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## Social reporting in the tobacco industry: all smoke and mirrors?

Lee C. Moerman  
*University of Wollongong*, leem@uow.edu.au

S. L. Van Der Laan  
*University of Sydney*

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### Abstract

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### Keywords

British American Tobacco, tobacco industry, corporate social reporting, legitimacy theory

### Disciplines

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# **Social Reporting in the Tobacco Industry: All Smoke and Mirrors?**

**Lee Moerman**

University of Wollongong, Australia

**Sandra Van Der Laan<sup>\*</sup>**

The University of Sydney, Australia

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## **Abstract**

The purpose of this paper is to examine the process of social reporting as a proactive management strategy to bridge the divide between the social and the economic. In July 2002 British American Tobacco launched their first social report coinciding with the release of the World Health Organisation's Framework Convention on Tobacco Control. A case study, utilizing textual analysis of publicly available documents examined through a legitimacy perspective, was used to explore this issue. This paper asserts that the process, guidelines and assurance employed by British American Tobacco for its social report is a management strategy to enter the contested domain of public policy. Since this research is limited to British American Tobacco's 2001/2002 Social Report and supporting documents, further research could include interviews with key players or a longitudinal study to compare and contrast the social reporting practices of BAT over time. The tobacco industry has been heavily criticised and is now facing control via global regulation. In this context the World Health Organisation, as a multi-lateral body exercising regulatory powers, extends the notion of stakeholders that have the potential to exert pressure on the 'legitimacy' of an organisation.

## **Introduction**

Developments in health and public awareness, litigation, regulation and the release of damaging internal documents pointing to questionable ethical behaviour all confirm the increasing social and financial pressure on the tobacco industry (Social Investment Forum, 1998). Contributing to the negative public image is the regressive effect the industry has on global poverty (Garnaut, 2002). Accordingly, in the burgeoning area of ethical or socially responsible investing, many funds explicitly prohibit holdings in firms that operate in the tobacco industry (Kreander et al, 2002). These pressures have created a 'legitimacy gap', providing a significant motivation for organisational legitimisation within the tobacco industry. In what some believe to be an attempt to redefine the company as "responsible" (Burton and Rowell, 2002, p. 6) British American Tobacco (BAT), a multinational corporation involved in tobacco production, cigarette manufacture and marketing, delivered its first social report in July 2002.

Another source of concern for the tobacco industry is the proposed Framework Convention on Tobacco Control (FCTC) developed by the World Health Organization (WHO). It aims to set international standards on such issues as tobacco production, advertising, marketing and prevention of smuggling. In that context, a spokesman for the civil society group Action on Smoking and Health, is quoted as saying

British American Tobacco sees the Framework Convention as a threat to its growing markets in developing countries. It is determined to derail it, delay it and sabotage it in any possible way it can (in Burton and Rowell, 2002, p. 6)

Prior research has identified various 'relevant publics' (Lindblom, 1993), which bring pressure at the nexus between an organisation and its operating environment (Neu et al, 1998; O'Donovan, 2002; Tilt, 1994). These range from, but are not limited to, investors, potential investors, lobby groups and regulatory agencies (Tilt, 1994; Deegan and Rankin; 1997; Buhr, 1998). The pressure to improve social and environmental performance or meet expectations can be applied through the legal system (Buhr, 1998). This paper addresses the external pressure from a multi-lateral organisation exercising its regulatory powers. Through the exercise of these powers, WHO has the capacity to engage the tobacco industry in the public arena, and force the industry to address the issues surrounding their products. Social reporting, as a proactive management strategy, is one response to this threat. The neutrality of corporate communications has been challenged on the grounds that the contents are largely determined by and reflect management beliefs (Buhr, 1998). As well as pre-empting and subverting attempts to regulate the industry globally, the process of social reporting has the potential to legitimate the industry and improve its image. In an effort to deflect criticism, BAT has undertaken an audited process of stakeholder engagement for their voluntary social disclosures.

