

Forces and Theories Underlying Management Response in Business Reporting for Improved Sustainability Disclosure

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Management response to catastrophic events can vary significantly from stated company policy on environmental reporting. This paper explores management's response under two theories: (1) as an aspect of legitimacy, adapting activity to changing perceptions, and (2) as an aspect of stakeholder interest, looking to the needs of several groups. The paper concludes that forces beyond the general social, legal, and accounting are required to develop appropriate disclosure, and argues for increased ethical and governance force in establishing disclosure helpful to standard setters, regulators, auditors, the general public, and all users of company financial and non-financial information.

INTRODUCTION

Users of corporate information increasingly rely on formal environmental reporting. Catastrophic events are typically objectively reported in the short-run in monetary terms, guided by pronouncements of regulatory authorities, but full assessment is incomplete where quantitative and qualitative long-run implications are difficult to assess. Reporting entities may vary greatly in how and how much they communicate information. Management response to catastrophic events can emerge as defensive and diverted from the substance. British Petroleum's (BP) Gulf of Mexico oil spill demonstrates such a case.

The U.S. and the rest of the world are not always consistent in business reporting. The world seems to be moving toward a "multi-stakeholder integrated" approach, whereas the U.S. tolerates a theory of legitimacy. "Integrated" may be thought of as inclusion of sustainability information in a financial annual report--but the amount, timing, and characterization of the additional information can be generated in a variety of contexts. A multi-stakeholder integrated approach expands beyond traditional shareholder views of profit maximization, to the inclusion of additional stakeholders, and emphasizes focus on the long-term rather than the short-term. Legitimacy theory on the other hand can lead to defensiveness on the part of companies with questionable sustainability practices, with only boilerplate general corporate

disclosure. This paper describes the alternative theories of “stakeholder” and “legitimacy” in the development of sustainability accountability and reporting to explain management’s response to British Petroleum’s Deepwater Horizon oil spill in the Gulf of Mexico.

ACCOUNTABILITY AND REPORTING

Current Focus on Integrative Reporting

Mervyn King, former chair of the International Integrated Reporting Council (IIRC) and Global Reporting Initiative (GRI) and the King Committee on Corporate Governance notes that “We’ve moved from a financial capital markets system to an inclusive capital markets system, taking account of impacts not only economically, but socially and environmentally... “from silo reporting to integrated reporting” and “from the plague of short-term profit to sustainable capital” (King, 2017, p. 32). King indicates that through shared value creation, a company can connect its operations to creating long-term value for both the company and for society as a whole--and defines its success in terms of both internal financial returns and external social and economic results.

The president and CEO of the American Institute of CPAs, Barry Melancon (2017), also expressed the need for an integrated approach, building relationships with stakeholders who invest their capital in the business, who purchase products and services from the business, and who regulate the business. According to Melancon, business leaders have an obligation not to only think about profitability in the short term, or even in the mid-term, but to think in terms of a multi-stakeholder approach. He notes that if every business just focused on short-term profits the sustainability of our free enterprise system would be at risk, and that the global movement of integrated reporting involves looking at the business world in an integrated way and developing a communications framework understandable by multiple stakeholders.

Lin, Romero, Jeffers, DeGaetano and Aquilano (2017) note that the voluntary nature of corporate social responsibility (CSR) reporting in the United States allows companies to determine the coverage and select the positive information they want to disclose while avoiding disclosure of negative news. CSR reports are usually issued annually as a stand-alone report, rather than being integrated into the financial reports. For markets to be efficient, standard reporting and disclosure, independent assurance, and independent governance and regulation are necessary, including a standardized CSR framework, reporting standards, and governance. Lin, et al. (2017) argue use of the standards of The Sustainable Accounting Standards Board (SASB), is voluntary and that standards need to be in place to achieve market efficiency and use of capital markets to address global sustainable issues.

Other pundits connected with major accounting professional organizations discuss the importance of sustainability to investors and other stakeholders, and emphasize the long-term focus. For example, Neil Amato, Senior Editor of CGMA Magazine of the Chartered Global Management Accountants (Amato, 2017) indicates that investors and other stakeholders such as employees and potential employees are paying attention to corporate sustainability. According to Amato, investment firms are now publicly expressing their views emphasizing the importance of sustainability in building long-term value and generating long-run returns. Earlier, Amato (2016) noted that management does not seem to be aware of how much investors are looking at sustainability reporting.

