Chapter 3
Definition and Measurement of Sustainability and CSR: Circumstances of Perceptual Misalignments

Kristian J. Sund

Abstract Corporate responsibility (CSR) measurement is intimately linked to CSR definition, and the same can be said of sustainability. Yet, there is no universal definition of what constitutes responsible and irresponsible, or sustainable and unsustainable, corporate action. Furthermore, perceptions of what is important to measure as part of CSR and sustainability reporting differ across both internal and external stakeholders. What are the circumstances and consequences of differences in the perception of definition and measurement between internal and external stakeholders? In this short essay I discuss this question and propose four possible circumstances that firms (and indeed researchers) could face when dealing with CSR and sustainability measurement. I refer to these as circumstances of definitional and/or empirical perceptual misalignments.

3.1 Introduction

Corporate responsibility and sustainability reporting and measurement has as long a history as non-financial reporting in general. This is because information concerning environmental, social, economic, and governance issues in the broadest sense, have been reported to stakeholders, formally or informally, for as long as corporations have existed. The firm is thus best viewed as an open system, in constant interaction with its environment, and as such non-financial information flows regularly in and out of the firm (Bourgeois III, 1980). The formalization of such reporting is a more recent phenomenon. From an early focus on formalized environmental reporting, as well as associated quality management systems such as ISO14000, firms moved into broader CSR reporting. Within the European Union, EU Directive 2014/95/EU was introduced in 2016, now making CSR reporting mandatory for

K. J. Sund (✉)
Department of Social Sciences and Business, Roskilde University, Roskilde, Denmark
e-mail: sund@ruc.dk

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companies with over 500 employees. Today, many (especially larger) firms issue multiple yearly reports. For example, food giant Nestlé among other publishes an annual report, a governance report, and a CSR report, the latter under the title "Creating Shared Value and Sustainability", a clear reference to the ideas of shared value of Mark Kramer, Michael Porter, and others (Porter & Kramer, 2006). In fact, Nestlé explicitly collaborated with these academics and adopted the creating shared value framework (Koep, 2017).

Taking the example of Nestlé a step further, their reporting reveals that they apply a specific and explicit definition to the idea of corporate responsibility. Their empirical reporting appears extensive, and they make further explicit references to both Sustainable Development Goals (SDG) and to ESG measurements. They report that their 2021 ESG score rated by FTSE4Good was 4.7 out of 5, and by MSCI an AA score, putting them in the top 20% of their sector. They thus appear to be relative champions of corporate responsibility and sustainability, in intentions, actions, and reporting. Yet, they have also been fairly systematically criticized for some of their products not being sustainable, especially in reference to Nespresso capsules (Hamann et al., 2014). They have also (along with other multinational corporations) been criticized for imposing their own definitions of sustainability and CSR that in turn legitimize their economic actions. Jallow (2009, p. 523) for example writes about their "Commitment to Africa" report that "*Nestlé is forming a view about what constitutes sustainable development in Africa and how it sees its role in delivering its commitment. This tends to create the impression (for Nestlé stakeholders) that Nestlé is in a position to deliver sustainable development in its role as corporate citizen by a 'business as usual' approach, where social commitments are part of an economic programme of delivering added value in social and economic terms*."

Perhaps it should not be surprising that even a firm that has developed a clear definition of its CSR and sustainability, and associated extensive empirical reporting, could face criticism. There are after all inherent tensions in CSR reporting, between future-oriented ambitions and goals, and past-oriented reporting (Koep, 2017). Broader forward-looking statements of corporate aspirations – the visions regarding responsibility and sustainability – most likely will not be directly backed up by the much narrower reviews of past performance that are reported publicly. This leaves the firm open to critique. Furthermore, managers are information workers, perceiving and interpreting the external environment on behalf of the firm (Daft & Weick, 1984; Sund, 2013, 2015). As managers try to make sense of their responsibilities and of the notion of sustainability, their definition (i.e., sensemaking) will likely change over time, and thus also their reporting focus. A further issue is that different managers will interpret the external environment of the firm differently, and these interpretations will not necessarily coincide with the interpretations of external stakeholders (Egfjord & Sund, 2020). Internal and external stakeholders will inevitably perceive things differently. Finally, both internal managers and external stakeholders are subject to cognitive biases and to incorrect perceptions, not helped by the uncertainty that may surround relatively ill-defined concepts such as responsibility and sustainability, such that stakeholders both internal and external to the firm may misperceive reality (Doty et al., 2006; Huff et al., 2016; Mezias &

Starbuck, 2003; Sund, 2016; Sund et al., 2022; Sutcliffe, 1994). A final consideration is that different stakeholders may have an interest in framing the CSR of a particular firm in different ways, leading to a contest of competing frames (Kaplan, 2008; Sund & Anson, 2021). In the next section, I will propose a simple framework to help conceptualize different circumstances of agreement surrounding CSR and sustainability definition and measurement (reporting). I will then briefly comment on the inevitability of disagreements, leading me to conclude that firms cannot hope to ever escape criticism.

3.2 Circumstances of Perceptual Misalignments

Corporate responsibility and sustainability definitions and measurements may be the subject of perceptual misalignments between different stakeholders. Such misalignments can be internal in the firm but are more likely to be between the firm and its external stakeholders, or between different external stakeholders. Given my earlier discussion, it may be inevitable for such misalignments to appear. They can usefully be categorized into four types of circumstances, as indicated in Table 3.1.

