports, and information in news reports and on the internet about EM's sustainability behavior. The paper concludes that ExxonMobil originally engaged in ceremonial reporting about sustainability issues to seek legitimacy from its shareholders. However, the processes created for CSR reporting are deinstitutionalizing routines within the organization (Seo & Creed, 2002) so that EM is becoming more responsive to a broader range of stakeholders.

INTRODUCTION

The focus of this study is sustainability. We have adopted the definition of sustainability developed by the United Nations' 1987 Brundtland Commission conference (World Commission on Environment and Development, WCED). It defined practices that assure sustainability as those that "meet present needs without compromising the ability of future generations to meet their needs"(WCED, 1987). Sustainability concerns itself with the imbalance and deterioration of economic and social development across time and geography and considers the interrelationships between people, resources, environment and development. Within organizations the importance of sustainability issues is influenced by industry; geographic location; and stakeholder interests.

Sustainability reports (hereafter CSR) usually address issues such as global warming, environment, community, health and safety of employees, and human rights. Adams (2002) expressed a desire that companies should account for sustainability impacts and suggested that accountability can lead to structures and models that improve sustainability performance. Gray (1995), however, casts doubt on voluntary CSRs by concluding that full accountability is not in the best interest of companies; thus absent regulation, companies will prepare only weak CSRs; only true (i.e., mandated) CSR reporting will have a significant impact on company behavior.

Concerned with the voluntary nature of CSR reporting, board members of the Global Reporting Initiative (GRI), in the "Amsterdam Declaration on Transparency and Reporting" (GRI, 2009), called on governments to establish policies that require companies to report on environmental, social and governance factors or to publicly explain why they decline to do so. Only limited, contradictory evidence on voluntary CSR disclosure exists. A 2007 study of Australian companies, following the passage of mandatory environmental reporting guidelines in Australia's corporations' law, provided evidence that total environmental disclosure increased with the most notable increases among those companies with breaches of regulations (Frost, 2007). The study concluded that mandatory environmental reporting guidelines are necessary if substantive information on environmental performance is desired. A more recent study of Norwegian companies (Fallan, 2009) concluded that voluntary reporting allowed companies to provide environmental disclosures that met their homogeneous stakeholders' needs. The study concluded in general that statutory requirements increased only mandatory environmental reporting and that many companies only partially complied with the requirements. Voluntary approaches improved disclosure by enabling companies to adapt environmental disclosures to meet their stakeholders' demands and to legitimate their existence.

This paper reports on the first stage of a research project that systemically compares data in companies' voluntary CSR reports, 10-K filings, and external news sources to evaluate whether voluntary reports contain substantive information and/or meet stakeholders' demands. We selected ExxonMobil (EM) for this initial study for several reasons: 1. One of EM's tankers, the Exxon Valdez caused a major environmental disaster in 1989 when it ran aground off Alaska. The Valdez incident constitutes one of the "unholy trinity" (Bhopal, Valdez, and Three Mile Island) that lead to outrage in the US; the creation of many environmental activist groups; and demand for corporate social responsibility reports. (Tierney & Quarantelli, 1992) 2. While the accident occurred in 1989, its consequences and resulting legal battles continued for 20 years. This provides a unique opportunity to examine whether and how EM's CSR reporting has changed with time. 3. Finally, many times over the past decade, we have used the Valdez incident (based on a teaching case we wrote and amended as events continued to unfold) to teach intermediate accounting students about the disclosure requirements for contingent liabilities under US and international (IASB) reporting standards. Most students demonstrate disbelief that there was no accounting (voluntary or required) for the implied social contract that EM had with the people of Alaska.

The remainder of this paper is organized as follows: We begin with a summary of the Valdez disaster and its prolonged aftermath. Section II contains a brief review of the theories used to analyze EM's sustainability reports and actions and the development of CSR; followed by a discussion of disclosure rules and the research methods used in section III. The findings are analyzed in section IV.

