CSR AND THE SEC: TOTALLY CERTIFIABLE!

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Abstract: Previously, Rodriguez & LeMaster (2007) recommended that the SEC issue a "CSR Seal of Approval" for companies that voluntarily disclose their corporate social responsibility (CSR) projects. That work lacks the strength of third or fourth-party accreditation. This paper recommends that the SEC issue an accreditation grade of A, B, B-, or C to provide strength to the "CSR Seal of Approval" and to help companies indicate the quality of company CSR programs. By issuing an accredited "CSR Seal of Approval," all stakeholders benefit because companies can incorporate CSR into their strategies and achieve recognition for their CSR projects. The premise of the accreditation concept support the original authors notion of letting CSR remain voluntary and not legislated; thus, all companies (small, medium, large, foreign or domestic) maintain competitive advantage by not incurring additional regulated costs.

Keywords: corporate social responsibility, SEC, accreditation

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INTRODUCTION

This paper extends the idea of the SEC "CSR Seal of Approval" (Rodríguez & LeMaster, 2007). This paper supports the idea of the seal by recommending third and fourth-party accreditation. This is important because accreditation creates value for companies that disclose their corporate social responsibility (CSR) projects (Gereffi, Garcia-Johnson, & Sasser, 2001; Global Reporting Initiative, n.d.; Laric & Sarel, 1981; Social Accountability International, n.d.).

The paper extends previous conceptual work first by categorizing the major standard setting bodies into five categories based on their primary focus. The categories consist of Regional/ Special Purpose Focus, IGOs, Investment Indices, Consulting Firms and Global Standards. The standard setting bodies include organizations such as the United Nations (UN), the Organization for Cooperation and Economic Development (OECD), the International Standards Board (ISO) and others. An example of this categorization is revealed by listing the major standard setters and their primary focus. For instance, the SA8000, and the ILO focus predominately on labor and human rights issues, while the Sullivan Principles focus more towards governance. Second, after categorization, the CSR reporting standards are broken down into sub-areas of focus and are examined to help determine more specifically how the standard is focuses and the strength (strong, moderate, little) of the bodies emphasis on a particular area. This paper contributes and strengthens the notion of supporting voluntary CSR and reduced legislation of CSR by developing an accreditation scheme for the previous work.

CATEGORIZING THE STANDARD SETTING BODIES

Several organizations set standards for CSR projects and reporting. Those standard setting bodies include the United Nations, the Organization for Economic and Cooperative Development (OECD), the International Standards Organization (ISO), the Dow Jones Sustainability Index (DJSI), the Global Reporting Initiative (GRI), and others. By categorizing the main CSR standard setting bodies, and reviewing the issues they address, this section provides focus on the most relevant standards for those companies that choose to list on U.S. Stock exchanges. Table 1 presents the categorization of standard setting bodies by type.

Table 1. Categorization of CSR Standard Setting Bodies.

Category I	**Category II**	**Category III**	**Category IV**	**Category V**
Regional / Special Purpose Focus	**IGOs**	**Investment Indices**	**Consulting Firms**	**Global Standards**
Caux Principles for Business	UN	FTSE4GOOD	Business for Social Responsibility	ISO
Global Sullivan Principles	ILO	DJSI	AccountAbility	SA8000
Global Corporate Responsibility : Benchmarks	OECD	KLD		GRI
CSR Quest-Greek		CALVIN		
AccountAbility-UK				

Next is the listing of issues that standard setting bodies primarily focus. This list is adapted from Gordon (2001) and includes:

- Accountability
- Business Conduct
- Community Involvement
- Corporate Governance
- Human Rights
- Marketplace / Consumers
- Workplace / Employee

The first category consists of standards that exhibit regional or special purpose characteristics. Those standards include the Caux Principles, the Sullivan Principles, Global Corporate Responsibility: Benchmarks (GCRB) (First Sustainable, n.d.), AccountAbility (AccountAbility, n.d.), and CSR Quest (CSR Quest, n.d.). A non-denominational region group of MNC senior executives established the Caux Principles (Gordon, 2001). Gordon notes that the Global Corporate Responsibility Benchmarks (GCRB) were developed in the U.S. The AccountAbility group is U. K. focused and is a consulting firm. The Reverend Leon Sullivan formulated the

Sullivan Principles standards in his fight against apartheid (Mangaliso, 1997). The GCRB, similar to the Sullivan principles is faith-based, limiting the perception of global applicability. The specialized nature of these standard setting bodies (e.g. potential religious-orientation, group of executives, location) limits the perspective for global usage.

The second category consists of the International Governmental Organizations (IGOs) such as the UN, the OECD, and the ILO. These standards or guidelines provide a broad umbrella for all countries and companies with the exception of the OECD and are available to organizations worldwide. Some of this organizations, like the OECD are limited by their signatory bodies.

