Power of Words: Linguistic Framework for CSR Communication

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Introduction

"A company's ability to communicate with stakeholders transparently is just as vital as its sustainability efforts." - Klaus Schwab, Founder and Executive Chairman, World Economic Forum.

Growing stakeholder activism has forced companies to be transparent about their brand ethics and their approach to social issues. This transparency can help the company to disclose its commitments towards the financial and non-financial goals of the company. While the focus of extant works was on understanding CSR, lately authors have focused on the consequences of CSR. There still exists a lack of clarity on what exactly constitutes these CSR reports. Is it just reporting their spending, disclosure of their philosophy or detailing of their experiences?

Research Objective

- The objective of this study is to discover the patterns and classify meanings embedded in CSR reports to provide guidance to sustainability communication teams.

- Further, we aim to propose a framework to categorize companies based on the quality and consistency of sustainability commitments and related communication.

Research Setting

- Amendments in the Companies Act, 2013 introduced the new buzzword known as "Corporate Social Responsibility". Section 135 Schedule 8 Companies Act 2013 enforced companies to invest a minimum of 2 percent of the profit on company's social responsibility (CSR).

- The main objective behind framing CSR by the government is to make mandatory disclosure of sustainability related practices in the company's annual report.

Sample

Indian companies constitute an ideal sample for testing our predictions:

- (1) India is the first country to have statutorily mandated CSR spending for specified companies having either a net worth of rupees five hundred crores or more, or a turnover of rupees one thousand crore or more or a net profit of rupees five crores or more during the immediately preceding financial year.

- (2) India provides an exemplar of a country that has a mandated constitution of a CSR committee with at least one independent director. This ensures that the board can make unbiased decisions in the best interests of the company's stakeholders and confirm to best standards of transparency in disclosure.

- (3) Indian firms are typically family-run business groups with opaque ownership due to pyramiding, crossholdings, and the use of non-public trusts (Haldar et al., 2020).

Data

- Large listed 100 companies which are the most liquid and financially sound companies across the key sectors of the Indian economy.

- We primarily source data from publicly available annual reports of these companies belonging to major industries in India.

- This data was supplemented using a company-level database, Prowess, compiled and maintained by the Center for Monitoring Indian Economy. This company-level database covers information from more than 55,000 companies primarily drawn from their financial statements and annual reports (Haldar et al., 2016).

- This database was previously employed by company-level studies for analysing the Companies Act 2013 amendments related to the appointment of woman directors (Haldar et al., 2020) and for analysing board composition and financial disclosures (Haldar and Raithatha, 2017).

- Further, additional data was gathered from company websites to supplement our understanding of the CSR practices of these companies.

Variables

Sustainability Report Readability

- A composite score is computed to measure the linguistic style and complexity of sustainability communication. This score is based on the standard readability metrics:

- FOG Index, Coleman Liau Index, Flesch Reading Score, Flesch Reading Grade, and SMOG Index.

- This multifaceted approach was chosen to encompass various aspects of readability, such as sentence complexity, word length, and syllable count. A composite 9 index, as opposed to a singular metric, provides a more nuanced and holistic view of textual complexity, yielding a robust readability assessment

CSR Driver Score

- CSR driver score measures depth or extent of CSR activities across seven dimensions: economic, governance, environment, community, customers, employees, human rights. Driver Score is computed using content analysis based on number of related words in CSR reports/total words. Here, a higher score indicates wider, more robust CSR efforts.

Findings (Sample Characteristics)

Complexity Obscures

- Companies with less extensive CSR activities may use complex language in their reports, potentially to obscure the lack of depth in their CSR efforts.

Sector-Specific Priorities

- Different industries have unique CSR priorities, with a general trend towards community outreach and a lesser focus on environmental issues

Readability and Engagement

- The readability of CSR reports affects stakeholder engagement, with more accessible reports leading to better understanding and involvement.

Findings

- Our findings reveal a compelling trend: companies excelling in CSR performance tend to highlight their successes using straightforward, accessible language.

- This approach not only emphasizes their achievements but also fosters transparency and stakeholder trust.

- Conversely, companies exhibiting inferior CSR performance are more inclined to employ complex sentences or words and a more extended number of words, possibly to downplay CSR information.

- Finally, a framework is proposed to understand the signals (words) and guide CSR communication.

Findings

Readability Analysis

- The overall readability of CSR reports, as assessed through indices like the Flesch Kincaid Grade Level and Fog Score, varies considerably across sectors.

- Lower scores in these indices for companies like Tata Motors and Asian Paints suggest an effort to make CSR reporting more accessible to a diverse audience.

- In contrast, higher scores for companies like L&T and Tata Steel in Jamshedpur indicate a more detailed and technical approach to reporting.

CSR driver Analysis

- Analyzing CSR drivers in varied industries reveals unique sector-specific CSR priorities shaped by operational contexts and stakeholder expectations.

- The overall results are in line with earlier works of Wang et al., (2018) that Indian companies have less focus on Environment.

- However, it is interesting to note across the industries and companies the focus is extremely high on community outreach.