In the field of corporate social reporting (CSR) there have been attempts to theorise the motivational aspects for the production of voluntary social reports. These various theoretical approaches and their applicability to BAT and its social report aptly demonstrate managerial tactics. Legitimacy theory has been used to critique and expose the inherent paradox of the tobacco industry, producing a product with questionable positive outcomes and reporting as a 'good corporate citizen'.

Description and analysis of the BAT Social Report 2001/2002 and the process of stakeholder engagement is worthy of close scrutiny.

### **The Mirror: Theoretical Perspective**

To place CSR in a theoretical context, several broad, overlapping groups of theories concerning information flows between organisations and society have been used (Gray et al, 1995). This paper utilises a perspective from the social and political theory studies, legitimacy theory. Full discussion of the contributions from the other groups is not within the ambit of this work and may be found elsewhere (see e.g. Cooper and Sherer, 1984; Deegan, 2002; Gray et al, 1995; Gray, 2002; Tilt, 1994; Tinker et al, 1991).

Social and political theories that focus on the role of information and disclosure in the relationships between organisations, the state, individuals and groups are most appropriate in explaining CSR. Political economy theory places an emphasis on the inter-relationships between political and economic forces in society and recognises the effects of accounting reports on the distribution of income, power and wealth (Cooper and Sherer, 1984). This perspective also “accepts that society, politics, and economics are inseparable so that issues, such as economic issues, cannot be considered in isolation from social and environmental issues” (Blomquist and Deegan, 2000, p. 7). It recognises a pluralistic set of recipients of CSR information, who are considered to be in constant conflict, reflecting the amount of power they wield in society (Puxty, 1986). Social accounting can be considered a reflection of social conflicts occurring “between capital and other social interests (e.g. environmentalists, workers, consumers, women, minorities)” (Tinker et al, 1991, p.

46-47). A power elite that emerges sets the agenda for maintaining control through the accounting process (Buhr, 1998). Accounting systems, of which CSR is part, act to “create, distribute and mystify power” (Buhr, 1998, p. 165). This “radical paradigm suggests that society reflects the basic organizing principles and institutional structures within it (i.e. the capitalist structure)” (Tilt, 1994, p. 49). Yet, the paradigm does not necessarily subscribe to the view that this nature of society and its structures are socially desirable (Hopper and Powell, 1985).

From social and political theories, stakeholder theory and legitimacy theory have developed. These theories are similar and essentially derived from the broader political economy theory (Gray et al, 1996; Deegan, 2002). While there are differences between stakeholder and legitimacy theory, they both focus attention on the nexus between the organisation and its operating environment (Neu et al, 1998.). This environment at the micro-level is engagement with identified stakeholders, suggesting a stakeholder approach. At the micro-level legitimacy theory also deals with stakeholders, and acknowledges heterogeneity and conflict, but it also operates at a macro or conceptual level, presenting stakeholders in the broader social context. At this conceptual or abstract level, legitimacy theory deals with perceptions and the processes involved in redefining or sustaining those perceptions and can accommodate notions of power relationships and discourses at a global level.

Stakeholder theory recognises the dynamic and complex relationships between organisations and their stakeholders and that these relationships involve responsibility and accountability (Gray et al, 1996). “Stakeholder analysis enables identification of those societal interest groups to whom the business might be considered accountable,



and therefore to whom an adequate account of its activities would be deemed necessary” (Woodward and Woodward, 2001, p.1). Therefore, CSR could be considered as part of a ‘contractual’ relationship between organisational stakeholders (Cooper and Sherer, 1984, p. 212).

Legitimacy theory posits that organisations are continually seeking to ensure that they operate with the bounds and norms of their respective societies (Blomquist and Deegan, 2000). To this end, they attempt to establish congruence between “the social values associated with or implied by their activities and the norms of acceptable behaviour in the larger social system of which they are part” (Dowling and Pfeffer, 1975, p. 122). Consistent with that, Richardson (1987, p. 352) asserts accounting is a legitimating institution and provides a “means by which social values are linked to economic actions”. It is perceived that an organisation may employ ‘legitimation’ strategies when faced with a threat to its legitimacy (Lindblom, 1993). Organisational legitimacy can thus be constructed through the use of symbols or symbolic action communicating a ‘public image’ (Dowling and Pfeffer, 1975). This image may be in line with the primary goals, methods of operation or output of the organisation (Neu et al, 1998). Issues concerning legitimacy, raised in society, are addressed in the public policy arena as it is not restricted to the realm of the market system. Thus, social disclosures influence the public policy process directly and indirectly through the communication of corporate or industry information.