EVENT BACKGROUND: THE EXXON VALDEZ

The Spill

On March 24, 1989, the Exxon Valdez hit the Bligh reef and dumped approximately 11 million gallons of crude oil into the pristine waters of Alaska's Prince William Sound (Gold and Bravin, 2008). Despite slow deployment of resources to the site, clean-up operations began almost immediately after the accident, and between 1989 and 1992 EM spent about $2.2 billion on the clean-up effort.

The Legal Battle

In 1989 a class action lawsuit was filed against Exxon in the District Court of Alaska on behalf of fishermen and other parties who claimed to have been damaged by the spill; the state of Alaska and the federal government also brought legal actions against EM.

In 1994, after seven years of legal wrangling and a lengthy trial, a jury awarded compensatory damages of $287 million and $5 billion in punitive damages to the plaintiffs. EM paid the compensatory damages to affected Alaskans and an additional $1 billion to the state of Alaska and the federal government that had been awarded in this and other lawsuits. Although EM voluntarily paid to clean up the damage, it appealed the punitive damages to the Ninth Circuit Court in San Francisco.

In 2001, The Ninth Circuit Court affirmed the compensatory damages, but remanded the case back to the District Court of Alaska to review the amount of the punitive damage award. In 2002 the District Court of Alaska affirmed the judgment but reduced the punitive damages to $4 billion.

Both parties appealed this verdict to the Ninth Circuit Court which, in view of a recent Supreme Court decision, again remanded the case to the District Court of Alaska for review of the amount of the punitive damages. In 2004 the District Court again affirmed the verdict, but this time changed the punitive damage award to $4.5 billion. Once again, Exxon appealed to the Ninth Circuit Court. In 2006 a divided Court reduced the punitive damage award to $2.5 billion. (The Whole Truth Campaign, 2009)

The Supreme Court

After additional hearings before the District Court of Alaska and the Ninth Circuit Court, the Ninth Circuit Court refused to rehear the case. This cleared the way for EM to file a petition for an appeal with the United States Supreme Court in 2007. The petition was granted and the Supreme Court heard the case in 2008.

The Supreme Court reduced the final amount of punitive damages to about $500 million, arguing that punitive damages should not exceed actual damages (Gold and Bravin, 2008). While the verdict was cheered by EM, it caused great distress among the 32,000 fishermen, cannery workers and others in the Prince William Sound area who had suffered damages as a result of the oil spill. Average payouts per claimant were expected to be about $15,000. (Riccardi, 2008)

Post Supreme Court: Events in 2009

In June 2009, the Ninth Circuit Court of appeals again ruled on aspects of the Valdez case. The plaintiffs had requested interest on the $507.5 million judgment from 1996, and EM requested that the plaintiffs pay for EM's legal costs of $70 million since EM had "won" the case. The court ruled in favor of the plaintiffs that interest on the $507.5 million judgment should run from September 24, 1996 at the rate of 5.9 percent. The approximate effect of this ruling was to double the amount of payment per claimant from $15,000 to $30,000. The court further ruled that neither side had actually won in this case and ordered each side to pay their own legal fees.

Sustainability Impacts of the Valdez Incident

The Valdez incident had enormous social, psychological, environmental and economic impacts on Alaska and its residents. (Tierney, 1992) Many of those impacts are still being felt today. (ChelseaGreenTV, 2009) A longitudinal study from 1989-1997 found that while the worst psychological impacts were in the first 18 months after the incident, avoidance behavior and stress persisted for years, and that as late as 1995 there was still severe depression, anxiety, and post traumatic stress. The longest lasting impacts have been on native Alaskan families who have lost their subsistence lifestyle and the feeling of control over their daily lives. (Miraglia, 2002)

