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Behind camouflaging: traditional and innovative theoretical perspectives

Abstract

Purpose: The aim of the paper is three-fold. First, it examines nuances that specific camouflaging perspectives provide to enhance traditional and widely adopted theories in social and environmental accounting. Second, within research on camouflaging, the paper stimulates multidisciplinarity and cross-fertilization by presenting recent developments in organization theory that hold promise for enhancing our understanding of camouflaging. Finally, it discusses how the research contributions published in this special issue help advance the notion of corporate camouflaging.

Design/methodology/approach: The paper makes use of an extensive literature review and discusses research implications related with the choice of theoretical framework.

Findings: The idea of camouflaging may provide narrower and more refined perspective(s) that can help researchers delve deeper into their topic of interest and thereby support potentially substantive contributions to the field.

Originality/value: The paper offers suggestions for future social and environmental accounting research that adopts the concepts of organized hypocrisy, organizational façades, and functional stupidity into the study of organizations.

1. Introduction

Recent years have witnessed expressions such as corporate social responsibility (CSR), sustainability and sustainable development coming into prominence and becoming important issues internationally within the political and organizational agenda. However, there is an increasingly astonishing contrast between, on the one hand, the world-wide growth of corporate campaigns of social commitment and civic sense, the issue of glossy social and environmental reports, the claimed corporate attention to stakeholders and, on the other hand, multiple chains of corporate scandals, financial frauds, and environmental disasters, which appear to deny any societal commitment by these firms.

A substantial and growing number of accounting scholars have investigated these issues. Researchers have been interested in understanding how accounting could support firms' moves toward (or even away from) socially responsible behaviours (Patten, 2002; Moneva *et al.,* 2006; Cho and Patten, 2007; Cormier and Magnan, 2007; Berrone *et al.,* 2009; Rodrigue *et al.*, 2013; Larrinaga, 2014). To date there is not a unique answer to such questions, not only because it is challenging to assess a firm's impact on social and environmental sustainability, but also because accounting applied to sustainability appears itself a complex and sometimes ambivalent notion (Tinker and Gray, 2003; Hopwood, 2009; Gray, 2010). Sustainability and accounting at the firm level can be subsumed into four strictly related categories (Gray, 2010): 1) general discourse around business, 2) specific corporate reporting, 3) initiatives designed to advance environmental and social agendas, and 4) organizational articulations of sustainability activities. In each of these categories researchers have explored firms' choices regarding how accounting devices might be adopted to improve corporate behaviour or to manage impressions by promoting a misleading image of corporate social responsibility to external stakeholders. Hopwood's (2009) discussion on the role of accounting for environmental matters also pointed to the risk of diverging/contrasting firms' behaviours with regard to the illusory openness of reporting. On one hand, the reporting may cast "light on what is often invisible" (p. 437), therefore giving visibility to social and

environmental impacts of firms' activities; on the other, it is possible to use reporting to construct a veil that obfuscates a more realistic and balanced presentation of firm performance.

Within this debate, the aim of the paper is three-fold. First, the paper briefly reviews and synthesize the most widely adopted theories used in accounting to investigate corporate behaviour and its impact on society and the environment. This overview is meant to shed light on the nuance that the use of a specific camouflaging thesis/perspective may provide. Recalling Unerman's 2008 (p. 363) commentary on "Corporate social reporting and reputation risk management", by Bebbington, Larrinaga-Gonzales and Moneva (2008): "broad theories which provide innovative perspectives in embryonic fields of study become progressively less insightful as the field develops and as many more studies are based on the same broad theoretical perspectives". In this context, Reputation Risk Management (RMM) and, we add, the idea of camouflaging, may provide narrower and more refined perspective(s) that can help researchers delve deeper and thereby continue making substantive contributions to the field. Therefore, similarly to RMM, camouflaging may be used to complement the existing well-developed theories in order to further inspire and innovate future studies in the CSR literature. Second, with respect to camouflaging research, the paper aims to stimulate multidisciplinarity and cross-fertilization by presenting recent developments in organization theory that hold promise for furthering our understanding of corporate efforts to truthfully report or camouflage their social and environmental performance. Specifically, we discuss organized hypocrisy, organizational façades, and functional stupidity in organizations, offering suggestions for future research that adopts these perspectives. Third, we present the research contributions published in this special issue and how they advance the notion of corporate camouflaging of social and environmental performance.

Opportunities for camouflaging arise because, most often, stakeholders do not have the opportunity (e.g. access to information) to assess the actual social and environmental impact of corporate activities. Moreover, companies do not consult appropriately with stakeholders, there are no mandatory reporting guidelines, audit requirements or enforcement mechanisms, resulting in

what has been referred to as the reporting-performance portrayal gap (Adams, 2004). We argue that this portrayal gap, as well as other forms of green washing[1], is evidence of camouflaging. The perspective of camouflaging, therefore, explains the findings of prior research (the portrayal gap) and has lead scholars to provide possible *solutions* to the problem of knowledge of contested situations (Dey, 2010). Prior work has called for greater accountability and stronger focus on corporate processes and governance systems to reduce the portrayal gap (Adams, 2004; Solomon, 2013) and proposed a shift from an organization-centred form of reporting towards more independent and stakeholder driven approach (Dey, 2007). Various contributions (e.g. Gallhofer, *et al.* 2006, Dey, 2010) propose alternative forms of reporting, produced by external parties and via multiple data sources, mainly external to the firm. These reports, which fall under different names - e.g. "counter accounts" (Gallhofer *et al.*, 2006, Dey, 2010)[2] - "reveal contradictions between what companies choose to report and what they suppress, problematizing their activities and providing new insights into their social and environmental impacts" (Dey, 2010). Moreover, under the camouflaging perspective, research has analyzed the misleading behaviour *itself* (rather than solutions to it) by investigating its characteristics, tools adopted, and possible ways to detect it. Camouflaging would be related to the symbolic (as opposed to the substantial) reporting of firms actions *and* the use of other signals of corporate environmental responsibility (e.g. assurance, reporting guidelines and *ad hoc* forms of reporting) in order to portray an image of environmental commitment and to convince relevant stakeholders that their expectations have been met (Moneva *et al.,* 2006; Mahoney *et al.* 2012; Michelon *et al.* 2015). The investigation of the factors that might explain inconsistencies between CSR actions and reporting, as well as the implications of the research findings, is closely related to the theoretical background utilized by the researchers.