Becker, Stead and Stead (2016) indicate that sustainability reporting is becoming more prevalent, and that stakeholders are increasing demands for more accountability and transparency in companies’ sustainability efforts, and that corporate reports must be accurate and complete. According to these authors, corporations must view sustainability as a competitive requirement, understand its importance to their stakeholders, incorporate it within their business models, and report their sustainability performance to their stakeholders. They note that the increased importance of sustainability has led many corporations to report their triple-bottom-line performance to stakeholders to enhance transparency, legitimacy, and “reputational capital” which they define as the financial value of the firm’s intangible assets (Becker, et al., 2016, p. 30). Even though sustainability reporting in the United States has historically lagged Europe and Asia, U.S. firms are beginning to catch-up, with Southwest Airlines, Pfizer, Inc., and PepsiCo, Inc. among the U.S. early adopters of integrated reporting (Becker, et al., 2016). Katz (2017) notes that

investors' previous lack of interest in sustainability has changed as investors grow hungrier for sustainability metrics, with developments such as gender percentage on boards, possibility of droughts, and likelihood of regulatory crackdowns becoming prime material disclosures—and perhaps more significantly for investors, attention to such sustainability may be the secret to outsized rates of return. There may also be a demographic force for increased company disclosure. Millennials are collectively pushing for a new paradigm that goes beyond profit and loss and encompasses the idea that being sustainable and environmentally responsible is call for common business sense and global cooperation (Huffman, 2017).

Increased focus on sustainability reporting has not come without challenges. Cao, Feng and Wang (2016) examined the CSR reports of ten S&P 500 companies in different industries in the U.S., finding that while the CSR reports share many commonalities, differences in structure and content exist making comparability of social performance difficult for users of the statements. They suggest that a universal standard for CSR reporting would ease the comparison of corporate social performance across industries. In a separate study, Wang, Feng and Chen (2016) reviewed CSR performance ratings across business sectors and geographical scope, examining the strategic importance and implications of CSR for the three business sectors of manufacturers merchandisers, and service providers and for firms with different geographical scope, finding significant differences on CSR performance/ratings among firms in different business sectors and different scope.

Evolving Drivers for Enhanced Integrated Reporting

Some companies issue a mandatory report about their financial activities in an “Annual Report” and their ESG (Environmental, Social, and Governance) activities in a supplementary, voluntary “Sustainability Report.” Increasing demand continues from stakeholders for integrated reporting, or one report that combines the information from both. Integrated reports filed with Corporate Register, a European group that collects ESG reports, have grown from approximately 10 in 2004 to nearly 200 in 2009, to more than 20,000 in 2015 (Corporate Register, 2016). This structure will expand the traditional financial reporting model by including some non-financial information and information related to ESG issues. A draft framework for this reporting was released in 2011 by the IIRC (Monterio & Watson, 2011).

A broad range of stakeholders is the target for this information. These interested parties include the stockholders of the company as well as companies that want to partner with like-minded companies, socially conscious investors, government agencies, employees, and a variety of other groups impacted by the activities of the organization. Eccles (2016) notes the effect financial accounting standards and reporting requirements have had on capital markets, and stresses the importance of frameworks and standard-setting bodies for measuring nonfinancial items on resource allocation decisions made over the long-term to create a sustainable society. One standard format to be used around the world for reporting financial and non-financial and ESG information may be desirable.

International Financial Reporting Standards (IFRS) are becoming generally accepted and used in many countries. Listed foreign companies may issue IFRS-based financial statements for the Securities and Exchange Commission (SEC) in the United States. Global integrated reporting is becoming a reality, significantly changing the practice of accounting. Auditors and other outside experts can serve as catalysts in non-financial reporting. KPMG (2015) examined and reported on how the world's largest 250 companies report on carbon in their annual financial and corporate responsibility reports. The KPMG report also includes quantitative data on corporate responsibility reporting trends, covering 4,500 companies across 45 countries. Rao (2017) finds that 63% of the world's 250 largest companies as measured by revenue have their sustainability reports assured with 70% choosing major independent accounting firms for this assurance service.