At the micro-level stakeholder theory is primarily concerned with how an organisation manages its stakeholders (Gray et al, 1997). While this would provide interesting insights into the social reporting practices of BAT, the purpose of this

work is to expose BAT's strategy of using an accounting discourse, social reporting, to enhance organisational legitimacy. This occurs by attempting to alter or re-orient perceptions of the organisation and the industry and construct an image. Therefore, legitimacy theory is the appropriate theoretical perspective.

## **Roll Your Own – Method**

The method adopted for examination and analysis of BAT's Social Report is a case-study utilising textual analysis. Since this research is concerned with the processes involved in redefining or sustaining perceptions, there is no necessity to enter the contested domain of stakeholders. Competing texts beyond annual reporting (Campbell et al, 2003) provide the basis of the analysis. A case study allows for investigating a contemporary phenomenon in context when the boundaries between the phenomenon and the context are blurred and multiple sources of evidence are employed (Yin, 1989). Publicly available documents constituted the data for research. They included, but not are confined to, BAT Social Report 2001/2002, media releases from BAT chairman, Martin Broughton and information available on the BAT website. This research centred on the image or particular 'spin' (Everett, 2002) that was conveyed in these public documents. This strategy of the organisation is explored by using sources that demonstrate how BAT represents itself to society at large. Further research could include interviews with key players using a stakeholder perspective or a longitudinal study to compare and contrast the social reporting practices of BAT over time.

## **Smoke in Your Eyes?**

### **British American Tobacco**

The origins of the United Kingdom based corporation, British American Tobacco p.l.c can be traced back to 1902. After one hundred years and the global spread of the tobacco industry, BAT has emerged as a major player with over fifteen percent market share in tobacco and tobacco-related products. This involvement includes 'doing business' in 180 countries, controlling 250,000 tobacco farmers, running 84 factories in 64 countries and employing 85,000 people globally. From direct and indirect tax, governments are estimated to gather £14 billion annually (BAT, 2002(a)). As well as its stated economic benefits, BAT (2002 (b)) also maintain it

...transfer[s] world class technology, management know-how and international best practices in areas such as quality, environment, health and safety protection, employment and corporate governance.

BAT concedes that apart from the positive economic, technical and ethical dimensions of the organisation, tobacco products carry real health risks for those who choose to smoke (BAT, 2002(a)) and impacts public health (Broughton, 2001, p. 4). As such, BAT publicly supports regulation to reduce this health impact including such initiatives as public information, marketing to prevent youth smoking and sales, tougher action on counterfeiting and public and workplace policies. But, BAT management argues that there is no compelling proof that environmental tobacco smoke (passive smoking) is harmful, but merely an irritant (BAT, 2002 (a)). It openly supports the 'right to smoke' argument, based on the broader neo-liberal view, embracing the freedom of the market and the right of individuals to make an informed choice about a legal product.

## **Where there's Smoke**

### **The Framework Convention on Tobacco Control**

On the 24<sup>th</sup> May 1999 the World Health Assembly (WHA), the governing body of the WHO, unanimously backed a resolution to commence work on the FCTC. A framework convention is a legal treaty or international agreement between states in written form and governed by international law. This agreement outlines the general stated objectives of the FCTC in relation to health-related and other tobacco issues, which are supplemented by protocols. These protocols are treaties, or separate agreements, entailing more specific legal obligations (WHO, 2000). The import of agreement to such a framework convention is not trivial. The Kyoto Protocol emanating from the United Nations Framework Convention on Climate Change is highly profiled because of its economic and social implications for member states.

