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How to Make CSR Commitments More Credible

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Abstract. Under the background of economic globalization and the widespread development of the social consciousness, societal expectations regarding corporate social responsibility (CSR) have become increasingly stringent. As a response to such requirements, there may be situations where enterprises try to fake their CSR commitments, which has greatly affected the general trust of consumers towards enterprises. This paper aims at making recommendations about how to enhance the credibility of CSR commitments by discussing the term 'credibility' and conducting a case study of companies' existing CSR practices. On the basis of the findings gained through the analysis, this paper suggests further ways for corporations to deal with the problem mentioned above. It is highly recommended that enterprises clarify the structure of their CSR commitments, increase the transparency of reporting, and lay down milestone plans with a definite time frame. Such recommendations should be considered in order to make it easier to measure the feasibility of CSR commitments, thus ensuring their reliability.

Keywords: CSR, credibility, transparency

1. Introduction

Accompanied with the development of economics, the corporations' strategic decisions and actions exert greater influence on the society. Therefore, public's expectation to corporations no longer limited in value creation and distribution but extend to its responsibility owed to the entire society, which is known as corporate social responsibility (CSR). The concept of CSR, firstly introduced in 1950s, has experienced changes in connotation with the evolution of social awareness, the enhancement of consumer knowledge and their change in consumption preferences. As this request of CSR being increasingly valued, benefits it brings to corporation including better access to funding, better financial performance, and a stronger brand image emerges.

To align with the change of the marketplace, corporations tend to propose CSR commitment to embody importance they attached to CSR. Nevertheless, information asymmetry and absence of supervision leave leeway for some corporations to reap the benefits of CSR without bearing related costs of fulfilling its responsibility by making false or misleading commitments, in other word, greenwashing. When greenwashing becomes a widespread phenomenon, it disrupts the existing competitive order of the market. A general state of distrust toward CSR commitments would emerge among stakeholders such as consumers and employees.

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A substantial body of existing research on corporate greenwashing has examined the origins of CSR and the delineation of its responsibility boundaries. On this basis, another range of research has adopted a practical perspective to propose solutions for monitoring corporate CSR performance. Distinct form previous studies, this paper focuses on remedying the damage to the competitive order caused by greenwashing rather than greenwashing itself. Aiming to provide suggestions to regain market's confidence on CSR commitments from corporate perspective, this paper deconstructs the core indicator of credibility—verifiability into achievability and offers targeted recommendations based on current cases.

Suggestions proposed in this paper serves to provides solutions for corporations to win back the society's trust on their CSR commitments in the damaged competitive structure. It is expected that recommendations provided can assist corporations fulfilling their CSR gain corresponding benefits and can make CSR supervision more regulated and efficient. Furthermore, these suggestions attempt to open up new approaches to correct the current market order dominated by distrust.

2. The concept of CSR commitment and verifiability standard

2.1. The concept of CSR

The concept of corporate social responsibility is firstly introduced by Howard R. Bowen in his work Social Responsibility of the Businessman. Bowen has pointed that the private commercial decisions of corporations can impose a considerable effect on society as on themselves and their shareholders. Hence, it is obliged for them to take social influence into consideration when making strategic decisions and to adhere to action guidelines that contribute positively to societal values [1]. In other words, corporate decision-making is no longer driven solely by profit-maximization and shareholder benefit distribution, the fulfillment of social responsibility has become a significant influencing factor.

This paper holds that the theory of social contract provides a convincing support for the forming of CSR. Corporations rely on independent legal personalities authorized by an invisible contract with the society to conduct business activities in its own name. In this social contract, the corporation is granted legitimacy and certain rights, conditioned upon its voluntary acceptance of responsibilities to society, including refraining from causing social harm and contributing to social development, in exchange for which it forfeits certain freedoms. As a legal person, the corporations, similar to natural person, obtains legitimacy, trust, and the authorization to operate in exchange for its willingness to assume broader obligations that extend beyond profit generation and basic legal adherence [2].