[1] Green washing has been defined as: "selective disclosure of positive information about a company's environmental or social performance, without full disclosure of negative information on these dimensions, so as to create an overly positive corporate image" (Lyon and Maxwell, 2011, p. 9).

[2] As highlighted by Dey *et al.* (2010): "These problematizing external accounts have been referred to by a number of different terms including social audits (Medawar 1976), deindustrialization audits (Harte and Owen 1987), silent accounts (Gray 1997), shadow accounts (Gray 1997; Gibson et al. 2001), reporting-performance portrayal gap analysis (Adams 2004), social accounts (Cooper et al. 2005), and counter accounts (Gallhofer et al. 2006)".

Our paper presents several contributions. First, it builds and extends this research, by providing a discussion of existing theories used to study and address camouflaging practices and proposing new theoretical lenses to further enhance our knowledge on this phenomenon. Thus, it complements previous general review of the field of social and environmental accounting research (e.g. Mathews, 1997; Adams, 2002; Gray 2002; Parker, 2005). Second, responds to the call by Hopwood (2009) to urgently to explore the "thickening" of the corporate veil, which we refer to as camouflaging, by suggesting "new" management theories to further our understanding of reporting-related processes and behaviours within organisations. Third, fostering Adams's assertion (2002, p. 245): "the theories of social reporting have been developed without an explicit attempt to engage those companies that do report", our contribution relies in encouraging adoption of theories "borrowed" by other disciplines such as management and organisation studies to enhance our understanding of corporate processes. Finally, in light of these perspectives and theoretical lenses, we invite scholars to investigate new and important research questions, such as why and how corporations manage conflicting stakeholder demands and how they limit the range of perspectives that management use in identifying and addressing broad scale problems and externalities.

In the following sections, the paper presents some reflections on the main theoretical approaches used by on-going literature to study the camouflaging phenomenon. Section three proposes new theoretical lenses through which future research can analyse camouflaging practices. Section four concludes the paper by presenting the other articles published in this special issue and discussing how they are positioned in the framework that we propose herein.

2. Assessing the current literature

Extant research on social and environmental accounting and reporting has drawn from several key theoretical bases. Collectively, these theories have led to a substantial body of research literature that captures many facets of organizational justifications and strategies for reporting. In this section we review the major theoretical perspectives adopted in this stream of research and

suggest ways in which the notion of corporate camouflaging can be used to enhance future work grounded in each theory.

We start by discussing political economy theory, which provides a very broad framework for contextualizing social and environmental disclosure and explaining firms' camouflaging behaviours. Also it is strictly related[3] to three main theories widely used in social and environmental disclosure: legitimacy theory, institutional theory and stakeholder theory. We then discuss legitimacy theory not only because is one of the most widely used (see Owen, 2008) but especially because it introduces the notion of legitimacy which is the underlying concept for the other theoretical perspectives. However, legitimacy theory is complementary to other theories providing insights on how legitimacy is practically obtained. Institutional theory is discussed as it relates to the process of seeking (institutional) legitimacy. As highlighted by Chen and Roberts (2010), depending on the purpose of legitimation, there are primarily two levels of legitimacy – institutional legitimacy and organizational (or strategic) legitimacy. Resource dependence and stakeholder perspectives, that are more relevant to the process of strategic legitimacy, are then addressed. We conclude this overview by presenting the impression management perspective because it represents an interesting stream of research sustained by an array of previous theoretical approaches, such as legitimacy theory, institutional theory, resource dependence theory (Merkl-Davies and Brennan, 2007) and stakeholder theory.

[3] See Deegan and Unerman (2006) and Gray, Owen and Adams (1996) for a description of the two broad streams of political economy theory: i.e. classical (Marxian) and bourgeois political economy, and of their relationships with legitimacy, institutional and stakeholders theories. In summary, according to Parker (2005, p. 847), Marxian political economy places class interests and conflict and structural inequity at the centre of its concerns, whilst bourgeois political economy mostly discounts such concerns and adopts a pluralistic view of the world (Gray et al., 1995). Whilst institutional theory can be applied and is related to both, the streams of political economy, legitimacy theory and stakeholder theory are derived from the bourgeois political economy. According to Parker (2005, p. 847) these two approaches "are therefore vastly different, although they share a common recognition that accounting disclosures are economic, social and political tools for constructing, and sustaining ideologies and their related economic and institutional arrangements that serve the disclosing organisation's private interests. They can be employed to transmit the disclosing organisation's social, political and economic interpretations to a pluralistic audience (Guthrie and Parker, 1990). On one hand they may reveal underlying rationales for disclosure, its variant forms and even non-disclosure (Guthrie and Parker, 1989). On the other hand, they may point to the need for radical and system change in the balance of power relationships between organisations, their interested parties and communities, with a view to radically changed transparency and accountability."