The Global Reporting Initiative (GRI) has been leading standard-setting for sustainability disclosures (GRI Sustainability Disclosure Database, 2016). Voluntary sustainability and environmental reporting during the turn into the 21st century has experienced numerous nomenclatures in the U.S. with ESG as an umbrella term for Environmental, Social, and Governance items. SR (Sustainability Reporting), CSR

(Corporate Social Responsibility), TBL (triple bottom line), citizenship accounting, SA (Social Accounting), or CR (Corporate Responsibility) are also used by some interchangeably. ESG reporting began in the early 1970s and has changed significantly over time. Since an “annual report” is required to be filed with the US Securities and Exchange Commission each year for companies that trade on US stock exchanges, ESG information may become included in annual reports and voluntary environmental reports.

SUSTAINABILITY

Definition of Sustainability and Non-Sustainable

The GRI 2006 page six declaration stated “The goal of sustainable development is to meet the needs of the present without compromising the ability of future generations to meet their own needs (as cited by Caron & Turcotte, 2009). To be available for enjoyment by future generations, the environment must be able to regenerate itself. Therefore “non-sustainable,” in environmental terms, can be defined as when the environment cannot meet the needs of present and/or future generations.

Rationale for Academic Pursuit

The absence of academic research and the rich opportunity to explore the impact of a non-sustainable incident on voluntary environmental reporting inspired the current authors. An analysis of a non-sustainable environmental event is not found in the business literature. Originality is an important element in research design so that some new knowledge may result from the study. Originality “can mean making a synthesis that hasn’t been made before; using already known material but with a new interpretation, bringing new evidence to bear on an old issue. . . (and) adding to knowledge in a way that hasn’t been done before (Phillips & Pugh, as cited by Silverman, 2005). Accordingly, the current authors selected the BP oil spill as a major, non-sustainable event worthy of original study. In April 2010, BP’s Deepwater Horizon oil rig generated the largest accidental ocean oil spill in history, spilling 181 million gallons and killing eleven workers (Robertson & Krauss, 2010). The event is “non-sustainable: in both a micro and macro sense.

Immediate Managerial Response to Gulf of Mexico Oil Spill

The BP 2009 Sustainability Review (2009) provides that company policy is dedicated to the customers, stockholders, and various communities through operating in a sustainable environment. This stated company policy is consistent with stakeholder theory. However, comments by CEO Tony Hayward during the months of the spill (April through June 2010) do not appear to align with the company’s stated sustainability values:

First, his statements minimize the impact of the non-sustainable incident:

- "The Gulf of Mexico is a very big ocean. The amount of volume of oil and dispersant we are putting into it is tiny in relation to the total water volume” (Snyder, 2010, p. 1).
- "I think the environmental impact of this disaster is likely to be very, very modest," (Snyder, 2010, p. 1).

Hayward then is not assessing the incident in terms of contributing to a sustainable environment, but rather dismissing the concerns as not applicable to the current situation. Such lack of assessment signifies not only inadequate concerns for the company, but also for the environment, and effects on the surrounding communities.

Secondly, Hayward appears to distance BP from responsibility for the non-sustainable incident, while agreeing they must clean it up. The projection of blame is seen in Hayward’s comments to the BBC on May 3, 2010 as reported by Wray (2010, p. 1) where Hayward acknowledges that BP is responsible for cleaning up the spill, but indicates that the company is not to blame for the accident which sank the rig: "This was not our accident ... This was not our drilling rig ... This was Transocean's rig. Their systems. Their people. Their equipment." (Wray, 2010, p.1).

A 2009 sustainability report by Ernst & Young noted that BP provided only cursory information about the involvement of sustainability issues (Ernst & Young, 2010). While BP chose to partner with Transocean to drill for oil in the Gulf, the CEO says he has responsibility for the results, but not for the incident itself, violating the company's own sustainability practices. Thirdly, Hayward claimed to be victimized: "What the hell did we do to deserve this?" (Snyder, 2010, p.1).

Stakeholders must hold the trust and support of management, but this is not possible under the defensive language. BP presents itself as a company concerned about stakeholders and the environment, yet the conduct proves otherwise. Improved accountability is needed. Can social and legal forces be analyzed to derive the appropriate sustainability disclosures?

Reporting and Disclosure of the Oil Spill and Related Effects

Since 2010, BP has been monitored by government regulators relentlessly. During 2012 BP was slapped with record fine and charges for restitution of \$4.5 billion, the largest penalty ever levied by the US Justice Department. In addition, the company incurred a \$40 billion charge against corporate earnings and other settlements (Fowler, 2012).