2.2. CSR commitment and verifiable standard

CSR can be simply explained as the responsibility corporations undertake toward other members of the society except shareholders according to social contract. Addressees of CSR are typically concretized as stakeholders namely employees, consumers, competitors, governments and the public. As the influence of corporate decisions to the society expanding, increased public oversight, including from the media, and shifts in consumer awareness urges CSR to take a larger proportion in corporate decision making. Respond to this tendency, corporations begin to widely adopt to CSR commitments to display their consciousness of CSR undertaking,

This paper mainly examines the verifiability of CSR commitment, equaling that whether CSR commitments corporations propose can be effective to the scrutiny and oversight of their CSR performance. Therefore, a classification based on the common content of corporate CSR commitments is adopted herein. CSR commitments are categorized into aspirational commitments and prescriptive commitments [3]. The former refers to directional commitments proposed in the form of Mission Statement, which is usually used to address the recognition of CSR and awareness of fulfilling obligations at the level of corporate culture. Take Clarins as an example, in the We Care 2030 it proposed, commitments including 'positive-impact business model' and 'regenerative vision' represent typical aspirational commitments [4]. This sort of CSR commitment can be universally applicable to almost all corporations within the same industry and even across other industry sectors. Another feature of aspirational commitments is that they are in most cases general commitments which are relatively difficult in achieving in a specific time span concerning its lack of measurable standards. They merely express a positive value orientation and a vague determination of CSR fulfilling. In contrast, prescriptive commitments include commitments proposed in the form of code of conduct or quantifiable target. Back to the case of Clarins, 100% of Clarins entities implement the Global DEI Charter and at least €3 million annually invested in health, children, and biodiversity initiative stands respectively for code of conduct and quantifiable target. Among these two different types of prescriptive commitment, code of conduct is in large part for regulating corporate behaviour to impede them from shirking CSR. Meanwhile quantifiable target encourages corporations to take their responsibility from a positive perspective.

Being different from aspirational commitments, prescriptive commitments can be modified by the organizations themselves based on the environment in which they operate. It is likely that they will have stage-related features and may vary substantially among corporations. Thus, they typically exhibit stage-specific characteristics and considerable variation across different corporations. This implies that the balance between aspirational and prescriptive commitments is not fixed but evolves as corporations gain experience and resources. In other words, there cannot be a universal solution when it comes to developing CSR commitment. Instead, an organization-specific solution should be pursued.

To examine if a CSR commitment can work effectively to regulate the behavior of the firm proposing such a commitment or not, this essay believes that the essentiality of such an examination rests on the issue of verifiability of the commitment. The verifiability that, to some extent, differentiates between the actual commitment towards CSR and greenwashing, consists of two aspects that are distinguishable from each other: achievement and assessment. To begin with, in terms of achievability, the demands for verifiability include that firms should make specific target commitments consistent with their aspirational commitments. This helps in maintaining a realistic approach towards goal fulfillment. Firstly, the goals should be outcome oriented. Secondly, corporations are supposed to give their CSR performance disclosures.

3. Impacts of CSR commitments on business operation

3.1. The reason of making CSR commitments

3.1.1. Internal CSR commitments

CSR commitments have basically become a necessary part of operational strategies for modern corporations, especially large-scaled corporations. Despite from the view of general social fairness, CSR commitments bring substantial benefits to corporate operational activities as well.

As a frequently neglected component of CSR commitment, internal CSR means the part of responsibility beyond legal obligation corporation shoulder toward their employees. Thus, internal

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CSR boasts positive effect on cultivating employees' sense of identification with the corporation and on reducing their turnover intentions.

3.1.2. External CSR commitments

For corporations, the most significant advantage of external CSR commitment is the improvement it brings to the corporate image and reputation. Given this benefit, external CSR commitment becomes a strategic tool for building and maintaining relationships with stakeholders [5]. Corporate image and reputation play a significant role in shaping consumers' purchase decisions and loyalty. Environmental CSR commitments, for example, enable corporations to tap into new customer segments by catering to consumers' increasing preference for sustainable and eco-friendly products or services.

Besides the prospective of consumer, external CSR commitment is also beneficial to superior financial returns and risk mitigation. Corporations that make CSR commitments are better able to establish a responsible corporate image compared to their competitors that do not make such commitments, thereby enjoying higher bond ratings and lower borrowing costs. Moreover, the quality of CSR reports is strongly positively correlated with corporate financial performance, as measured by Return on Assets (ROA) and Return on Equity (ROE) [6]. Therefore, CSR strategy is characterized as a dual strategy encompassing both 'failure-preventing' and 'success-inducing' [7]. In other words, CSR commitment serves to mitigate operational risks on the one hand and to catalyze market expansion and further development on the other.

3.2. Potential burdens of CSR

Although proposing and fulfilling CSR commitments provide a wide range of benefits, it is undeniable that all these benefits are in most condition long-term or implicit. The positive effects of CSR are difficult to quantify directly in business operations of corporations, meanwhile, the costs associated with fulfilling CSR fall beyond regular business activities are relatively apparent. CSR costs contain not only direct costs incurred for fulfilling CSR such as charitable activities but also indirect costs from selecting more costly yet ecologically sustainable production methods and raw materials in order correspond with environmental CSR commitments.