2.1 Political economy theory (and political economy of Accounting)

Political economy theory, as applied to accounting studies (also known as Political Economy of Accounting - PEA), "is concerned with exploring and assessing the ways various social protagonists use accounting information and corporate reporting to mediate, suppress, mystify and transform social conflict. The approach places class relations at the forefront of the analysis and is concerned with the effects … on the distributions of income, wealth and power." (Tinker and Neimark, 1987 p. 71-72). Within this perspective, disclosure is analysed and understood in relation to a very broad social, economic and political context (Gray *et al.,* 1995; Adams and Harte, 1998; Adams, 2002) and focus on the use reporting on the distribution of income, wealth and power in society (Cooper and Sherer. 1984). This perspective is functional to the idea of camouflaging as, for instance, according to Guthrie and Parker (1990, p.166): "corporate reports cannot be considered as neutral on unbiased documents but rather are a product of the interchange between the firm and its environment", and more interestingly, as "social, political and economics documents. They serve as a tool for constructing, sustaining, and legitimizing economic and political arrangements, institutions and ideological themes, which contribute to the corporation's private interests. Disclosures have the capacity to transmit social, political, and economic meanings for a pluralistic set of report recipients".

One well-cited study in the field, which performs a longitudinal analysis of social disclosures in 100 years of annual reporting by a dominant corporation in the Australian mining industry, is Guthrie and Parker (1989). Results supports the argument that corporate disclosure is a very variable activity (Adams, 2002) and a proactive process of information provided from management's perspective, designed to set and shape the agenda of debate and to mediate, suppress, mystify and transform social conflict. In this context political economy theory is supported as it "recognises the potential for management to tell its own story or to refrain from doing so, according to his own self interest" (Guthrie and Parker, 1989, p. 351), and thus suggesting that disclosure may be used as a camouflaging strategy.

2.2 Legitimacy theory

According to legitimacy theory firms are social creations whose very existence depends on the willingness of the wider society to support them. Thus, organizations aim to establish congruence between the social values associated or implied by their activities and the social values, norms and belief systems of the environment they are part of (Dowling and Pfeffer, 1975). As far as these two value systems are aligned, they speak to organizational legitimacy (Lindblom, 1994, O'Dwyer, 2002, Parker 2005).

The corporate quest for legitimation results in firms undertaking strategic tactics aimed at convincing society-at-large that an organization is a legitimate institution (Dowling and Pfeffer, 1975; Guthrie and Parker, 1989; Lindblom, 1994; Suchman, 1995). Many of these tactics involve managing public perceptions of an organization in response to social pressure (Lindblom, 1994; Bansal and Roth, 2000; Neu *et al.*, 1998; O'Donovan, 1999) through the disclosure of (non complete or partial) information regarding firms' social and environmental impacts (Gray, Walters *et al.*, 1995; Patten, 2005; Hopwood, 2009). In particular, firms may manipulate public perception through a specific strategy, based on a deliberate effort to deflect public attention from a relevant issue to a minor one, often emotionally charged (Lindblom, 1994).

Studies investigating the motives and determinants of CSR disclosure find support for this theory highlighting that for instance, companies under the spotlight (e.g., very large companies or companies belonging to "sensitive" industries) disclose a larger amount of social and environmental information in order to respond to social and political pressure (Patten, 2014). However, as observed by Bebbington *et al.* (2008, p. 338), many authors also posited that "legitimacy theory provides an explanatory frame for (especially positive) social and environmental disclosure (Patten, 1992; Brown and Deegan, 1998; Deegan *et al.*, 2002; Milne and Patten, 2002; O'Donovan, 2002; and for a review of this literature Deegan, 2002)" and that "there is also evidence that organizations

attempt to manage their reputation risks by means of their CSR reports"[4] (Bebbington *et al,* 2008, p. 341), that, thus, become part of a reputation risk management processes more than accountability[5] tools. Based on the idea of reputation risk management, concealment and camouflage would be implicit in some intentional changes to the firm's activities aiming to manage (create, maintain or repair) its reputation, *without* aiming to improve the social or environmental impact of firm's activities.

Within the legitimacy perspective, one of the most cited studies in this area is Cho and Patten (2007). They explore the use of CSR disclosure as a legitimation tool by investigating the relationship between environmental performance and environmental disclosure. They find that total financial report non-litigation-related environmental disclosure is higher for worse environmental performers. Moreover, they find that the extent of *monetary* environmental disclosure by worse performers belonging to environmentally sensitive industries was significantly higher than similar disclosures made by either (1) their better performing counterparts within the environmentally sensitive group, or (2) their direct counterparts within the non-environmentally sensitive group. These results suggest that environmental disclosure is used as a camouflaging tool in order to portray an image of commitment (for the poor environmental performers) or to respond to societal pressures in environmentally sensitive industries. At a broader level, this evidence shows how voluntary environmental reporting may serve as a potential impediment to future improvements of corporate environmental performance (Cho *et al.*, 2012): i.e., the possibility to project a positive,

[4] Stemming from this evidence, "one emerging explanation for CSR reporting has been suggested by reporting proponents (Herbst, 1998; GRI, 2002; Rayner, 2001; Starovic, 2002; KPMG, 2005), practitioners (Co-operative Financial Services, 2003) and researchers (Friedman and Miles, 2001; Toms, 2002; Hasseldine *et al.*, 2005) of CSR reporting, is that it could be conceived as both an outcome of and part of reputation risk management (hereafter RRM) processes." (Bebbington *et al.*, 2008, p. 338). While, in our common understanding, legitimacy and reputation share many similarities[4] and are occasionally used interchangeably in accounting (Chalmers and Godfrey, 2004, p. 121) and in social accounting (Deegan, 2002, p. 296), they also present substantive differences. As pointed out by Deephouse and Carter (2005, p. 332) whilst "legitimacy is the social acceptance resulting from adherence to regulative, normative or cognitive norms and expectations, reputation is based on a social/relative comparison among organizations on a variety of attributes, which could include these same regulative, normative or cognitive dimensions. In this perspective reputation would have [only] a second order impact on the legitimacy of the organization."

[5] Note that some studied proposed (also) the accountability theory to analyse organizational reporting activities (see, for example, Gray *et al.*, 1988; 1991); however this paper accepts what Gray et al. (1995) suggested, that is to say that accountability theory is essentially a normative conception of organizational reporting and it is not an especially helpful perspective for the interpretation of CSR practice.

favourable picture of the firm may reduce the incentives for companies to work toward improving their actual or future performance. In this perspective, the idea of camouflaging facilitates the identification of a different notion of legitimacy and the (symbolic) strategies that may be used to acquire it.