The first type of circumstance is that in which there is a mismatch between the perceptions of internal and external stakeholders (or indeed between different external stakeholders) regarding both the definition and measurement. What is defined as responsible corporate behaviour will ultimately influence what is later measured (Pérez & Rodríguez del Bosque, 2013). The same can be said for the definition of what constitutes sustainable development and corporate actions. If stakeholders already disagree on the definition of what actions would be responsible and sustainable, the likelihood of also disagreeing on what should be measured appears greater. However, it is important here to note that it is misalignments of *perceptions*, rather than any objective truth that will lead to problems. After all, in the context of the large multinational firm there may not be any single objectively superior definition of responsibility (see for example the academic literature on the links between national culture and CSR, Zyglidopoulos (2002)), but rather differences in perceptions.

The second circumstance is that in which stakeholders have aligned their perceptions of what social responsibility and sustainability is, but there is misalignment concerning measurement. The problem is an empirical one. This could happen if the firm omits to measure important variables, if data quality is insufficient, or indeed if

Table 3.1 Definitional and measurement agreement

	Low level of agreement on definition	High level of agreement on definition
Low level of agreement on measurement	A. both definitional and empirical misalignments	B. Perceptual misalignment: Empirical problem
High level of agreement on measurement	C. Perceptual misalignment: Definitional problem	D. Perceptions aligned

stakeholders fail to understand the data actually reported by the firm. In such circumstances, external stakeholders may demand more transparency or try to influence the firm to divulge particular information. It is even possible that stakeholders try to change the actions of the firm. A good example of a case in which perceptions appeared to be misaligned is the famous Brent Spar case, which has been described as a case of responsibility communication gone wrong (Löfstedt & Renn, 1997). Arguably one strategy could be for firms to simplify and standardize measurement, for example through common industry standards, or through standardized rating systems such as the ESG ratings of various ESG rating agencies (e.g., Sustainalytics, MSCI, Bloomberg, Moody's). This has been the approach of many large firms and has the advantage of legitimizing the firm's measurements. To the extent that both internal and external stakeholders trust whatever measurement standard the firm adopts, and perceive the standard to be relevant, the approach could serve to align perceptions (moving the firm into quadrant D in Table 3.1).

A third circumstance, that at first glance appears only theoretical, is that where perceptions of definition are misaligned, despite agreements on measurement and reporting. In this situation, there is a definitional problem, rather than a measurement one. This would seem unrealistic if, as earlier discussed, we assume that definition precedes measurement. However, in the case of very specific products, such as the Nespresso capsule example, a firm may find that stakeholders disagree over the very definition of what constitutes sustainable actions. Nestlé defines their aluminium-based product as very sustainable given that the material is almost 100% recyclable. Criticism emerged early on that this doesn't help if the capsules in reality end up in landfills. The disagreement seems to be more about the definition of the firm's responsibility, rather than what or how to measure. For example, is it the firm's responsibility to ensure that its products are recycled, and should it thus take responsibility from cradle to grave, or is it sufficient to ensure the product is recyclable, and then entrust public authorities and consumers with the task of getting it done?

I have defined this as a definitional problem. A solution often seen is for public authorities to define by law what constitutes responsible action. However, industry collaborations can also take onboard this responsibility. For example, in Switzerland the Swico Recycling system has been in operation since 1994, a voluntary system set up by manufacturers and importers of consumer electronics, allowing consumers to deliver electronics of all kinds back to retailers and manufacturers for free recycling. If stakeholders can agree on such systems, it can serve to align their perceptions of what constitutes a responsible and sustainable handling of electronic or other waste.

A final circumstance is that in which perceptions regarding both definition and measurement are aligned. In such a circumstance the firm would appear by external stakeholders to be both credible and socially responsible, or at least to be moving in a direction of increased transparency regarding their responsibility and sustainability.

3.3 Concluding Comments

Due to a constantly changing environment, new products being introduced, and the many other changes surrounding the firm, both the definition and measurement of corporate responsibility and sustainability can be expected to constantly change as well. As such, a state of perfect perceptual alignment between stakeholders is unlikely to be durable. A given firm should expect to be confronted with episodes of both definitional and measurement problems, as previously described. Viewed from this angle, firms must develop strategies for managing perceptual misalignments. For example, firms can work closely with industry associations and standards agencies to develop a consensus on how best to measure environmental impacts.

For scholars studying CSR and corporate sustainability, the problem is different. They have to recognize that various stakeholders' cognitions, with their inherent biases and differences of interpretation, are what they often capture in their research, and these perceptions may be grossly inaccurate (see e.g., the discussions of managerial misperceptions of Mezias & Starbuck, 2003, and Sund, 2016). Thus, scholars simply pointing out and trying to theorize based on particular short-term cases of apparent irresponsibility, if and when such cases are actually just circumstances of perceptual misalignments, is at best misguided, at worst downright unscientific. Put differently, measuring the degree of responsibility is as much subject to both definitional and measurement problems for the scholar, as it is for firms and their various stakeholders.

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Kristian J. Sund is Professor of Strategic Management at Roskilde University in Denmark. He holds a Doctorate in Management and Licentiate (M.Sc.) in Economics from the University of Lausanne, and a M.A. from the Ecole Polytechnique Fédérale de Lausanne (EPFL), where he also completed his post-doc.