A scientific group, The Oil Spill Health Task Force, collected data which showed that the risk of increased cancer rates due to consumption of subsistence foods contaminated with crude oil was minimal, but native people distrust studies sponsored by government scientists. (Miraglia, 2002) A more recent publication reports that after twenty years, the beaches are still oily; herring fishing remains closed because of herring collapse; fifteen of twenty four affected species haven't fully recovered; she further states that the 2008 settlement allowed plaintiffs to recover only between 7 and 10 percent of their claims. (Ott, 2008)

Impacts of the Incident on EM

In addition to years of litigation and monetary payouts, EM suffered reputational damages. It was claimed that it failed to respond appropriately to the incident by neglecting to stop spillage for two days; it then was caught by bad weather; and the company responded poorly in the media. Researchers studying the event concluded that EM was improperly prepared to handle such an event; didn't have proper risk assessment procedures or effective crisis response systems, demonstrated little leadership, and instead displayed arrogance and indifference to the environmental destruction. Some believe that this incident and Exxon's response caused it to slip from being the world's largest oil company to the third largest. (Baker, 2009)

The Valdez incident was largely responsible for the enactment of the Federal Oil Pollution Act of 1990 which required faster and more aggressive cleanup, forced the responsible party to pay for the cost of cleanup, and established tougher penalties and more liability. Partly as a result of the Exxon Valdez, the oil industry increased its efforts to address issues that contributed to the disaster. This included, for example, phasing out of single-hulled oil tankers in Alaskan waters by 2015, the development of improved techniques for loading and unloading oil, better disaster preparedness training, faster deployment of oil spill response personnel and equipment, better employee training and stricter drug and alcohol screening. (Parrish, 1992)

The disaster also led to the creation of a voluntary code of environmental conduct for companies, the Valdez Principles, which sparked the founding of Ceres (Coalition for Environmentally Responsible Economies) in 1990 to address sustainability issues. (Ethical Corporation Opinion 2009) The Valdez incident is referred to as one of the unholy trinity (Valdez, Bhopal, and Three Mile Island) that mobilized the US public to demand greater corporate responsibility and companies to respond by issuing voluntary reports on their corporate social responsibility (CSR.)

THEORETICAL BACKGROUND

This paper uses stakeholder; legitimacy; and institutional theories to analyze EM's sustainability reports and actions. It does not set out to test these theories or distinguish among them. We use these theories because they provide a useful way to explain and interpret what we observe from EM's practices. This section will briefly cover the more important features of the theories for our purposes. A full coverage of these theories is beyond the scope of this paper.

Stakeholder theory examines how management, concerned with continued organizational success, evaluates the power, legitimacy and urgency of stakeholders and determines if and how company activities must be modified. (Freeman, 1984) The theory is basically concerned with political analysis that helps identify, classify and shape strategic responses; as such it is a static and ahistorical model limited to the functional and legal dependencies of the organization. (Seo & Creed, 2002)

Legitimacy theory intersects and overlaps with stakeholder theory. Legitimacy exists when an organization's goals and values overlap with and are reinforced by society; when there is not overlap, organizations engage in legitimation activities. These include changes in organizational activities that are then communicated to the public; communications designed to clear up misunderstandings about what companies are actually doing; manipulation of perception by deflecting attention to other emotive issues; or active attempts to alter stakeholders' perceptions of what organizations should do. (Gray et al, 1995) Both these theories describe how organizations manage stakeholder relationships and identify when change may be necessary, but fail to explain how and when organizational change will occur or how change triggered by similar external causes will create different organizational responses.

New institutional theory addresses organizational change. New institutional theory (or sociology) analyzes the role that external institutional pressures play in creating shared systems of meanings. Organizations within a social space tend to change to reflect attributes and values of others in that social arena, creating institutional isomorphism. These changes may be either real or symbolic. When symbolic, they have little impact on internal operations, but serve to legitimate the organization. (Covaleski et al 1996)

Corporate Sustainability Reporting (CSR)