In addition, even under the situation where a corporation has no intention of evading its CSR, the act of making commitments itself remains highly risky for business entities. At the same time of enjoying the benefits it brings, proposing a CSR commitment also means that the corporation voluntarily set itself under strict supervision of the society. The public and medias monitors more closely the CSR performance of corporations that have made such commitments. However, whether CSR commitments can be ultimately fulfilled id not determined solely by the actual performance of the corporation conduct.

For one thing, given that corporations may fall into mistaken understandings of their own operational condition and the competitive environment, they risk undermining the scientific rigor and consequently making commitments either overly ambitious or excessively modest. For another, though having successfully developed a reasonable commitment, a corporations may still suffer from a loss of control over fulfilling CSR commitments due to the flexibility and unpredictability of market. Under this condition, CSR commitments obviously loss its function in evaluating authentically corporations' CSR performance yet cause erosion of brand image and reputation, accompanied by market attrition.

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4. Drivers of aspirational commitments

The From the above analysis, it is not difficult to see that CSR commitments bring various benefits to enterprises and come with various risks implied by not being able to achieve them. Regardless, if companies attend to avoid this risk and maximize the benefits of CSR commitments, making CSR commitments that are not verifiable is a very easy and effective method. By making aspirational commitments—vague slogans that are difficult to verify—rather than prescriptive commitments that specific verifiable standards, corporations largely evade public scrutiny of their CSR performance.

Therefore, in the absence of regulatory deterrence, managerial incentives tied to short-term performance may tempt corporations to either misrepresent or exaggerate their commitment to responsible behavior. In extreme cases, corporations may even resort to fabricating narratives that lack any factual foundation [8]. When a larger number of corporations tend to make visionary commitments and choose to fail to fulfill or partially fulfill their social responsibilities in accordance with their obligations, consumers will lose their trust. In fact, skepticism surrounding greenwashing is rising sharply, and this lack of trust goes beyond individual corporation and poses a systemic threat to the entire industry, transmitting distrust to other market operators [9]. Under this background of distrusting, this paper proposes solutions on gaining CSR commitments the confidence of market and society.

A defining feature of greenwashing is that, in order to evade scrutiny of CSR performance, the CSR commitments it makes often lack verifiability. Therefore, this paper argues that the core determinant of CSR credibility is verifiability, and the proposed solutions are developed based on its two dimensions.

5. Recommendations

5.1. Recommendations for enhancing assessability

5.1.1. Transitioning from aspirational to prescriptive commitments

The core of enhancing assessability lies in establishing quantifiable measurements for CSR performance which allow stakeholders or third-party verifying bodies to readily assess whether a corporation's actions match its commitments. Thus, it is highly recommended that corporations transfer general principles into concrete, measurable data points.

In other words, to propose a highly credible CSR commitment, this paper recommends a combining structure of aspirational and prescriptive commitments. Plus, within this framework, prescriptive commitments are most effective when they include both a code of conduct and quantifiable targets.

Taking the electrical company Legrand as an example, in its sixth global CSR roadmap, the pillar Being a Responsible Business mostly relates to ethical responsibility towards human rights that the company fulfills towards its own staff and those within its supply chain. This prescriptive commitment is accompanied by not only a code of conduct requiring 100% of major suppliers to be engaged and compliant with the EcoVadis Human Rights score, but also a quantifiable target of reducing the FR2t by 20% [10]. Codes of conduct enables the fulfillment of CSR commitments to be monitored at any time. In this example, once Legrand adopts a supplier that has not participated in or does not meet the EcoVadis Human Rights score standard, its behaviour unmatched its CSR commitment can be immediately perceived. Being different from the code of conduct, the quantifiable targets reflect a commitment by a corporation to deliver certain results on CSR whithin

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a definite periood of time. Such goals can only be assessed once the period promised has ended. In the case of Legrand, for example, to assess whether the company has achieved its commitment regarding workplace accident rates one have to wait until the milestone year (2027). Only then can a comprehensive evaluation of the data from that period be conducted. At the same time, since quantifiable targets represent only outcomes rather than the process of meeting obligations, they serve as more intuitive sources of information for consumers. Hence, a combination of codes of conduct and measurable targets ensure the assessment of the entire process of CSR commitments.

Such structure of contents allows the aspirational commitments toplay an effective part as slogans that can make it easier for consumers to grasp the orientation of a firm in terms of its CSR commitments. The prescriptive commitments, on the other hand, act as standards that indicate the social monitoring that firms undergo. This reveals that firms are willing to hold themselves accountable for the way they carry out their CSR activities.

