STYLE MATTERS IN CSR REPORTING

A study supported by the CPA Ontario Centre for Accounting Innovation Research at the University of Toronto examined whether professional assessments of corporate social responsibility (CSR) performance truly consider all of the information available in disclosures.

It turns out that it's not just *what* firms say about CSR that matters, but also *how* and *how much* they say.

CONTEXT

Investors and stakeholders care about a firm's performance on CSR. As a result, companies are increasingly issuing voluntary CSR disclosures. But how much trust can we place in them? Do professional assessments of CSR performance consider what CSR reports unintentionally reveal through the style and quantity of their disclosure?

Researchers used machine learning to recognize "good" or "poor" quality features of CSR reports. **They found that "good" CSR performers use sociable, friendly and cooperative language, suggesting greater ambition, achievement and level of sophistication, consistent with their CSR strategies.**

CSR REPORTS AND COMPANY VALUATIONS

HIGHER VALUATIONS

- **Longer reports** clearly explaining proactive strategies
- **Simple and easy to understand language** inspires greater confidence among investors and stakeholders

LOWER VALUATIONS

Complex reports which increase perceived uncertainty

KEY TAKEAWAYS FOR ISSUERS OF CSR REPORTS

What, how and how much you write about CSR matters

Longer CSR disclosures are associated with good CSR performance, greater friendliness, ambition and sophistication. The **number of words and sentences** in a report predicted with **81% accuracy** whether a firm had good or poor CSR performance.

Your writing style communicates key information

Computer-based approaches to analyzing CSR reports could identify stylistic features that communicate a different message to what is intended. This is especially important for firms changing from poor to good CSR performance.

Plain English performs best

CSR reports that are easier to read contribute more to a firm's valuation premium than complex ones. This may be due to their imparting a greater sense of certainty and transparency. Firms benefit from producing CSR reports written in plain language.

KEY TAKEAWAYS FOR ANALYSTS, INVESTORS AND RESEARCH FIRMS

Financial analysts and investors could use computer analysis to assess CSR disclosures when making valuations

Useful for private firms and initial public offerings whose CSR performance is not covered by investor research services.

Analyzing linguistic features of CSR reports can improve professional assessments of performance

This adds to what we can learn from measures of CSR performance used by professional assessors (e.g. ASSET4, KLD, MSCI and Trucost). **Research firms could incorporate linguistic analysis of CSR reports to improve their assessments.**

Read more: CPA Ontario Centre for Accounting Innovation Research