2.3 Institutional theory

Although overlapping with legitimacy theory, institutional theory is more focused on the *process* of acquisition of legitimacy via conforming to other similar social institutions (Chen and Roberts, 2010), i.e., institutional legitimacy. One central concept in institutional theory is the idea of *isomorphism* i.e. the process by which structures and practices are progressively homogenized to increase the possibilities of success and as a response to expectations (DiMaggio and Powell, 1983). It explains the process by which sustainability practices become legitimate and largely routinized among companies that share a common language and norms with other actors in this field. The idea of isomorphism helps us better understand the fact that, despite CSR reports are not mandatory, they become *institutions*, i.e. *de facto* norms. These norms resonate with society as, for example, a positive value is attributed to the provision of some kind of assurance to the sustainability reports, as well as to the disclosure about some kind of activity designed to engage stakeholders (Larrinaga, 2014). However, institutional theory acknowledges that, despite firms are characterized by a high level of resilience, there are also some institutional forces that are self-reinforcing. In this sense, the enduring nature of institutions represents the basis for critiques of sustainability practices (including reporting) that portray a credible, but false, image of corporate responsiveness to societal demands through a highly standardized practice whose value is taken-for-granted. Thus, sustainability reporting is a largely irrelevant exercise, not drawing the attention of stakeholders, which are not using this information (Larrinaga, 2014).

An influential study in this field is the O'Dwyer and Owen (2005). They critically analyse a common CSR practice often interpreted as a symbol for commitment to CSR: the assurance of

environmental, social and sustainability reports. Their main finding discloses "a large degree of management control over the reporting, and indeed assurance, process. Assurance providers are appointed by management, who may place any restrictions they choose on the assurance exercise" (O'Dwyer and Owen 2005, p. 224).

Within institutional theory, a camouflaging perspective contributes to our understanding of the motives underlying the implementation of practices that are considered as symbols of CSR commitments and the degree to which these practices are part of a green strategy or a camouflaging exercise. For example, firms could be pressured to adopt generic CSR initiatives instead of specific activities that are more appropriate for their business. In these cases, the risk is the proliferation of general environmental and philanthropic initiatives that adopt isomorphic behaviours, without actually impacting social or environmental progress. Along similar lines, other authors suggest that, regardless of the differences in the social and environmental issues firms face, they adopt similar CSR reporting patterns due to isomorphic pressures (de Villiers *et al.*, 2014). In other words, firms' choices on the use of CSR reporting practices (such as the GRI adoption) may be "developed independent of local issues and concerns" (p. 210) and, not irrelevant within the issue of camouflaging, produce inconsistencies between symbolic social and environmental performance (i.e. the adoption of GRI) and substantive performance. Thus, the ultimate result may be the institutionalization of camouflaging itself, i.e., companies may use isomorphic behaviours of symbolic (camouflaging) practices without addressing, through substantive actions, the social and environmental impact of their business activity.

2.4 Resource Dependence Theory

Among strategic perspectives, resource dependence theory focuses on the environment as a source of vital resources for a firm's survival. Within resource dependence theory, the environment is not simply a given condition to be absorbed, avoided, or accepted (like in legitimacy theory) but it is the dynamic outcome of interactions between many organizations seeking their own goals and

interests (Chen and Roberts, 2010) and securing for themselves the resources they need[6]. The role of organizational power is particularly relevant and the means used by firms to acquire and defend it from other firms are identified into five specific actions: 1) integration, 2) joint ventures and other inter-organizational relationships, 3) board of directors, 4) political actions, and 5) executive succession (Ulrich and Barney, 1984). In this vein, legitimacy itself (Pfeffer and Salancik, 1978; 2003) and a socially acceptable reputation (Unerman, 2008) can be seen as intangible resources that are both necessary for firm survival. These resources are obtained by companies through a number of strategies, including those related to employee selection, board composition, stakeholders' relations to political actions, and strategic alliances.

Examining corporations' efforts to acquire resources through camouflaging negative social and environmental impacts may provide additional insights into corporate sustainability motivations. Within resource dependence theory, one interesting "setting" from a camouflaging perspective is how alliances can be used as an effective instrument when seeking legitimacy[7]; these are of particular interest especially when they involve partnerships (or joint environmental programs) with governmental agencies, local community groups, NGOs etc., or any other "environmental-friendly" partner that may symbolize a culture of environmental concern when alliances are established. Other camouflaging actions may relate, for instance, to the use of environment-related governance practices. In this perspective, an interesting paper by Rodrigue *et al.* (2013) investigates whether environmental governance practices are substantive or symbolic in terms of their impact on environmental management (as proxied by environmental performance and environmental capital expenditures), in other words whether environmental governance mechanisms are used as a camouflaging strategy. Resource dependence theory helps develop the

[6] In particular, Ulrich and Barney (1984) claim that "acquiring external resources needed for the organization comes by decreasing the organization's dependence on others and/or by increasing others' dependence on it, that is, modifying an organization's power relations with other organizations. The resource dependence perspective rests on a number of assumptions that explain how organizations work to acquire power" (p. 472).

[7] Chen and Roberts (2010) note: "For example, Fiedler and Deegan (2002) document that seeking legitimacy was one key incentive for the building and construction industry to collaborate with the environmental groups in Australia. In addition, Friedman and Miles (2002) analyze the relationship between Greenpeace and environmental sensitive corporations over the decades. " (Chen and Roberts, 2010 p. 657).

three environmental governance practices on which the authors focus, i.e. the existence of an environmental committee, the proportion of environmentally aware directors on the board, and the presence of environmental incentives in executive compensation. Overall, the paper comes to the conclusion that: "environmental governance mechanisms are part of a symbolic approach to manage stakeholder perceptions of environmental management, with limited substantive impact on environmental performance." (Rodrigue *et al.* 2013, p. 123).