As an international, multilateral organisation WHO states that by bringing together its technical and public health expertise it has the ability to “circumscribe the global spread of tobacco and tobacco products” (WHO, 2000, p. 8). In general terms the broad objectives of the FCTC include: protecting children, adolescents and vulnerable communities from tobacco through their exposure to smoking and marketing; addressing the prevention and treatment of tobacco dependence; promoting a smoke-free environment and tobacco-free economies (WHO, 2000). More specifically, WHO envisages that the protocols could address issues such as advertising, package design and labelling, environmental tobacco smoke, agricultural diversification and smuggling (WHO, 2000).

Smoking and tobacco related issues have a worldwide focus. The stated ultimate aim of WHO, through the FCTC, is to abrogate the social and health-related risks by the reduction of tobacco smoking globally. In so doing, there is recognition of the anticipated economic effects of tobacco control. In the short to medium term, WHO expects those economies relying heavily on tobacco exports will suffer until agricultural diversification is established. However, it argues, that the benefit in terms of decreased health and social costs will outweigh the direct economic benefits from tobacco cultivation in the long term (WHO, 2000).

WHA has established an Intergovernmental Negotiating Body to negotiate the text of the FCTC and related protocols. This body is open to all WHO Member States, regional economic integration organisations and observers. The intended adoption of the FCTC is stated as being no later than May 2003 (WHO, 2000). At the time of writing, 47 states have become signatories[1], indicating political support and a commitment to abide by the principles until ratification (WHO, 2003).

### **‘Chain’ Smoking - Linking BAT & FCTC**

In 2001, BAT in collaboration with other tobacco companies, launched the voluntary international minimum Marketing Standards (BAT, 2001). According to its Chairman this initiative “raises the bar” in terms of advertising, packaging and sponsorship (Broughton, 2001, p. 4). In 2002 BAT produced its first Social Report in an attempt to provide “broader accountability to stakeholders” and to present “clear evidence of a socially responsible tobacco company” (BAT, 2002 (a), p.1). At this point it is worth noting the interesting time line of events. In 1999, WHA introduced measures to significantly curb the increase of tobacco use worldwide and the tobacco industry

within two years introduced its own standards and BAT repositioned itself to appear a 'transparent' and responsible corporate citizen.

It is worth contemplating why a tobacco company has voluntarily produced an expensive[2], extensive social report when in less than a year mandatory standards will evolve under the FCTC. According to BAT, the ultimate question for stakeholders is, who would they prefer to manage the tobacco industry? BAT posits the options as either the legitimate well-run responsible tobacco industry or organised crime, counterfeiters and back-door salesman, likely to flourish under the new framework (Broughton, 2001). The management of BAT are, however, in agreement with some of the aspirations of the WHO initiative, but question the appropriateness of a global health organisation to properly address the issues surrounding the whole tobacco debate. Much of this debate centres on proprietary rights and the commercial secrets implication of full product disclosure. The WHO, according to BAT, has not engaged the tobacco industry as an important player and has excluded it from the FCTC negotiations (BAT, 2001). BAT contests the validity of data and the method for calculating the future mortality statistics generated by WHO, as the basis for implementing the FCTC. Contesting those data and methods, also undermines the legitimacy of WHO and its objectives.

The conflict and ensuing debate differentiates the 'economic view', which is the argument taken by the tobacco industry, and the 'health or social view' taken by WHO. This conflict is exacerbated in the Third World and developing countries in which issues surrounding economic development dominate health issues[3]. The consumption of cigarettes in the Third World is increasing through sophisticated mass

marketing and promotion (Sethi and Steidlmeier, 1997). Apart from the health issues there are problems of land degradation, deforestation and the shift away from food production to revenue producing tobacco crops (Sethi and Steidlmeier, 1997). As one of the most heavily taxed commodities, tobacco provides revenue from tax for governments, income to farmers, income to processors and foreign exchange (Sethi and Steidlmeier, 1997). BAT enters this debate by contesting the appropriateness of a ‘one size fits all’ approach by WHO (BAT, 2002(b)) as a “clumsy imposition of first world solutions” threatening self-determination and an example of moral and cultural imperialism (Broughton, 2001, p. 2). BAT further expands the argument to capture the World Bank’s alignment with WHO as the ‘dark side’ of globalisation and an abuse of power (Broughton, 2001). Although we may agree with these sentiments, the championing voice of a multinational corporation relying on an overtly dangerous product for economic survival is questionable in the extreme.