The company's internal accountants must follow the pronouncements of the Financial Accounting Standards Board, and the company's external auditors must adhere to the assurance standards of either the American Institute of CPAs or the Public Company Accounting Oversight Board, which is the case for publicly held companies. Additional accounting standards and disclosures are required by the Securities and Exchange Commission. A long-standing accounting pronouncement has been the recognition of a loss if an event is probable and the amount is estimable then the financial statements must include the loss. If the loss amount is not estimable the contingency must be described in the notes to the financial statements (Financial Accounting Standards Board, 2017).

By comparison, the Exxon Valdez vessel spill in Prince William Sound, Alaska in March 1989 caused an estimated loss of 11 million US gallons, far short of the BP disastrous amounts; but nonetheless damaging to wildlife and tourism. The ExxonMobil (1999) annual report ten years later still carried a note to the financial statements indicating litigation and contingencies of over \$5 billion still unsettled. Deepwater Horizon also has lingering effects. The BP (2015) annual report carried cash flow reduction of \$1.1 billion net of income tax effects, and disclosure that over 400 governmental entities have outstanding claims against the company. The company had originally established a \$20 billion fund to settle all issues (Robertson & Krauss, 2010), but this has proven to be insufficient. BP has paid penalties and fines of over \$55.5 billion through December 31, 2015 and has accrued several billion more for state and federal restoration projects (BP Annual Report, 2015; Heavey & Stephenson, 2015).

To assure that businesses develop an environmentally strong conscience, federal policies have evolved to govern "waste management" (Smith, Smith, & Ashcroft, 2011). This evolution may not be what the U.S. regulators had in mind, as there has been long-time resistance for the U.S. companies to follow the mandates of systemized sustainability reporting. However, some companies, including BP took advantage to present their own narratives and boilerplates on what they were doing for the environment, even though their statements and more detailed reports lacked specific quantitative metrics.

Smith, et al. (2011) report that the oil spill had far less of an immediate impact on Gulf Coast beaches than what was first expected, and that the effects on real estate, fishing, and tourism were also far less than predicted. At an interim price tag of \$36.9 billion, the oil spill accounted for as a single event the largest amount ever recorded to date (Smith, et al., 2011). However, Smith, et al. (2011) argue that some responsibility for damages lies with the U.S. government because the White House blocked public dissemination of spill information and that President Obama impeded cleanup operations through failure to waive the Jones Act which would have allowed foreign assistance to aid in the cleanup work. Also, news media exaggerating spill impacts negatively affected tourism, and the presidential six-month moratorium on deepwater drilling affected not only BP but other energy companies.

The U.S. government continues to take enforcement proceedings against BP and other energy companies on the basis of safety violation, imposing unlimited liability for gross negligence, and introduced new laws, safety rules, and financial pollution penalties, but BP had already provided for the

loss and cost of cleanup in its financial statements and cash flows (Osuji, 2015). In the spirit of the environment and social responsibility, BP continues to issue its own sustainability report focusing on values of safety, respect, excellence, courage, and “one team.” British Petroleum, or any oil company, is unable to incur non-sustainable losses year after year. Not only would there be entity bankruptcies, but devastating impact on the areas environmentally affected.

THEORIES OF RESPONSE

Sustainability reporting is related to socio-political theories such as stakeholder theory and legitimacy theory (Comyns, 2016). Stakeholder theory assumes the perspective that there is pressure placed by a stakeholder group in response to information needs. Legitimacy theory, on the other hand, draws upon a more defensive posture that management will provide behaviors that appear acceptable to society. These theories are important as they may explain rationale for response to catastrophes as well as provide meaning behind the financial and non-financial reporting and sustainability disclosures.

Perez (2015) dismisses stakeholder theory as a separate view of corporate social reporting because it is the most classic, overarching theory since the 1980s, concerned with traditional resource allocation and profit maximization, and if postulated as a separate theory ignores intangibles, especially corporate reputation. Fernando and Lawrence (2014) conclude that no one theory is sufficient to explain a company’s social responsibility behavior, suggesting that a combination of stakeholder and legitimacy theories is necessary to understand the motives behind corporate responses. The authors of this paper, however, believe stakeholder theory should continue to be formalized as a strong, fundamental theory and contrasted with its leading opponent, legitimacy theory.