Social reporting has been around since the 1970's when Abt & Associates appended an environmental report to their financial statements. Ben & Jerry's further explored social reporting and auditing in the 80's (Marlin & Marlin, 2003). CSR reports were far from mainstream until they "took off" in the mid to late 90's (Adams, 2002). KPMG reports that as of 2008, 80 percent of the Global Fortune 250 companies issue CSR reports, mostly as standalone documents outside the annual report (KPMG, 2008). The majority of reporting (80 percent) is by companies in industries that have great potential for environmental impact such as electricity and utilities followed by mining and oil companies (Mock, 2007). Companies from Japan and the UK issue the largest number of CSR reports, with European companies showing growth in reporting. (Stier, 2007)

The factors that cause a specific company to issue CSRs are general contextual factors (such as the social, political and economic context in which an organization exists,) organizational characteristics such as size and industry, and internal factors such as the attitude of the company chair and board of directors, the corporate governance procedures, the nature and extent of stakeholder involvement, corporate culture, and attitudes about the perceived costs and benefits of reporting. (Adams, 2002)

Public opinion of CSR reports varies. Some view the reports as an honest extension of the organization's efforts to develop a systematic approach to jointly manage sustainability and financial performance while providing transparency and accountability for sustainability activities and outcomes. (IFAC, 2007) Others see these reports as impression management, manipulative behavior, engaged in not because it's good for the planet and its inhabitants, but because the reports support the competitive position of the firm by enhancing reputation and increasing stock valuation. (Adams, 2008)

CSRs can provide transparency and build shareholder, customer and stakeholder trust (IFAC, 2007), but this depends on the processes by which reports are created. Adams questions the likelihood that CSRs will report major corporate impacts on sustainability unless stakeholder engagement is robust; there are accepted reporting and assurance guidelines, legislation, and penalties for non-compliance. She calls for studies that understand the links between performance and CSR reporting. (Adams, 2008)

Many CSR reports follow established external guidelines, such as those of the Global Reporting Initiative (GRI). (IFAC, 2007) Most guidelines specify that reports should be comprehensive, yet understandable and useful. Reports should contain sustainability strategy, goals, measurable targets, and performance assessment. Additionally, reports should be unbiased and contain both positive and negative information. The reporting processes must include stakeholder engagement when establishing boundaries (completeness) and determining materiality of events. Unfortunately, many sustainability reports include assurance reports from consultants who are not always independent of the company issuing the report. (Mock, 2007) There is widespread concern that these reports are simply carefully controlled public relations documents. Nevertheless, the documents have the ability or hold the promise to provide more details about a company's strategies; goals and accomplishments; and how the company responds to critical events that have drawn unfavorable attention from stakeholders.

ACCOUNTING DISCLOSURES REQUIREMENTS

The accounting requirements for environmental liabilities are generally weak worldwide. In the US, only minimal disclosure is required. These disclosures are found in the following sections of the annual report: The Management Discussion and Analysis section (MDA); contingent liabilities in the balance sheet; and footnote disclosures. The requirements provide enough discretion that both income smoothing through the creation of "cookie jars" that never empty, as well as the understatement of liabilities, may occur. (Leone and Reason, 2009)

Financial Accounting Standard (FAS) 5 and Security and Exchange Commission disclosure rules stipulates the required US disclosures. International disclosures are covered in International Accounting Standard (IAS) 37. The highlights of these disclosure requirements are as shown in Table 1.