Power of Words framework

- The "Power of Words: CSR Linguistic Framework" introduces a powerful tool for assessing and strategizing CSR communication (Figure 1). The framework's two dimensions - CSR driver scores and readability help categorize companies into 3*3 matrix with nine quadrants, each requiring specific improvement strategies.

- The Power of Words framework propels companies into the future of corporate citizenship via a two-pronged approach assessing sustainability implementation and accessibility of communication.

- Along the CSR Driver axis, scores reveal the depth of environmental, social and economic commitments woven into a company's DNA through analysing dimension-specific discourse as a percentage of overall rhetoric. This metric encapsulates the integrity of the sustainability vision.

- Meanwhile, the readability axis evaluates linguistics on the frontlines of stakeholder engagement. A composite score then conveys the overall comprehensibility and resonance of messaging.

Power of Words: CSR Linguistic Framework

Power of Words- Readability Score			
	High	Mod	Low
High	CSR Leaders	CSR Innovators	Low Hidden Gems
Mod	Clear Communicators	Balanced Performers	Potential Improvers
Low	Articulate Beginners	Emerging Participant's	CSR Novices

Power of Words – Driver Score

- **CSR Leaders:** This name reflects the fact that these companies are leading the way - both the depth of their CSR activities and the clarity of their communication. Companies in this quadrant exemplify their CSR activities and communication. They should continue their robust CSR practices and maintain clear communication, perhaps sharing their best practices with other companies.

- **CSR Innovators:** These companies are doing well in terms of CSR activities but need to work on making their reports more readable. They should focus on simplifying complex language and structuring their reports for broader accessibility.

- **Hidden Gems:** These companies have strong CSR practices but their communication is not easily understandable, making their efforts somewhat hidden. These companies are characterized by strong CSR with weak written communication. These companies need to translate their CSR efforts into more comprehensible language. Utilizing visuals and summaries can make their reports more engaging.

- **Clear Communicators:** These companies are excellent at communicating their CSR efforts, but they need to increase the depth and breadth of these activities. Investing in more diverse CSR projects can enhance their profile.

- **Balanced Performers:** These companies have a balanced performance in both CSR activities and communication. With a moderate performance in both dimensions, these companies should aim for incremental improvements in their CSR activities and communication.

- **Potential Improvers:** These companies have room for improvement in both their CSR activities and their communication. Collaborating with CSR experts and communication specialists can be beneficial for companies in this quadrant.

- **Articulate Beginners:** These companies communicate well but need to increase their focus on CSR activities. Good communicators but low on CSR activities, these companies need to develop more substantial CSR initiatives. Engaging with stakeholders to identify impactful CSR projects can be a starting point.

- **Emerging Participants:** These companies are just starting to engage in CSR and have moderate communication skills. They should focus on developing clear CSR goals and gradually improving their communication.

- **CSR Novices**: These companies are at the beginning of their CSR journey and need to improve both their CSR activities and their communication. They should start with basic CSR initiatives and develop clear communication strategies. This framework is crucial for companies to effectively engaging with their stakeholders through CSR communication. It allows companies to identify their current position in the CSR landscape and develop targeted strategies for improvement. The framework provides a clear roadmap for enhancing CSR activities and communication by categorizing companies into distinct quadrants.

Contribution

The study contributes by extending the literature on the power of words to sustainability reporting by unveiling the effect of linguistic features used to design CSR reports in annual reports.

Additionally, the proposed framework "Power of Words: CSR Linguistic Framework" introduces a powerful tool for assessing and strategizing CSR communication. The framework's two dimensions - CSR driver scores and readability help categorize companies into 3*3 matrix with nine quadrants, each requiring specific improvement strategies.

Managerial Implication

- The 'CSR Linguistic Framework' emerges as an indispensable tool, empowering companies to critically evaluate and enhance their CSR endeavours.

- By adopting tailored communication strategies, businesses can not only refine their CSR narrative but also forge deeper connections with stakeholders, setting a new standard for corporate transparency and accountability.

Future Research Areas

- **Impact Analysis**: Investigating the direct impact of improved CSR communication on stakeholder engagement, consumer trust, and corporate reputation. This research could provide empirical evidence on the effectiveness of the framework.

- **Industry Comparisons**: Conducting comparative studies across different industries to explore how the framework's applicability and effectiveness vary in diverse sectors.

- **Longitudinal Studies**: Examining the long-term effects of companies moving between different quadrants within the framework, mainly focusing on their sustainability journey and stakeholder relationships

- **Cultural and Geographical Variations**: Exploring how cultural and geographical factors influence CSR communication strategies and the framework's effectiveness in different global contexts.

- **Integration with Digital Media**: Investigating the role of digital and social media in enhancing the reach and impact of CSR communication, especially in the context of readability and stakeholder engagement.

- **Framework Enhancement**: Developing additional dimensions to the framework, such as stakeholder feedback responsiveness or the incorporation of ethical considerations in CSR reporting, to provide a more comprehensive evaluation tool

Thank You