Stakeholder Theory as a Response

Stakeholder theory refers to the value creation for stakeholders rather than societal acceptance. The stakeholders’ interests must be pursued by the company (Aziz, Manab, & Othman, 2015). Fernando and Lawrence (2014) maintain that under stakeholder theory management is expected to perform accountability to stakeholders, including the reporting of information. Comyns (2016) suggests that stakeholder pressure may be one of the main drivers for increased corporate sustainability reporting, where companies alter their reporting practices in response to pressure from stakeholders.

Fernando and Lawrence (2014) illustrate the many faceted aspects of stakeholders making a pure, clean definition difficult: strategic and moral; external and internal; latent, expectant, and definitive stakeholders; shareholders, employees, and customers; single issue and multiple issues stakeholders; supportive, marginal; voluntary and involuntary stakeholders; and primary and secondary stakeholders.

Stakeholder theory, with its many different stakeholders and types, suggests that ethically all the stakeholders have the same right to be treated fairly by the organization. With this ethical perspective, the organization is not viewed as driving shareholder wealth, or any specific stakeholder objective, but meeting the expectations of all stakeholders. Stoney and Winstanley (2001) point out that the ethical branch of stakeholder theory requires that economic performance not overpower the moral values of any situation, including major scandals and catastrophes.

Fernando and Lawrence (2014) view stakeholder theory as containing two separate perspectives—ethical and managerial. In this view, an organization tries to “balance” stakeholders with competing interests to achieve an ethical response, but “manage” critical stakeholders holding competing interests and pressures for the managerial perspective. The authors of the current paper believe that the inclusion of ethics and management, or more specifically, “governance,” is critical to assess the magnitude and direction of a company’s corporate social reporting.

Legitimacy Theory as a Response

Legitimacy theory focuses more on the relationship between the organization and society rather than the stakeholder theory relationship between the organization and its stakeholders [Comyns, 2016]. Legitimacy theory emphasizes the company’s desire to make sure that their behavior is perceived as

legitimate (Aerts & Corneir, 2009). Comyns (2016) suggests that under legitimacy theory, companies may increase the volume of disclosures to cloud issues, or increase the amount of positive information following the occurrence of negative incidents, “managing” or “manipulating” information toward a positive bent and suppressing negative sustainability information.

Fernando and Lawrence (2014) describe legitimacy theory where an organization works with community expectations so that acceptable actions are not breached and the organization is allowed by society to continue its existence. Brower and Mahajan (2013) found in their study of US firms that the companies with a strong focus on corporate social performance in response to their stakeholders exhibit stronger strategic emphasis on value creation, deal effectively with a wide range of stakeholder demands, and face greater risk from stakeholder actions.

Legitimacy occurs when firms take actions based on social acceptance—in that view company’s value system is perceived as being congruent with the values of society as a whole (Murphy & McGrath, 2013). Perez (2015) describes legitimacy theory as being linked to reputation management responding to stakeholder pressure driven by corporate identity communications. Accordingly, legitimacy theory is perception-based and contains value propositions by a company.

Aziz, et al., (2015) argue that legitimacy can be a driving force in reducing risks and that legitimacy rests strongly on manager actions to meet the moment including crises. Fernando and Lawrence (2014) conclude that a “legitimacy gap” can arise when an organization becomes at variance with the norms and expectations of society, and the gap widens as expectations change and falls out of congruence with the businesses’ objectives. Such a gap could easily arise following a catastrophic oil spill.

Sustainability Forces Driving Stakeholder and Legitimacy Theories

Ceremonial reporting by oil companies is not without precedent. Bell and Lundblad [2011] report that ExxonMobil took extraordinary measures to seek legitimacy from the company’s stockholders for corporate social reporting in the company’s annual reports, 10-K filings and various news reports glorifying the organizations commitment to sustainability. Figure 1 presents a comparison of how the various forces of sustainability are derived from stakeholder and legitimacy theories.

**FIGURE 1
SUSTAINABILITY FORCES CONTRASTED FOR
STAKEHOLDER AND LEGITIMACY THEORIES**

<i>THEORIES</i> <i>FORCES</i>	STAKEHOLDER THEORY	LEGITIMACY THEORY
SOCIAL	User groups, Economic based	Political focus, Societal, environmental
LEGAL	Decentralization, Situation specific	Globalization, Multinational
INTERNAL ACCOUNTING	Responsibility, Accountability	Internal system to support external, Social contract between the parties
EXTERNAL ACCOUNTING	Transparency, Balance and manage competing interests and pressures	Defensive boilerplates, General corporate disclosures

Source: Constructed by the authors.