2.5 Stakeholder theory

According to stakeholder theory, the firm is at the centre of a complex network of stakeholders whose concerns need to be understood and addressed for the continued survival of the firm (Freeman, 1984). However, different internal and external stakeholders groups have differential levels of power and ability to influence the actions of an organization (Mitchell *et al.*, 1997; Deegan, 2002; Parker, 2005; Chen and Roberts, 2010), and therefore a firm often faces a multitude of conflicting stakeholders pressures and demands. The perspective adopted here is that of management, who attempt to control their environment, assessing the importance of meeting stakeholder demands in order to achieve the strategic objectives of the firm and to balance contrasting expectations to obtain at least the approval of the most powerful stakeholders (Gray *et al.*, 1995; Mitchell *et al.*, 1997; Parker, 2005).

One of the ways through which stakeholders' needs and expectations are understood and addressed is through stakeholder engagement, which is seen as a practice the organization undertakes "to involve stakeholders in a positive manner in organizational activities" (Greenwood, 2007). As Greenwood states: "There is an apparent soundness of logic to the assumption that the more an organization engages with its stakeholders, the more accountable and responsible that it is likely to be towards these stakeholders. This responsibility assumption presumes that the act of stakeholder engagement in and of itself delivers some benefit towards stakeholders and is, therefore, an act of responsibility towards stakeholders." (Greenwood, 2007, p. 316).

Whilst GRI and other institutional actors in the CSR field support the need for engaging with stakeholders, "there have been suggestions that stakeholder engagement exercises often constitute little more than management control devices used by managers to contain external pressures threatening key organizational objectives" (O'Dwyer, 2005, p. 280). In this context, the social reporting process, which is often depicted as a dialogue between the company and its stakeholder and a means by which the stakeholders can participate in the activities of the company, is erroneously interpreted as an act of responsibility (Roberts, 2003). Owen *et al.* (2001, p. 264) express concern about the ‘‘managerial capture’’ of social accounting and the broader social agenda: that is, ‘‘the means by which corporations, through the actions of their management, take control of the debate over what CSR [corporate social responsibility] involves by attempting to outline their own definition which is primarily concerned with pursuing corporate goals of stakeholder wealth maximisation’" (O’Dwyer, 2003, p. 524). Therefore, under a camouflaging perspective, social reporting on stakeholder engagement may be used by managers to demonstrate an "open attitude to CSR (by selectively choosing elements to suit business interests) as a way of demonstrating that they are listening to criticism, thereby further legitimising the status quo and, in effect, resisting any desired change..." (O'Dwyer, 2003, p. 525).

With respect to the specific analysis of the CSR disclosure strategies, a relevant and engaging stream of research is impression management (Merkl-Davies and Brennan, 2007). Legitimacy theory, institutional theory, resource dependence theory (and, we add, stakeholder theory) can be fruitfully used as theoretical underpinnings of impression management research (Merkl-Davies and Brennan, 2007).

2.6 Impression management

Impression management is a field of study derived from social psychology that focuses on how individuals present themselves to others in order to be perceived positively by them (Hooghiemstra, 2000, p. 609). In the context of corporate reporting, impression management can be

defined as a process in which managers select the information to release and present it in a way that distorts readers' perceptions of corporate achievements (Neu, 1991; Neu, Warsame, & Pedwell, 1998, García-Osma and Guillamón-Saorín, 2011). Under this perspective, CSR reporting constitutes a camouflaging and opportunistic behaviour whereby managers exploit information asymmetries between them and firm external stakeholders by engaging in biased reporting.

Users of CSR reports do not easily distinguish between one behaviour or the other, leaving ample room for camouflaging. Whilst mainstream disclosure studies suggest that the information disclosed is credible when it is associated with a cost, when it comes to CSR, camouflaging can be measured with respect to the underlying social and environmental performance and can also be detected by the analysis of quality of the information disclosed.

In regards to the social and environmental performance relation, studies have provided mixed results. For example, Patten (2002) and Cho and Patten (2007) find that firms with worse environmental records (as measured by higher ratios of toxic chemical emissions to sales) have higher levels of environmental disclosures, suggesting a camouflaging approach to CSR disclosure while Clarkson *et al.* (2008) find that firms with better environmental records (again measured by toxic emissions) have higher levels of environmental disclosures suggesting a fair behaviour in disclosing CSR information.

With regards to the quality of the information disclosed, camouflaging behaviours may be detected by means of quality disclosure indices (e.g. Michelon *et al.*, 2015), informed and built on the impression management literature. Merkl-Davies and Brennan (2007) suggest two main camouflaging (i.e. impression management) strategies: (1) concealment or (2) attribution. Concealment can be achieved by either obfuscating negative outcomes (bad news) or emphasizing positive organizational outcomes ("good news") whilst attribution is achieved when managers attribute positive organizational outcomes to internal factors ("entitlements") and negative

organizational outcomes to external factors ("excuses")[8]. Cho *et al.* (2010) extended this line of research by investigating the linguistic tone embedded in corporate environmental disclosures. They found evidence that worse corporate environmental performers included more optimistic language in their disclosures while better corporate environmental performers included more certainty language. Thus, corporations may camouflage poorer environmental performance through the use of specific types of language within their disclosures.

3. Theoretical developments relevant to camouflaging

Collectively, the theories discussed in the prior section have proved invaluable in generating a rich literature on corporate social and environmental performance and reporting. From these studies we have gained keen insights into why and how corporations frame their social and environmental rhetoric and activities to gain support from stakeholders, institutions, and society-at-large, all while their overriding commitment to shareholder value maximization remains entrenched as their core mission and responsibility. As accounting researchers continue to utilize the theories we reviewed to uncover and document strategies and empirical examples of corporate camouflaging of actual social and environmental performance, we believe that new develops in organization theory also can be beneficial in further progressing our overall understanding of this phenomenon. In this section we describe three theoretical perspectives that we believe hold promise in future research. These three perspectives were developed in the organization theory literature and have recently been used in accounting research. They are organized hypocrisy, organizational façades, and functional stupidity. Organized hypocrisy and organizational façades work together to provide an alternative lens from which to examine why and how corporations manage conflicting stakeholder demands. The notion of functional stupidity explicates how corporations limit the acceptable range of perspectives that management can use in identifying and addressing broad scale problems and externalities.