TABLE 1
ACCOUNTING REPORTING REQUIREMENTS

SEC, S-K101	Companies must disclose the material effects of compliance with Federal, State, and local environmental provisions on their capital expenditures, earnings, & competitive position
SEC, S-K103	Public companies must disclose liabilities from (and furnish an estimate as to) actual or threatened material legal proceedings (including administrative proceedings) including any proceeding (irrespective of materiality) where monetary sanctions can exceed US$100,000. A company may determine not to provide an estimate as to litigation where an outcome cannot be reasonably estimated.
SEC, S-K, 303	In Management's Discussion and Analysis of Financial Condition and Results of Operations, companies should describe information on any environmental matters that could materially affect company operations or finances.
FAS 5	An estimated loss from a loss contingency shall be accrued by a charge to income if both of the following conditions are met: a. Information available before the financial statements are issued or are available to be issued indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements. … It is implicit in this condition that it must be probable that one or more future events will occur confirming the fact of the loss. b. The amount of loss can be reasonably estimated. If the second condition is not met, only footnote disclosure of the loss contingency is required.
IAS 37	A constructive obligation arises if past practice creates a valid expectation on the part of a third party . . . [IAS 37.10] The amount recognized as a provision should be the **best estimate** of the expenditure required to settle the present obligation at the balance sheet date, that is, the amount that an enterprise would rationally pay to settle the obligation at the balance sheet date or to transfer it to a third party. [IAS 37.36]. (*emphasis added)* In reaching its best estimate, the enterprise should take into account the risks and uncertainties that surround the underlying events. Expected cash outflows should be discounted to their present values, where the effect of the time value of money is material. [IAS 37.42]

Research Method

Our research analyzes archival data from1989 through mid 2009. The data sources include EM's external reports (annual reports, 10-K filings, and CSR reports), newspaper stories, journal articles about EM sustainability and social impacts, and internet sources about environment and other social responsibilities.

We examined annual reports and 10-K filings for 1989, 1990, 1994, and 1999-2008. We counted the number of pages devoted to sustainability issues in all portions of the annual reports. From the 10-K filings we extracted information (if available) about any environmental matters that could materially affect company operations; material effects of compliance with environmental provisions; and disclosure of actual or threatened litigation.

We obtained EM's CSR reports (called corporate citizenship reports) from Capital IQ for the years 2002-2008. We attempted to analyze these using criteria established by Fallan and Fallan (2009), but EM's voluntary disclosures were not far enough advanced during the period investigated to use that schema. Guided by Adams' (2002) interview themes, the researchers created categories and compared EM's CSRs over time. We also contacted the Office of Corporate Citizenship at EM to obtain additional clarifying information about the organizational structure supporting CSR and stakeholder involvement in the process.

To obtain newspaper stories and journal articles, we conducted library searches using Academic Search Premier (EBSCOhost) and Expanded Academic Track (InfoTrac) using a variety of search terms including EM and Valdez, global warming, human rights, community, social responsibility, litigation, lawsuits, research funding and ethics. If an article abstract seemed promising, full text was obtained when it was available. We used similar search terms for Google searches, and pursued items in the hit list to determine issues of concern to stakeholders. We compared information contained in these sources with disclosures in 10-Ks, annual reports and CSRs to determine the comprehensiveness of EM's coverage of sustainability issues of concern to the public.

ANALYSIS

Exxon's Accounting Disclosures

Consistent with US GAAP, in its 1989 income statement Exxon reported an expense of $2.45 billion, which had a net of tax effect of $1.68 billion on net income for the Valdez incident. (Exxon, 1989 annual report, p. 6) The monetary impact was explained in the MDA section as expenses for cleanup, restoration, litigation, claims and other costs related to the accident, net of estimated insurance recoveries; the amount included current expenses and estimates for future spending. Footnote 14 discussed the litigation arising from the event, and concluded that the ultimate outcome, after considering the liability already established, wouldn't materially impact Exxon's operations or financial condition.

All 10-K reports subsequent to the Valdez event (until 2005) disclosed the pending litigation in footnotes and in the MDA section either directly or by reference to the footnote. The disclosures, typically one paragraph of description, focused on the difficulty of estimating legal outcomes and the time it would take to reach a settlement. In the 2005 10-K, footnotes and MDA disclosures changed, and Exxon stated that its reason for lack of an accrual for litigation from the incident was because the probability of an unsuccessful outcome was remote. This form and content of disclosure continued until 2008, when as a result of a favorable judgment, ExxonMobil recorded an after tax charge of $290 million in the second quarter and $170 million in the third quarter for post judgment interest and recovery of costs. (ExxonMobil 10-K, footnote 15.) No mention was made of EM's intent to recover legal fees, although the amount of $70 million was not material and doesn't require disclosure under generally accepted accounting principles.