APPEAL OF STAKEHOLDER THEORY

Broad Development in Stakeholder Theory

Examining management response to a non-sustainable event using stakeholder theory will shed light on the responsiveness of reporting to stakeholders. Stakeholder theory was developed in the mid-1980s by business ethicists to formalize the recognition of rights of several parties (customers, suppliers, creditors, employees, the community, etc.) that have influence on or are influenced by a company. Some stakeholders are powerful, and can significantly influence the company. Those stakeholders with little to no power may be ignored. A corporation is a separate legal entity from its stakeholders. It has its own bank accounts and tax identification number. Stakeholder theory requires the company accommodate and balance the needs of its stakeholders. Freeman, Wicks and Parmar (2004) note that stakeholder theory begins with the assumption that values are a necessary and explicit part of doing business and (p. 346) “asks managers to articulate the shared sense of the value they create, and what brings its core stakeholders together.” The authors suggest that “truth and freedom are best served by seeing business and ethics as connected” (p. 364).

There is no comprehensive list of stakeholders, and needs vary by company. Since BP stakeholders were impacted by the Gulf of Mexico oil spill, is stakeholder theory useful in understanding voluntary environmental reporting after a non-sustainable incident?

Who are the Stakeholders in Stakeholder Theory?

Primary stakeholders impact the organization's ability to continue and include customers, suppliers, employees, government, and investors. Secondary stakeholders are groups who sway or are swayed by the organization. They are not involved in the business and business does not depend on them to continue. Secondary stakeholders include the media, special interest groups, competitors and critics. Freeman and Reed (as cited in Zakhem, Palmer, & Stoll, 2008, p. 51) propose one definition of stakeholder to include groups that are in concert with as well as opposed to the organization: "Any identifiable group or individual who can affect the achievement of an organization's objectives or who is affected by the achievement of an organization's objectives. Public interest groups, protest groups, government agencies, trade associations, competitors, unions, as well as employees, customer segments, shareowners, and others are stakeholders."

Legal, Social, and Community Growth

Most stakeholders have their own unique, distinctive purpose (culture, politics, economy), and it is the coordination of those purposes while appreciating the diversity that is the desired end result (Thompson & Driver as cited by Zakhem, et al., 2008). ". . . it is possible to use an understanding of the law, in terms of legislation, judicial reasoning, and general jurisprudence, to defend stakeholder theory" (Radin as cited by Pava & Primeaux, 2002, p. 32). Socially responsible investment organizations (SRIOs) are a relatively new class of stakeholder. In 1990 there were 12 social mutual funds in the US (Johnson & Brennan as cited by Pava & Primeaux, 2002 p. 115) concerned primarily with NOT providing resources to products like weapons, alcohol, tobacco, gambling, and nuclear power.

Freeman describes business and stakeholders operating together, defending both capitalism and the need for organizations to collaborate with others. "For the pragmatist, business (and capitalism) has evolved as a social practice; an important one that we use to create value and trade with each other. The spirit of capitalism is the spirit of individual achievement together with the spirit of accomplishing great tasks in collaboration with others. Managing for stakeholders makes this plain so that we can get about the business of creating better selves and better communities" (Freeman, as cited by Zakhem, et al., 2008. p. 86).

Buchholz and Rosenthal (as cited by Pava & Primeaux, 2002, p. 10) coin the term --"*Concrete growth*--a process by which human beings, communities, and business entities alike achieve fuller, richer, more inclusive, and more complex interactions with the multiple environments in which they are relationally embedded."

Best Conceptual Framework?

Cultural differences, values, politics, and financial structures complicate the development toward an ideal international framework for voluntary environmental disclosures. In countries where the laws and their enforcement are different, legitimacy theory may not apply. Stakeholder theory may apply depending on the method of financing and the role of government intervention. Bostrom & Garsten (2008) recommend a transnational system for reporting CSR matters. ISO 26000 standards were released in July 2010, as the first set of voluntary guidance standards developed by ISO. International stakeholders developed those standards and purport to integrate the needed elements of a world-wide system of ESG reporting (ISO 26000, 2011). Governance matters, including human rights, labor, and the environment are addressed in the guidelines of the Global Reporting Initiative (GRI). While the Sustainability Accounting Standards Board (SASB) is growing in prominence, especially in the United States, GRI reports are the most common voluntary ESG reports world-wide. Companies file voluntary GRI reports "to report their activities . . . manage the impression given concerning their activities . . . and (improve) the bottom line profitability of the company . . ." (Crowther, as cited in Crowther & Bacchus, 2004). Over 24,000 companies filed a GRI report in 2015 (GRI Sustainability Disclosure Database, 2015).