3.1 Organized hypocrisy and organizational façades

The theory of organized hypocrisy has been developed primarily by Nils Brunsson, who published his first book in this area in 1989, and has since published an extensive amount of related work (1993; 2002; 2007). Organized hypocrisy is an alternative theory that can be used to explain discrepancies between three observable outputs of an organization—its talk, decisions, and actions. Brunsson argues that organizations, such as corporations, use these three outputs to strategically manage conflicting demands that are placed on the organization by its stakeholders. According to Brunsson, the fact that stakeholders make mutually exclusive demands on the organization puts its management in a precarious moral position. For example, employees may demand improved work conditions while stockholders demand that analysts' forecasted estimates of quarterly earnings be met. Because failing to satisfy a stakeholder demand raises the likelihood of alienating them and risking firm survival, management must find a way to at least pacify the demands of every key stakeholder group. Brunsson argues that each of the three organization's outputs may be able to pacify or satisfy stakeholders in isolation—some demands may be satisfied by corporate talk, some by corporate decision, and some by corporate action. This idea rejects mainstream notions of strategic management. Unlike traditional theories in which talk, decision, and action are coupled (or perhaps loosely coupled) to flow in a logical sequence, organized hypocrisy purports that these three organizational outputs are not related in this expected manner. Rather, as Brunsson (2007, p. 115–116) explains:

> In the model of [organized] hypocrisy talk, decisions and actions are still causally related, but the causality is the reverse: talk or decisions in one direction decrease the likelihood of corresponding actions, and actions in one direction decrease the likelihood of corresponding talk and decisions. The model of [organized] hypocrisy implies that talk, decisions and actions are 'coupled' rather than 'decoupled' or 'loosely coupled', but they are coupled in a way other than usually assumed.

Lipson (2007) uses the term *counter-coupled* to describe this structured, yet inverse relationship among organizational talk, decisions, and action. Thus, the theory of organized hypocrisy predicts

that corporate leaders manage conflicting stakeholder demands at least partially through strategic *inconsistencies* in their organization's talk, decisions, and actions.

Organized hypocrisy is a bit more sympathetic than legitimacy theory and impression management to the moral dilemma an organization faces in dealing with conflicting demands, principally by emphasizing that modern capitalism severely limits the choice set available to the management of individual corporations. For example, within this theory it is understood that the senior management of a global energy corporation cannot say, "we do not care about the environment" any more than it can cease exploring for new fossil fuel reserves. This is true because both choices are most likely unacceptable to some key stakeholder group. Thus, hypocrisy is viewed essentially as inevitable and in need of organizing.

Brunsson explains, however, that blatant hypocrisy is not socially acceptable either. So, how can senior management organize a corporation in a manner that utilizes hypocrisy strategically yet also is able to deny its use? According to Brunsson (1989), a corporation's responses to conflicting stakeholder demands are developed in different areas within the organizational structure that, in essence, politicize the organization. The corporation is, thus, not a unified actor seeking societal legitimacy (or signalling superior performance), but rather a set of actors that handle stakeholder demands rather independently. This set of actors is organized around sub-structures (e.g., departments) that have their own part to play in the overall balancing of stakeholder demands. Brunsson's perspective helps us understand how, for example, sustainability departments can publicly push greener corporate agendas, human resource departments can publicly push affirmative action policies, and corporate foundations can publicly push for greater amounts of philanthropy, even though corporate actions in these regards change little, if any. Each sub-structure uses talk, decisions, and actions to manage their responsibilities the best and perhaps even as sincerely as it can within the limits of the resources and authority granted by senior management. The semi-autonomous nature of the development of these strategies makes their inconsistencies less likely to be suspect. On this point, Cho *et al.*, (2015, p. 81) conclude "a key strategy for senior management

is to orchestrate their talk, decision, and actions in a way that forms a legitimate solution, pacifies conflicting stakeholder demands, and yet does not reveal damaging discrepancies across these activities."

In summary, the notion of organized hypocrisy adds to our understanding of the camouflaging strategies adopted by corporations in that: (1) it conceives the organization as a set of actors that manage stakeholders demands independently; (2) it acknowledges (the existence of) contrasting stakeholders demands; (3) it highlights the counter-coupled use of talk, decision and actions to manage stakeholders demands through strategic inconsistencies.

Cho *et al.* (2015) apply the theory of organized hypocrisy to corporate sustainability reporting by combining the central concepts of this theory with related work on the notion of organizational façades. Abrahamson and Baumard (2008, p. 437) explain an organizational façade as "a symbolic front erected by organizational participants designed to reassure their organizational stakeholders of the legitimacy of the organization and its management." Originally, the idea of an organizational façade was developed as a unitary, stable, symbolic front that was maintained by an organization to help ensure its on-going societal legitimacy. Abrahamson and Baumard (2008) further refined this perspective to include the possibility that organizations erect multiple façades to assist in managing diverse stakeholder demands. They discussed three specific types of façades:

a. A *rational façade* is one that displays conformance with rational norms of business decision-making. This façade is evidenced by the use of cost/benefit analyses, performance measurement systems, and market assessments.
b. A *progressive façade* is rational and also displays a commitment to traditional notions of progress. This façade is evidenced by the use of forward-thinking language, state-of-the-art technology, and processes of continuous improvement.
c. A *reputation façade* is one that deals with the image of the corporation. This façade is used to express lofty corporate values and display symbols of professed societal commitment.