5.1.2. Strengthening transparency

Once having set its prescriptive goals, society also needs to be provided with information on how well the company performs relative to those goals. Information related to operations is critical in determining if the company has been able to live up to its promises. Given the information gap that exists in the area of CSR and operations management, it is important for the companies to disclose publicly.

The above mechanisms of transparency can be voluntary. Take the example of Clarins, where the company has creared the TRUST portal. With the help of this portal, consumers can trace information about the manufacture of the products. This allows them to assess whether Clarins' actual actions during production are consistent with its CSR commitments.

However, under voluntary disclosure, corporations are free to choose which information to release and which to not. This freedom of selecting may lead to distorted or incomplete information due to motives such as reputation management or greenwashing [11]. In this context, mandatory disclosure can turn CSR performance information from filtered disclosure into genuine transparency, thereby enhancing its credibility.

The Corporate Sustainability Reporting Directive (CSRD) issued by the European Union offers a good example in this regard. Unlike the Non-Financial Reporting Directive (NFRD) introduced previously, the most significant change brought by the CSRD is the transition of corporate sustainability reporting from a voluntary framework to a mandatory standard [12]. The CSRD requires corporations to disclose information using the European Sustainability Reporting Standards (ESRS) and subjects their sustainability reports to mandatory auditing [13]. Mandatory disclosure aligns corporate reporting not only with internal firm-specific incentives but also with compliance risks. This makes it a stronger and more effective measure for enhancing transparency.

5.2. Recommendations on improving achievability

How the credibility of CSR commitments are enhanced through achievability functions as follows: First, in order to raise social expectations regarding the likelihood of its fulfillment, the corporation demonstrate the scientific soundness of a commitment. This, in turn, can not only increases stakeholder trust but also reduces the risk of reputation damage that would arise if the corporation failed to meet its CSR commitments.

One strategy that can be adopted is to take a comprehensive assessment of the corporation's CSR fulfillment capacity when making CSR commitments. This can be accomplished through the

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conduct of periodic targets. As previously mentioned, Clarins and Legrand—both of the two companies have been proved to be successful in fulfilling their CSR commitments—have set milestone timelines of five years (2025-2030) and two years (2025-027) respectively. Milestones like these enable making necessary modifications of CSR commitments, especially prescriptive ones which require a higher degree of precision. Adjustments can be made in response to changes in the corporation's internal circumstances or external market conditions.

For this reason, when evaluating the corporate social responsibility commitments of the previous stage, and maintaining coherence among intermediate goals, companies will be able to show clearly their dedication to increasing the scientific nature of their CSR commitments.

On the basis of the achievements We Care 2020 have made, Clarins reoriented its We Care 2030 strategy. The point shifted from reducing negative impacts in 2020 to creating positive value in 2030. This adjustment is reflected in the aspirational direction of the commitments and should also be progressively embedded in the content of prescriptive commitments as well. For example, We Care 2020 included a commitment to partner with eleven fair-trade supply chains in Madagascar, Burkina Faso, and India. By We Care 2030, this target had been expanded to twenty-three fair-trade supply chains.Coherence between commitments of different stages allows consumers and other stakeholders to have an overall understanding the corporation's general CSR strategy and its adaptive adjustments. Furthermore, the continuous increase in target numbers enables stakeholders to intuitively perceive the corporation's progress in CSR fulfillment, thereby generating greater trust in its CSR commitments.

6. Conclusion

In order to build credibility of the CSR commitments amid market skepticism due to the greenwash, this paper provides recommendations for improving the credibility of CSR commitments. According to this research, verifiability is one of the key factors that make CSR commitments more credible. CSR commitments that are easier to verify have a higher impact on building up confidence regarding companies' promise keeping ability. In terms of making CSR commitment more credible, this paper provides several recommendations under two dimensions: assessability and achievability.

Regarding the assessability aspect, the move from the pure aspirational commitment paradigm to a new aspirational commitment paradigm makes greater use of the advantages of both kinds of commitments. Moreover, aside from adjusting the content of the commitment, it is essential for companies to devise a mechanism of disclosing CSR performance. In doing so, information asymmetry problems can be addressed, and CSR assessment will be easier. As for the achievability dimension, the essence is to improve the scientific nature of the commitment in order to increase the likelihood of fulfilling it from the perspective of social expectation.

The above recommendations present feasible methods for companies to counter the statement of distrust created due to greenwashing. Moreover, these recommendations will also contribute towards improving the corporate governance structure within organizations to support CSR commitment formulation and verification. Meanwhile, aside from actions taken by companies, the inclusion of third-party entities such as verification agencies may contribute towards increasing the validity of CSR commitments. Nevertheless, this approach calls for more research.

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