The global tobacco industry is considered by BAT to be indispensable in terms of employment and taxation revenue (Broughton, 2001). And, tobacco industry regulation has broader implications. For example, there are significant concerns regarding smuggling and other illegal activities, agricultural issues such as biodiversity, chemical use and deforestation, as well as health issues, which WHO seeks to address through the FCTC. The central issue in the regulation debate is whether the tobacco industry can self-regulate through industry standards and corporate social reporting, and encompass not only the economic, but also the social and political aspects of the debate. BAT’s initial social reporting process is thus worthy of close analysis.

## **Smoke Rings - The Reporting Process**

British American Tobacco's Social Report 2001/2002 is a one hundred and fifty six page glossy magazine-style publication. It is available in hard copy as well as from the company web-site. According to British American Tobacco,

[W]e have adopted social reporting to help us to embed the principles of Corporate Social Reporting (CSR) within the Group, to meet greater demands for corporate transparency and to continue improving our management decision-making through sensitivity to changing expectations in society. (BAT, 2002(a), p. 9)

In the first cycle of reporting thirteen countries were included in the process representing the five geographical regions (BAT, 2002 (a), p. 9) (see Appendix 1). BAT used the AA1000 (see below) as a standard to guide the process of stakeholder engagement, the Global Reporting Initiative (GRI) guidelines provided the format and content for the report and Bureau Veritas performed the external audit. We take these *seriatim*.

### **AccountAbility1000 (AA1000)**

The AA1000 framework was established by the Institute of Social and Ethical Accountability (ISEA or AccountAbility) as a means of improving accountability and performance through a process of learning through stakeholder engagement (ISEA, p.15). The AA1000 is referred to as a framework as it includes a standard, a set of guidelines and professional qualification or audit process[4]. As such it can be used by organisations as a stand-alone framework for reporting, or as a process framework



for guiding stakeholder engagement using other social and ethical reporting indicators. In the case of BAT, the framework has been used to guide its stakeholder engagement process. Through this process certain areas and issues of concern were identified, followed by reporting using the GRI indicators of performance. Each of the 13 representative countries appointed an independent facilitator who selected and contacted stakeholders for the engagement process (BAT, 2002(a)). Stakeholders have been defined by British American Tobacco as

..any person or organisation on whom our business impacts or whose actions impact on us. Broadly this means governments, regulators, politicians, consumers; investors; employees; commercial and trade partners; scientific and medical community; local communities; welfare, family, education and religious groups; NGOs; campaigner/pressure groups (BAT, 2002(a), p.11)

In the UK, of the one hundred and sixty seven stakeholders invited, thirty-four replied and attended the stakeholder engagement process (see Appendix 2). It has been suggested that health groups boycotted the process as a “public-relations mirage, completely devoid of substance” (Burton and Rowell, 2002, p. 6).

The overarching objective of AA1000 is the notion of accountability. AccountAbility state that to account is to explain or justify to those people who have a legitimate interest. Thus, in order to discharge its accountability an organisation

will account for its acts, omissions, risks and dependencies. However, in addition to this accounting requirement of transparency, accountability

also entails a broader obligation of responsiveness and compliance (ISEA, 1999, p. 8)

‘Responsiveness’, in this sense, is the capacity to support continuous improvement for organisational processes; ‘performance and compliance’ entails the duty to comply and report on agreed standards (ISEA, 1999). The stakeholder dialogue process identified issues and areas of concern, to which BAT responded. If these areas coincided with those already measured within the company group they were reported against the GRI.

This notion of accountability as the overriding principle is supported by identifiable characteristics that can be used in the design of an organisation’s social and ethical accounting, auditing and reporting process (see Fig. 1)

### **Take in Figure 1**

In the model, accountability is directly supported by the idea of inclusivity. Thus, at every stage of the process, inclusivity reflects the needs of stakeholders, including ‘voiceless’ future generations and the environment. This stated, stakeholder engagement is designed to infuse the three broad operational aspects of the standard. These principles are meant to identify the characteristics of a quality process and can therefore be used to design as well as assess the quality of stakeholder engagement (ISEA, 1999, p.10).