The concepts of organized hypocrisy and organizational façades are leveraged by Cho *et al.* (2015) to attempt to further refine the analysis of corporate sustainability reporting. Abrahamson and Baumard's work is used to articulate how corporate sustainability efforts can be analysed as distinct corporate sustainability façades. Their analysis can be briefly summarized as follows:

a. A *rational sustainability façade* is one that focuses on *business sustainability*. This façade is evidenced by a corporation's advocacy for the business case for social and environmental activities, often using appeals to market logic to justify both proactive sustainability efforts and the limits of their responsibilities.
b. A *progressive sustainability façade* is one that privileges *social and environmental innovation and reform*. In presenting this façade, the corporation extends the business case through the promotion of technological solutions to sustainability. Thus, a corporation will emphasize its ability to enhance long-term profitability with its development of alternative energy sources, more environmentally friendly products, and/or LEED certified buildings.
c. A *reputation sustainability façade* is one that expresses corporate *social and environmental stewardship* beyond the business case. This façade emphasizes a corporation's good citizenship activities such as its general philanthropic endeavours, support of the arts, or participation in anti-litter campaigns.

Cho *et al.* (2015) applied organized hypocrisy and organizational sustainability façades in their empirical study of two multinational energy corporations that were interested in exploring for new oil and natural gas reserves in the U.S. Alaska Native Wildlife Refuge. Opening up this refuge to energy exploration has and continues to be a bitterly contested debate between business interests and environmentalists. Cho *et al.* concluded that the corporation's talk, decisions, and actions seemed consistent within each façade but inconsistent across façades. Thus, organized hypocrisy appears present when examining how a corporation works to satisfy the demands of multiple stakeholder groups as opposed to examining particular efforts in isolation.

When relating organized hypocrisy and organizational façades to the topic of corporate camouflaging of (un)sustainability, we see several promising avenues for future research and offer three specific suggestions. First, Cho *et al.* state that organizational talk, decisions, and actions that occur within a façade are not mutually exclusive to a particular façade. The politicization of the organization and its potential for engaging in hypocrisy depends on the ability of sub-structures to act independently. Thus, we believe that much more empirical work is needed to help us better understand how and where inside a corporation organizational sustainability façades are created, and how much coordination takes place across façades. These findings can directly impact future theorizing. Second, Brunsson (1989) spends considerable effort examining the temporal nature of an organization's talk, decisions, and actions. Time is said to be on the organization's side, in that

talk and decision can postpone the need for action. However, given growing scientific evidence and societal concerns associated with climate change, the temporal space between the employments of these outputs may be condensing. Future research can investigate the degree to which talk and decisions continue to placate stakeholder groups. The rise of environmental shareholder activism points to a decrease in the effectiveness of these outputs. In other words, sustainability talk may be losing its ability to camouflage unsustainable actions even though organizational façades have been erected. Third, organized hypocrisy and organizational façades might provide an alternative perspective on recent efforts by competing rule-making organizations to standardize corporate sustainability reporting. We think that issues such as materiality could enhance a corporation's ability to maintain separate façades through engaging in more blatant forms of hypocrisy, i.e., more camouflaging.

3.2 Functional stupidity

Alvesson and Spicer (2012, p. 1194) develop a stupidity-based theory of organizations that forwards the idea that organizations place serious restrictions on the "mobilization of cognitive capacities" such that they promote and sustain "functional stupidity." Functional stupidity is defined as the "inability and/or unwillingness to use cognitive and reflective capacities in anything other than narrow and circumspect ways (p. 1201)." In their article, Alvesson and Spicer develop a very thorough, research-based model of functional stupidity that provides a comprehensive alternative to models of rational choice and variations on the idea of bounded rationality. We direct readers to their original work in order to appreciate and understand the full scope and scale of their model.

For the purpose of our editorial, we discuss specific aspects of their model that we find most applicable to social and environmental accounting research. Although functional stupidity has been used recently in accounting research (Malsch *et al.*, 2015), we are not aware of its use in the area of social and environmental accounting, in which we believe it holds promise. Therefore, we will briefly describe components of their model and suggest ways they might be utilized to study corporate social and environmental accounting and corporate camouflaging of (un)sustainability.

Because it is a key aspect of their model, Alvesson and Spicer (2012, p. 1199) make clear that the concept of functional stupidity does not imply "pathology, irrationality, or dysfunctional thinking which disrupts the smooth functioning of organization life." Quite the opposite might be true: "Rather, stupidity may be actively supported by organizations and may create rather 'functional' outcomes." This distinction between stupidity as a lack of brute mental ability and stupidity as an organizationally induced unwillingness to access one's full mental capabilities is full of explanatory potential. It might be able to help us explain why and how organized hypocrisy and organizational façades can be developed and sustained. For example, it might help us better understand how absolutely decent individuals who sincerely care about people and the planet can work in the sustainability department of an oil and gas company or weapons contractors and be convinced that their work is virtuous and that they are not engaging in the camouflaging of corporate unsustainability.

Alvesson and Spicer (2012, p. 1199-1200) explain that functional stupidity is prevalent in organizations because organizations tend to nurture environments that structurally inhibit three distinct aspects of cognitive capacity (i.e., capacities that would help minimize functional stupidity). These three aspects are:

a. *Reflexivity*: When an organization suppresses reflexivity it reduces the likelihood that employees will challenge its dominating values, norms, rules, and routines, or the morality of its actions.
b. *Justification*: When an organization discourages its members from seeking justifications for the decision or action in which they are involved it reduces dialogue and moral scrutiny. Justifications become "managerial edicts" and core organizational problems are continually reproduced.
c. *Substantive reasoning*: When an organization inhibits substantive reasoning, the logic applied to specific situations becomes myopic and instrumental. The reasoning becomes "focused on the efficient achievement of a given end, and ignorance of the broader substantive questions about what that end actually is (p. 1200)" builds. The lack of substantive reasoning "frames questions in very narrow and focused ways (p. 1200)."