The Valdez incident and Exxon's responsibility for providing energy supplies in an environmentally sound manner was discussed in the first 4 pages of the 1989 annual report. Other sustainability issues covered in the report included discussion of general environmental responsibilities, equal opportunity (diversity) and charitable contributions to the community. In the years from 1989 leading up to 2000, approximately 10-13 percent of the total pages in annual reports dealt with corporate social responsibility issues. From 2000-2002 sustainability content grew to constitute approximately 18 percent of the pages. As of 2008, the quantity of coverage in EM's annual reports dropped to the level seen prior to 2000.

Exxon's CSR Disclosures

In the US, reporting on social responsibility is voluntary; EM began issuing stand alone CSRs in 2002; as a contrast, Dutch based Shell began to do so in 1998. We compared EM's first to its most recent (2008) CSR report to gain an understanding of the development of the reporting process and any changes in the nature of the information contained in EM's reports over time.

EM's first CSR report employed internal standards, provided no assurance reporting, and provided metrics on safety and health, spillage or emissions (all required by various government regulations with the exception of CO_2 emissions), diversity, and charitable contributions to communities. The chairman stated that EM's policy was to comply with all laws and use reasonable standards where law didn't exist. Its 2008 report relies on external standards, provides assurance reporting, contains many of the same metrics, but also includes a section that covers goals and processes to accomplish those goals.

To determine if Exxon reported the ongoing impacts of the Valdez incident on the Alaskan community, its environment, or if the incident had a lasting impact on Exxon's environmental strategies or its risk assessment, we searched through all CSR reports from 2002-2008 using "Valdez" as a search term. We wanted to determine if Exxon provided voluntary disclosures about the "bad news" incident in an effort to provide unbiased reports as called for in the CSR literature or discussed its impact on their operational processes and decisions.

Interestingly the 2002 report made no mention of the entire incident. Some might question if any events occurred in 2002 that stakeholders would consider material and necessary for the completeness or comprehensiveness criteria (Adams, 2002). Reviewing footnotes to the 10-K report (containing only items with material impacts), we find that the circuit court reduced Exxon's punitive damages for the Valdez case from $5 billion to $4 billion, EM posted a $4.8 billion bond, and from external sources, that the US Department of the Interior Bureau of Indian Affairs released a study of the continuing cultural, behavioral impacts on the native people of the Prince Williams Sound. (Miragulieu, 2002) Other bad news items that stakeholders might consider material were missing from the CSRs: no mention was made of support for research aimed at casting doubt on human causes of global warming (Snowe, 2006), of human rights issues in Indonesia (Schare, 2005) or of MTBE contamination of water supplies in New York (Leff, 2009) to mention a few items reported by news sources.

Because EM's description of its stakeholder consultation process was weak in its CSRs, and items that may have been relevant to stakeholders were missing from the reports, we contacted EM by email about their engagement process and received the following description of its stakeholder involvement process and changes to that process in 2008:

> When identifying stakeholders it is important for us to think about who the audience is for such reports. Research has shown the Socially Responsible Investment community is a group particularly interested in this material and one of the few audiences that reads the report cover-to-cover. Corporate responsibility consultants and advisors, academics and researchers, students, some NGOs and employees also use the report to varying degrees. We use an internal assessment process to identify the particular stakeholders within these groups from whom we solicit feedback to ensure our report meets their needs and expectations. We also leverage the networks of some key players in the CSR field. For example, Corporate Register gathers feedback from relevant stakeholder groups on the report via online survey. We also commission several CSR consulting firms to produce in-depth assessments of our report to make sure we are covering the most relevant issues. Beginning last year, we introduced an External Assessment Panel (EAP) in our reporting process. These experts help ensure we hit the right issues by providing feedback on how to improve the report which we publish on our website. We will continue to use an EAP in our reporting process this year. (Matthews, 2009) (Emphasis added.)