Contemporary Social, Legal, and Accounting Forces Insufficient

Profit maximization fails to address the more complex, global economy. Milton Friedman's classic view of economics described the responsibility of business as maximizing profit for shareholders while following the law. Business management has been narrowly focused on generating a return on investment to the shareholders. Maximizing shareholder interests as a strategy for company plans and goals has resulted in some negative outcomes for non-shareholder parties who are impacted by the company. This resulted in the growth of external pressure groups concerned about the environment, the rights of consumers, equal rights, and other issues. At the same time, business became an increasingly global activity. Business experienced unexpected losses due to externalities. A new conceptual framework for business operations that included the effects on parties outside the organization was needed to respond to challenges presented by a more complex, global business world.

A corporation is an organization of people, who have joined together voluntarily, for each to realize economic benefits. In a capitalist society, the corporation exists for economic purposes. But the corporation also impacts nature, and is a component of a larger society with its own cultural richness. By separating the economic goals of a corporation (production of goods and services) from the goals of the society in which it exists, the corporation is not focused on the long term best interest of society.

Halal summarizes the practice of governance over the past century (as cited by Louche, Idowli & Filho, 2010):

- 1900-1950: The profit-centered model focused on making the most income.
- 1950-1980: The social responsibility model recognized business has an obligation to contribute to meeting society's objectives while upholding society's values.
- 1980-2000: The corporate community model focuses on what the company should do to make the world a better place.

Halal appears to suggest an understated component—the need for ethical governance.

ETHICAL AND GOVERNANCE CONSIDERATIONS

The BP Deepwater Horizon oil catastrophe raised questions about organizations' corporate social responsibility, highlighting questionable corporate marketing practices, while emphasizing credentials deemed ethical (Balmer, Powell, and Greyser, 2011). Several authors point to the conundrum that even where catastrophes occur and social reporting becomes intense, that decision-making, performance, and penalties do not follow commensurately (Osuji, 2015 and Balmer, Powell, & Greyser, 2011). Matejek and Gossling (2014) further state that at least in the short run, a company's legitimacy is judged against its narrative, rather than empirical truth. In the long run, this can be seen as corporate "greenwashing," and perhaps become even more detrimental to the Company's image.

Rezaee (2016) argues that global investors and regulators demand an array of sustainability performance measures—economic, governance, social, ethical and environmental (ESGEE) with all built and driven by stakeholder theory with legitimacy theory still being relevant in reporting information. The BP Deepwater Horizon oil catastrophe raises issues intertwining the corporate social responsibility reporting and the organization's ethics, drawing in whether the marketing practices were appropriate. Balmer, et al. (2011) argue that an ethical corporate marketing perspective is required for businesses to carry a specific ethical corporate identity, and that the BP oil spill takes the ethics to new heights. BP assumed the stance of holding the highest in environmental and green credentials, with the greatest concerns among oil companies for sustainable energy sources (Balmer, et al., 2011).

Maignan and Ferrell (2004) view stakeholders as a troupe of actors playing various part in the organization, and that as a whole, benefit the various groups even though some of the interests are incongruent. Under this view, stakeholder theory describes entities as free from many pressures of society but still governed under basic principles. If the stakeholder actors are diverse, but active in a flexible system, then the objectives of the various players in the system can be maximized—somewhat like an invisible hand at work.

Seven years before the disaster, Gupta (2003) wrote that BP took efforts to reduce flaring in one of its refineries and those costs accumulated to \$500,000 per year. However, they were quickly able to identify alternative markets for the gas that was being flared, creating a windfall of \$1 million in excess of costs. Those were the days of good environmental policy, and good business. The green activists, then, are not the foes of the capitalists, but in the same camp.

Stent and Dowler (2015) suggest the primacy of stakeholder views in that stakeholders have a right to information about how a company's actions affect them, and that ethically, the organization should be governed accordingly. How leadership can bumble its salvation efforts is illustrated by Balmer, et al. (2011), where communications were botched with 'We will make it right' even before BP had finished all the necessary adjustments in capping the well, and carrying full-page advertisements emphasizing the company's pro-environmental identity, which eventually turned disastrous and failed.