The 'standard' component of AA1000 is a process not a substantive standard. As such it specifies the processes an organisation should follow to account for performance, not the levels an organisation should achieve (ISEA, 1999). To comply with the quality principles stated above, the process includes planning, accounting, auditing and reporting, embedded by virtue of a feedback loop. Thus, it is stated, the experience of the first cycle is integrated and therefore provides the opportunity for continuous improvement in the organisation's activities. To assist stakeholders in making an assessment of inclusion of information in a report and its meaning, a set of guidelines is included. The guidelines provide information for both internal and external auditing requirements.

### **Global Reporting Initiative**

The AA1000 guidelines and standard do not provide a definitive guide to the format or contents of social and ethical reports, nor do they define performance or calculate a score. Therefore the AA1000 framework allows the integration of other reporting guidelines for these purposes, such as the GRI's sustainability guidelines (ISEA, 1999).

In 1997 the Coalition for Environmentally Responsible Economies in partnership with the United Nations Environment Programme convened the Global Reporting Initiative to produce global guidelines for voluntary reporting on the economic, environmental and social dimensions of organisational activities. In 2000[5] these guidelines were published providing a reporting framework recommending topics and indicators of performance (BAT, 2002(a)) (see Appendix 3).

The GRI guidelines of performance are structured in a hierarchy comprising of organisation specific categories, aspects and indicators. The categories are grouped under the conventional, three broad areas of economic, environment and social dimensions of sustainability, plus a fourth dimension. This fourth dimension of information is organisation specific indicators based on consultation with stakeholders (GRI, 2000). These indicators are considered to be experimental and embryonic and are reported as systemic or cross-cutting. Systemic indicators link performance at the micro-level (organisation) with the macro-level (national, regional etc). Cross-cutting indicators traverse two or more of the sustainability elements (GRI, 2000). BAT reported against fifty percent of the GRI Social and Environmental Indicators (BAT, 2002(a)) (see Appendix 4). The majority of reporting occurred in the area of environmental management.

The GRI categories are operationalised by 'aspects'. The indicators provide either a quantitative or qualitative measure of the aspect (GRI, 2000). Economic performance indicators are concerned with the organisation's impact on the economic circumstances of stakeholders and includes, although not confined to, traditional financial accounting measures (GRI, 2000). Environmental indicators direct attention to the impact on living and non-living natural systems (GRI, 2000). These environmental indicators, following 20 years of experience, have evolved to include general and more advanced organisation-specific indicators (GRI, 2000). The social indicators hone in on an organisation's impact on social systems. As an example of the hierarchy used, the 'Social' reporting dimension includes a category 'Human Rights', one aspect is 'Indigenous Rights', the indicators of the aspect include,

evidence of indigenous representation in decision-making and the number and cause of protests (GRI, 2000).

### **Auditing: Bureau Veritas**

Bureau Veritas is an international organisation with five hundred offices world-wide. It provides an extensive range of specialised services in the areas of conformity assessment, consulting, training and outsourcing (Bureau Veritas, 2002). The independent verification of the social reporting process of BAT against the AA1000 is evidence of compliance with an external auditing requirement. This verification entails a monitoring of the organisation's performance throughout the process, verifying dialogue summaries, stakeholder commentaries, responses, case studies and social performance data. Bureau Veritas designed a new method that included reducing the original AA1000 to a verifiable form and the building of a quantification tool, VeriSEAAR<sup>®</sup>. This assessment tool enabled a score or benchmark against three main stages of the reporting process; pre-stakeholder consultation, stakeholder consultation and post consultation (Bureau Veritas, 2002). The accuracy of reported information used established auditing techniques such as inspection of records and documents, internal and external enquiry, confirmation of information sources and accuracy and direct observation of dialogue (BAT, 2002 (a)). Verification and assurance contributed substantially to the overall cost. "The approximate value of the social reporting verification work by Bureau Veritas from May 2001 to May 2002 was £650,000" (BAT, 2002 (a), p. 18).