Alvesson and Spicer (2012, p. 1202) argue that functional stupidity does not only operate at an individual level—it is "a general element of organizational processes." Thus, Alvesson and Spicer theorize how organizations develop and sustain functional stupidity. They accomplish this by

presenting a thorough and well-reasoned set of theoretical arguments on what they term the "dynamics of functional stupidity." A complete review of these dynamics is beyond the scope of our editorial but we find the context of their model, the precipitating factors labelled the *economics of persuasion* and *symbolic manipulation*, as very relevant to our discussion on social and environmental accounting.

The *economics of persuasion* is the term Alvesson and Spicer (2012) use to describe the increasing importance of corporate efforts to generate consumer and general public desires, expectations, and significant affiliations for their company and their products. These efforts are designed to produce demand for their products beyond that reasonably expected from a utility perspective. Even producers of goods known to be in traditionally defined generic sectors of the economy, such as agriculture and energy, have become active in pursuing an image enhancement strategy that encourages more consumption and attempts to differentiate them from their competitors. Corporate efforts, therefore, become more focused on "branding, marketing, public relations, sales, and image building (p. 1203)." They argue that the economics of persuasion permeates organizational life in a way that now privileges symbolism over substance. Because of this, *symbolic manipulation*, defined as the "crafting of images and the engineering of fantasies (p. 1203)", is employed to manage the corporation's level of functional stupidity. Symbolic manipulation is directed internally towards employees through strategic initiatives, which build well-defined organizational identities that help to cultivate a unified corporate culture.

We believe that each of these components of the model of functional stupidity can be applied to social and environmental accounting research and provide two specific examples. First, we think that the qualitative research approach adopted by Malsch *et al.* (2015) could adapted for use in a study of sustainability reporting. Interviews can be undertaken with corporate employees to examine their cognitive capacities towards corporate sustainability initiatives. Though this, researchers can explore the extent to which a lack of reflexivity, justification, and substantive reasoning is embedded in the collective framing of CSR. Second, the contexts for functional

stupidity (i.e., the economics of persuasion and symbolic manipulation) can be employed to help us better understand the environment that allows organized hypocrisy and organizational facades to be developed and sustained within organizations. Parallels between the ideas present in the notion of symbolic manipulation and organizational facades may enhance both models of corporate sustainability activities through, perhaps, textual analysis of corporate communications.

4. Contributions of this special issue

The focus of the Special Issue of SAMPJ "Camouflaging of corporate (un)sustainability" is clearly of great relevance for firms, stakeholders and policy makers as there is an expectation that accounting tools, such as sustainability reports, should be consistent with organizations' actions. Concerns with the current state of knowledge in the area of sustainability accounting and management have clearly emerged in the academic research community and most certainly need further encouragement. For contributions of this special issue we were primarily interested in papers that engage in this debate by critically examining policies and practices in sustainability reporting, social and environmental performance measurement systems, and the mechanisms organizations may and/or have put in place to manage and control their social and environmental impact. Overall, we believe the contributions we collected all together speak to these purposes and enhance our understanding of the camouflaging phenomenon.

The first two papers are anchored in legitimacy theory and explore, respectively, the use of CSR disclosure during a legitimacy crisis and as a "disguising" strategy. The first contribution by Vourvachis *et al.* (2016) analyses corporate social responsibility disclosure reactions to catastrophic accidents suffered by major airlines. The paper extends the body of research on corporate disclosure reactions to catastrophic events, which has mainly focused on environmental disasters, by considering a broader spectrum of social disclosures. The second article, by Murphy and Giles (2016), is a response to Hopwood's (2009) call for research into the complex motivations that explains social and environmental reporting. Using the lens of legitimacy theory, the paper focuses

on the change in social and environmental reporting for firms using Strategic Lawsuits Against Public Participation (SLAPPs). SLAPPs represent a relevant legal mechanism designed to address corporate legitimacy (Murphy and Giles, 2016) and try to stop individuals engaged in public debate criticizing the corporation. Using three cases of SLAPPs, the paper provides evidence that social and environmental reporting is part of a broader communication strategy aimed to "limit and disguise" the actions of the firm. The third contribution of the Special Issue draws on neo-institutional theory and focuses on the "behind the scene" of CSR reporting. Patten and Zhao (2016) explore managerial perceptions of CSR reporting in China, with an exclusive focus on state-owned enterprises. Data gathered from interview with managers of these firms is used to explore whether CSR reporting is explained by governmental coercive, or other institutional-based pressures. Overall the evidence in this paper helps identify changes that might be necessary to ultimately improve the reporting practices of these Chinese firms. The fourth paper, by Costa and Pesci (2016), looks into the notion of social impact measurement for social enterprises and promotes a framework of analysis that relies on multiple-constituency theory. The paper convincingly criticizes the "golden standard approach" to social impact measurement. It further argues that the adoption of a multi-constituency approach should discourage organizations from engaging in camouflaging practices because social impact metrics would be defined and constructed together with the stakeholders. Finally, Gomez-Carrasco *et al.* (2016) propose and develop a theoretical framework for corporate social responsibility building on Carroll's (1991) and Kramer and Porter's (2006) models and speaks to the literature investigating the relationship between financial and social performance, in that it provides guidance for constructing empirical proxies for social performance. The framework addresses the idea of camouflaging by conceptually discussing the "illusion of CSR", the illusion that occurs when a company implements a CSR strategy disconnected from the core business and based on mere philanthropy.

Clearly, the five contributions draw on a broad range of theoretical lenses, and the breadth of the research questions analysed enhance our understanding of the camouflaging phenomenon. This

Special Issue of SAMPJ aims to contribute to this area of research by offering evidence of the many contexts and events linked to a variety of camouflaging dimensions of firms' activities. The studies presented in this issue point out the potential pitfalls of uncritical approaches, especially in the field of CSR.

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