Rezaee (2016) raises two propositions about company performance balancing ethical and governance perspectives. One view involves the complimentary nature of the financial and non-financial goals of the organization—the firm that governs effectively adheres to ethical principles. A separate view is that companies are required to perform well in the long run financially to be able to expend on environmental activities. Both views suggest a need for healthy integration.

Ethical and governance performance relates directly back to stakeholder theory in that corporate governance is about managing corporate objectives of creating shareholder value and enhancing the interest of other stakeholders. What role should other "controllers" play? Besides auditors and regulators, should insurance companies be part of the action? During the midst of the spill in summer of 2010, Nature magazine postulated that even though BP offered to put up \$20 billion for damages and costs, that two to three times that amount would have been necessary (Nature, 2010). The notion of prevention, including perhaps a capital outlay for \$500,000 of equipment which likely would have prevented the incident, is not only in line with stakeholder theory, but with best practices of normal risk aversion.

FIGURE 2
SUSTAINABILITY FORCES CONTRASTED FOR STAKEHOLDER AND
LEGITIMACY THEORIES INCLUDING ETHICAL AND GOVERNANCE FORCES

<i>THEORIES</i> <i>FORCES</i>	STAKEHOLDER THEORY	LEGITIMACY THEORY
SOCIAL	User groups, Economic based	Political focus, Societal, environmental
LEGAL	Decentralization, Situation specific	Globalization, Multinational
INTERNAL ACCOUNTING	Responsibility, Accountability	Internal system to support external, Social contract between the parties
EXTERNAL ACCOUNTING	Transparency, Balance and manage competing interests and pressures	Defensive boilerplates, General corporate disclosures
ETHICAL	Morality for individual groups	Morality for wider society
GOVERNANCE	Leadership, Expects survival and stability through accountability	Stewardship, Expects stakeholder pressures and drafts responses accordingly

Source: Constructed by the authors.

The true actual costs of the oil spill will never be known, but can be far-reaching and long-lasting. For example, in 2017, farmers and accountants in northern Alabama, over 400 miles from the coast, are debating where to report their income on federal tax returns for lawsuit recovery due to higher fuel costs caused by the 2010 spill (NSA, 2017). With the additional factors of ethics and governance considered with the theories, Figure 1 previously displayed can now be modified to include ethics and governance. Figure 2 shows the ethical and governance forces providing additional strength for the stakeholder theory.

LIMITATIONS AND SUGGESTIONS FOR FURTHER RESEARCH

- Should more of traditional accounting be replaced with a balanced scorecard?
- Do regulatory reforms such as Sarbanes-Oxley Act of 2002 and Dodd-Frank Act of 2010 add to, or impede, the value of ethics and governance?
- Is ethical performance set by “tone at the top,” or are other factors at work?
- With respect to analysis on individual companies. . .

- What are the specific risks and opportunities affecting the company's ability to create value over time?
- What challenges and uncertainties are likely to be encountered as the company pursues its strategy?
- How does the company report significant sustainable matters—separate or integrated reports, and what metrics are used to quantify or evaluate the matters?
- Will voluntary environmental disclosures become as important in the United States economy as it is the global society?
- What sustainability reporting framework is most appropriate under stakeholder theory? Under legitimacy theory?

Consideration of the communities impacted by a company (stakeholder theory), should be reflected in the goals and values of organizations, but the actual sustainability practices do not always align with these goals and values. The evolution of CSR and ESG reporting must continue, in the U.S. and world-wide, and include ethical governance considerations.

The BP case is more than a study of economic loss and sustainability reporting. It carries the behavioral implications of the CEO and management team in leading the company both before and after the disaster. Far from acting in accordance with the company's award-winning sustainability values, the CEO tried to legitimize BP by blaming others, and seriously floundered in the process. This paper suggests that legitimacy theory can be used to predict corporate behavior, and that behavior is not always aligned with the interests of the company's stakeholders. More rapid response may have been realized had management responded to the disaster aligned with the interests of stakeholders, and likely overall costs to the environment would have been minimized. Management response in accordance with stakeholder theory, drawing upon the forces of ethical governance, appears to be an essential construct critically needed in U.S. company reporting. As the body of literature grows and practical experience expands it may be wise for all parties—standard-setters, preparers, users, and regulators of entity information—to develop reporting principles and disclosures that appropriately mirror the needs of multiple stakeholders.

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