The third category of CSR standard setting bodies consists of investment indices. Two major indices include the DJSI, the KLD indices, CALVIN index, and the FTSE4Good index. These indices attempt to help investors with wise, sustainable investments. The major flaw for complying with index standards is that the indices generally report only the top largest (e.g. Top 1000, Top 250, etc.) MNCs (Dow Jones Sustainability World Index, n.d.; FTSE4Good Index Series, n.d.; Social Funds, n.d.). The FTSE4Good index provides indicators for financial performance of sustainable enterprises that "demonstrate good standards in corporate responsibility," minimalizing social, ethical and environmental risks. The FTSE4Good excludes firms whose main business run counter to decreasing social, ethical, and environmental risks.

The fourth standard setting category is consulting firms. Major consulting firms create, audit and certify CSR standards. They often possess a very global perspective of CSR; however, the greatest obstacle for the use of consulting firms is the cost of hiring and maintaining the consulting relationship. The main advantage of the fifth category occurs because all the standards provide guidelines but they also provide auditable measures for reporting. In other words, a company not only must report CSR projects, but must also report the processes that they use for CSR.

STRONG, MODERATE OR LITTLE

Table 2 (page before references) indicates that Category III and Category IV bodies focus the emphasis across all the different types of CSR issues. The drawback to these bodies; however, is that the stock investment indices and the consulting firms, while holding the most robust types of programs, might simply not be accessible to a wide range of the companies that list on the U.S. Stock Exchange. In Category II, the OECD provides very strong emphasis across the range of issues; however, the OECD is limited to the signers of the agreement. The Category I bodies strongly emphasize their issues, and have only moderate or little emphasis across the full range of issues. In the final overview of the issues, Category V maintains the better choices of standards for CSR.

In category V, the ISO 14000 series focuses predominately on the environment, limiting the global perspective of issues reporting. The SA8000 focuses predominately on human rights issues limiting its global perspective. The remaining standard setting body, the GRI(Global Reporting Initiative, n.d.), requires no membership fee, and possesses global qualities in its standards. While the GRI has varying degrees of focus on the issues, the strongest advantage of the GRI is its optional third-party accreditation. The accreditation is achieved by either having an assurance officer certify their opinion on the CSR program or actually having the GRI certify an opinion. The GRI provides a grade at their level from C to A. The C level is the minimum or beginners level where a company begins to take on CSR projects. The B Level adds additional CSR Projects and reporting. The A Level is the final level where a full range of CSR reporting is committed and audited. Companies using the GRI standard then submit their reports to the GRI indicating what level (i.e. C, B, A) they use to disclose their CSR projects. The GRI then checks the reports and issues a seal indicating the level the company earns for reporting.

ACCREDITATION

Accreditation of CSR adds value to a company's goodwill by adding credibility to corporate statements (Gereffi et al., 2001; Global Reporting Initiative, n.d.; Laric & Sarel, 1981; Social Accountability International, n.d.). Further, accreditation of CSR projects creates value through an incentive mechanism that encourages companies to adapt or improve CSR (Burke & Logsdon, 1996) and maintains unregulated competitive advantage (Rodríguez & LeMaster, 2007). An additional reason for accreditation is that it can help bring about gradual change and create global sustainability (Kolk, 2005). The ISO (n.d.) defines accreditation as the "formal recognition by a specialized body" that certifies the certifying body. The ISO accredits approximately 750 ISO standard certification bodies. There are four types of accreditation explained by Gereffi et al. (2001).

Gereffi et al. (2001) note that first party accreditation is most common and consists of companies developing and auditing their own CSR programs. Second-party accreditation consists of an industrial or trade association code for CSR that is validated by implementation reports and aggregate industry progress. Third-party accreditation occurs when an external group audits the CSR reporting of companies. Third-party accreditors, according to Gereffi et al. (2001) consist of non-governmental organizations (NGOs) such as the Social Accountability International (SA8000), International Standards Organization (ISO 14000, ISO26000) that set CSR standards. Finally, fourth-party accreditation, according to Gereffi et al., consists of audits conducted by international governmental organizations (IGOs) such as the United Nations (UN) and the Organization for Cooperation and Economic Development (OECD). Further, Gereffi et al. note that third-party certification is increasing and they acknowledge third-party certifications as the norm of the future for CSR.

One issue regarding third-party certification through the NGOs is that the certification process potentially involves greater costs or lacks timeliness. Additionally, Gereffi et al. write that many companies, driven by market forces and social pressures, accept the lowest standards in order to achieve the appearance of good CSR. Some researchers note that third party accreditations provide value and credibility for stakeholders; thus, CSR disclosure potentially increases the value of CSR strategies or projects (Laric & Sarel, 1981; Phelps, 1949). Further, caution must be used when disclosing CSR programs. CSR is nothing more than public relations unless reporting establishes clear definitions, standards, and is internally auditable and externally verifiable (Frankenthal, 2001). In addition to third-party certification of CSR disclosure, companies alleviate regional or special focus influences by choosing a global standard for reporting.