The Valdez incident was discussed in EM's 2003 and 2008 CSR reports. In 2003, on page 6, EM stated:

> Following the Valdez oil spill in 1989, we built into the fabric of our company a continuous improvement program to strengthen our environmental protection controls. Our approach is founded on our basic operating principles of disciplined and clearly documented management systems, scientific, economic and technical analysis and a commitment to research and development to improve our product and process.

In its 2008 CSR, EM reviewed the facts of the Valdez accident and stated:

> [The company] took immediate responsibility for the spill, cleaned it up, and voluntarily compensated more than 11,000 Alaskans and businesses who claimed direct damages. We have spent over $3.8 billion on compensation, clean-up efforts, and settlements and fines. The clean-up was declared complete by the State of Alaska and the US Coast Guard in 1992." (EM, CSR, p26, 2008)

They further reported that the US Supreme Court reduced the punitive damages award for the 1989 Exxon Valdez oil spill to $508 million. "As of December 31, 2008, the Corporation has paid out $383.4

million of the $508 million.” (EM CSR, p4)

The 2008 report did not mention that EM intended to pursue recovery of their legal expenditures from the Alaskan residents. We also inquired by email about the organizational routines and structure for collecting CSR data and were told:

> “Corporate Citizenship is the organizational unit responsible for the production of the CCR and reports through the Vice President of Public Affairs. The content for the report comes from our business units, and the Safety, Health and Environment team is especially engaged in the reporting process.” (Matthews, 2009)

DISCUSSION

Our observations are consistent with Adams (Adams, 2002) about general contextual factors influencing a company’s propensity to issue CSR reports. US oil companies have been slower to issue CSR reports than their European counterparts. For example, US based Exxon and ChevronTexaco issued their first reports in 2002, while Royal Dutch Shell and British Petroleum’s did so in 1998.[1] The fact that both US companies issued their first sustainability reports in the same year demonstrates institutional isomorphism (DiMaggio and Powell, 1991) in the face of similar specific events, media pressure, stakeholders and social, political, cultural and economic context. (Adams, 2002)

EM, in its first CSR, met the first three criteria established by the GRI, but fell short on the last 3 items. The CEOs statement was very clear that EM’s primary responsibility was to their shareholders and that through earning profits, society benefited. Specifically he stated that EM paid taxes, provided employment opportunities, and purchased goods and services. While the report acknowledged EM’s responsibility to be a good corporate citizen, the chairman’s message argued that EM’s primary responsibility was to do its job well and provide abundant, affordable energy in a safe, reliable and environmentally responsible manner. The report contained interesting descriptions of products, energy supply and demand, and EM’s value chain. However, EM did not to measure up to several GRI criteria. For example, EM failed to clearly specify its stakeholder engagement process. It also provided only limited information about its sustainability vision and strategy; policies; and performance.

Based on the criteria established by Adams and Zutshi (2004, p6) EM’s first CSR was weak on transparency, didn’t demonstrate a rigorous attempt to be accountable to all key stakeholders (violating inclusivity); included sparse information on negative impacts, and demonstrated limited acceptance of social, ethical and environmental responsibilities. EM’s CEO offered no framework for a future institutionalization of sustainability practices.

Our analysis supports the conclusion that originally EM issued a CSR report to improve its corporate image with customers; regulators; politicians; NGOs; and the press. (Adams, 2002) The report served only a ceremonial role to legitimate EM and was decoupled from institutional practices. (DiMaggio & Powell, 1991)

By 2005, EM’s CSR reports had changed to the content and format of the 2008 report. EM began using external standards, which EM participated in establishing (IPIECA and API standards), consistent with the legitimacy strategy of establishing or changing the external expectations for performance. (Gray et al, 1995) Further, EM hired an independent company to provide assurance on its reporting processes. The report also contained a section of what was promised and what was done, but EM focused on processes, not outcomes.