TOTALLY CERTIFIABLE: THE RECOMMENDATION

For this paper, the definition of third-party certification (Gereffi et al., 2001) is extended to include outside audits performed during annual reviews. Additionally, added to the list of fourth-party certifications, is the SEC. Potentially, certification creates more value when MNEs incorporate standards from NGOs and other internationally recognized multilateral agencies (Gereffi et al.).

It is recommended that the SEC implement an accreditation process that incorporates grading CSR disclosure based on voluntary CSR reporting. Companies that already perform annual audits for the SEC benefit by involving external accounting auditors in the CSR certification process by reducing costs. Allowing accounting auditors to verify CSR programs along side Sarbanes-Oxley compliance, creates a third-party accreditation; thus, creating value and timeliness of reporting for companies that report to the SEC.

The SEC issuance of the accredited "CSR Seal of Approval" adds more value because it offers fourth-party certification. When the SEC issues an accredited "CSR Seal of Approval," it would indicate the quality of company's CSR programs. In order to receive an accredited seal, companies must disclose their working definition of CSR, list on U.S. stock exchanges, voluntarily report CSR, and the standard of their disclosure. Table 3 summarizes the recommended categories of grading and the requirements for each grade.

Table 3. Grading scheme recommended for SEC CSR Seal of Approval.

Grade A	**Grade B**	**Grade B-**	**C**
Working definition of CSR for company	Working definition of CSR for company	Working definition of CSR for company	Working definition of CSR for company
List on the U.S. Stock Exchange	List on the U.S. Stock Exchange	List on the U.S. Stock Exchange	List on the U.S. Stock Exchange
Voluntarily Report to the SEC	Voluntarily Report to the SEC	Voluntarily Report to the SEC	Voluntarily Report to the SEC
Standard from Category V (auditability)	Standard from Category II, III	Standard from Category I, VI	Self-Report Or Choice of Standard from Category I, II, III, IV, V
Achieve Third-party certification	Achieve Third-party certification	Achieve Third-party certification	No Third party Certification
Apply for Seal	Apply for Seal	Apply for Seal	Apply for seal

CONCLUSION

This paper begins by suggesting that prior work on the SEC "CSR Seal of Approval" (Rodríguez & LeMaster, 2007) be strengthened through categorizing CSR standard setting bodies into five categories and recommending that the SEC maintain oversight on CSR thought the use of third and fourth party accreditation. The categories set out include Regional/ Special Purpose Focus, IGOs, Investment Indices, Consulting Firms and Global Standards.

The standard setting bodies were then empirically reviewed to discover how much they focused on the following issues: Accountability, Business Conduct, Community Involvement, Corporate

Governance, Human Rights, Marketplace / Consumers, Workplace / Employee. Once these steps were accomplished the grading accreditation system from A to C was formulated. An A grade is the best grade that the SEC might issue a company for CSR whereas the C grade is the lowest grade indicating that company is aware of CSR and is working towards making their CSR program comprehensive as well as increasing the amount of external auditing. The benefit of this additional accreditation is to increase corporate creditability in stakeholder space.

Table 2. Focus on the Issues for the Reviewed Standard Setting Body.

	Category I Regional / Special Purpose			Category II IGO			Category III Stock Index		Category IV Consulting Firms			Category V Global			
	Caux Principles	**GCRB: Benchmarks**	**Sullivan Principles**	**OECD**	**UN Global Compact**	**ILO**	**DJSI**	**FTSE**	**BSR**	**AccountAbility Framework**	**CSR Quest**	**GRI**	**SA8000**	**ISO 14000**	**ISO 26000**
Accountability	▲	●	—	●	●	▲	●	●	●	●	●	●	●	●	Forthcoming
Business Conduct	●	●	●	●	—	▲	●	●	●	●	●	▲	—	●	
Community Involvement	●	●	—	●	—	▲	▲	●	●	●	●	▲	—	—	
Corporate Governance	●	●	—	●	—	—	●	●	●	●	●	▲	—	—	
Environment	▲	●	—	●	—	—	●	●	●	●	●	▲	—	●	
Human Rights	▲	●	●	▲	●	●	●	●	●	●	●	●	●	—	
Marketplace / Consumers	●	●	—	●	—	●	▲	●	●	●	●	▲	●	—	
Workplace / Employees	●	●	—	●	—	●	●	●	●	●	●	▲	●	—	
	●	Indicates Strong Emphasis in the area													
	▲	Indicates Moderate Emphasis in the area													
	—	Indicates Little or No Emphasis in the area													

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