Emails from EM confirmed that they viewed and continue to view the socially responsible investing public as their primary user of CSR reports. This is consistent with using reports as tools for impression management, which while it may do little for the environment or community, enhance corporate reputation and stock valuation. (Adams, 2008) Further, the public affairs department was ultimately responsible for these reports. This supports the belief that the primary purpose of EM’s reports has been ceremonial to assure potential shareholders that high profits accrue in a sustainable fashion.

News sources reinforced our beliefs; in fact, a New York Times article (Nocera, 2007) describes the firm as unapologetically focused on providing high shareholder returns, and that as late as 2006, EM was still disputing that climate change results from the burning of fossil fuels.[2] Ceres and the Interfaith Center on Corporate Responsibility placed EM[3] on its climate watch list because they lag behind industry peers and have been unresponsive to investor requests for clear strategies that would create demand for clean energy sources. (Haldis, 2009)

On a positive note, there is evidence that EM's institutionalized routines are being influenced by the issuance of CSR reports. For the first time in 2008, EM allowed a panel of four experts, independent of EM, to review the materiality analysis process used to select items for their report and to review EM's draft 2008 CSR before it was published. Their recommendations, included in the report, advised EM to focus on outcomes rather than process and to focus on policy, strategy and the business case for sustainability.

Engaging external stakeholders who are not investors or their representatives represents a major step for EM. Adams and McNicholas (2007) contend that stakeholder engagement is potentially a powerful driver for change, because through engagement, stakeholders challenge the company's role in social and environmental sustainability. The institutionalized reporting process and organizational structures established to produce CSRs created an internal contradiction (a disturbance) which allowed genuine stakeholder engagement in 2008. Such disturbances can occur when employees, with expertise, interest and knowledge of CSR, staff departments responsible for CSR reporting and have the political power to enforce compliance with reporting standards. Such events have the potential to lead to additional disturbances, as external stakeholders seek changes in report content that in turn motivate operational changes and deinstitutionalize internal routines (Seo & Creed, 2002). The 2008 report serves a less ceremonial role and reports more on sustainability efforts and impacts. It appears that a stakeholder involvement process, when creating voluntary sustainability reports, does impact the operations of profit seeking companies, such as EM.

CONCLUSIONS AND FUTURE RESEARCH

Our detailed analysis of EM's CSR reports was based on an examination of multiple sources. While this study is limited to data from only one firm, we feel that it enabled us to evaluate whether voluntary CSR reporting provides substantive information and if it discusses a sufficient number of topics to meet the information needs of EM's stakeholders.

Based on our analysis, we conclude that International and US accounting disclosure standards for events that have social and environmental impacts are weak; but consistent with Frost's (2007) findings, we conclude that substantive information about material events is more readily available and reliable in regulatory filings than in CSR reports. CSR reporting is too focused on good news and stories with emotive content designed to redirect readers' attention from events that might cast a poor light on the company's actions. (Gray et.al, 1995) Without regulatory requirements, firms are unlikely to highlight negative events. To obtain balanced information about CSR currently, an interested party must read regulatory filings, CSR reports, and perform significant research into reliable new sources. Contrary to Fallan & Fallan's findings (2009), voluntary reporting has not yet resulted in comprehensive CSRs that satisfy the demands of heterogeneous stakeholders. This study provides evidence that supports the GRI's Amsterdam Declaration, which calls for governmental policy to report on sustainability factors.

ENDNOTES

1. The first instance of a **CSR** that could be found is 2002, although some authors refer to a report issued in 2001.
2. For a more thorough discussion of EM's stance on global warming and its CSRs in other countries, see Catherine Archer's paper, "Corporate Social Responsibility, Descriptive Stakeholder Theory and Global Warming: A Case Study of Exxon-Mobil's Changing Views on Climate Change. Accessed online 11/02/2009. www.Conference.anmac.org/ANZMAC2007?papers?cpercent20Archer-1a.pdf

3. CT and General Motors were also added to this list.

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