## **Smoke Signals – Legitimacy**

BAT, together with the tobacco industry, is facing a crisis of legitimacy. “Perhaps no industry has been subjected to such serious erosion of its legitimacy as the tobacco industry” (Davidson, 1991, p. 49). Threatening BAT’s status as a legitimate organisation are the impending increased restrictions through the FCTC, with probable economic consequences; a nefarious public image to manage; as well as wider concerns about tobacco-related environmental issues. For the first time, the opposition to the tobacco industry is authoritative, credible and co-ordinated (Moerman and Van Der Laan, 2003).

BAT’s motivation for the production of a social report could be a device in the legitimisation process. Admittedly, Freedman and Stagliano (1992) have argued that there is no single motivation for making social disclosure and it is a function of the attitude of management towards their stakeholders. They suggest that the motivations may be economic or political or a reaction to user needs. This is the micro-level of analysis addressed in stakeholder theory. In contrast, the evidence suggests that BAT’s motivations are predominately political or at an abstract level to manage society’s perceptions. Social reporting provides a vehicle for BAT to enter the public policy arena. By moving from the traditional economic sphere, the report has provided BAT with a convenient platform in the social and political realm for ‘a voice’. This voice, however, has the capacity to dominate. This confirms the fundamental tenets of theories that emanate from the political economy paradigm by acknowledging the inseparability of economic and social issues.

## **The Smoking Gun**

BAT's strategy is to effect legitimation through communication. This is consistent with the strategies Dowling and Pfeffer (1975) outline that organisations may adopt. BAT uses the report to contest critical issues, such as, the harmful health effects of environmental tobacco smoke and the statistics generated by WHO on future tobacco-related mortality. BAT thereby attempts to alter the definition of social legitimacy to conform to its present practices, output and values (Dowling and Pfeffer, 1975). BAT has also, through the processes used to prepare the report (i.e. AA1000 framework, GRI guidelines and Bureau Veritas auditing), 'identified' the organisation with institutions, values and symbols that have a strong base in legitimacy (Dowling and Pfeffer, 1975). By communicating an image, BAT is in fact constructing that image (Hines, 1988). This image is that of an organisation which operates in a controversial industry, but is committed to the principles of corporate social responsibility and capable of managing difficult social and environmental issues.

There are several compelling signals emerging from the report, exposing its role as part of a broader legitimation process. It does not, and possibly cannot, deal with all 'relevant publics'. The report is produced as a stand-alone document, not aligned to mandated financial information, and thereby aimed at capturing an audience beyond the principal-agent accountability model. The report is equivocal and partial, not definitive and complete. And whereas it addresses some genuine concerns, such as under age smoking, significantly it ignores others, such as the actual harmful health effects of its products[6].

Whilst close scrutiny of the report exposes many contentious issues, it is critical to highlight several that epitomise the discretionary nature of the report. First, the report is selective. BAT proudly states that it operates in “180 countries” (BAT, 2002 (a), p. 6) and yet only 13 countries as well as the UK “participated” in the process (BAT, 2002 (a), p. 10) (see Appendix 1). These participating countries are dominated by Western industrialised nations where BAT has a corporate presence. The negative effects of the tobacco industry extend disproportionately to the unrepresented – ‘undeveloped nations’. Therefore, the report cannot possibly be seen as complete and consequently a ‘true’ representation of BAT’s social interactions with the communities in which it operates. By giving voice to these participating countries, BAT effectively silences those that did not participate. Though the countries involved represent “a balanced spread across the Group’s geographic operating regions” (BAT, 2002 (a), p. 10) they may not represent a balanced spread across the communities affected by BAT’s operations. Regional representation does not necessarily reflect economic, political or social equality.

Second, the focus of the report is on ‘the process’. In adopting the AA1000 framework, using the GRI guidelines, complemented by a process audit from Bureau Veritas, the report is effectively legitimised. BAT selected the issues to be addressed in the process, which were “broadly validated” by the dialogue (BAT, 2002(a), p. 22) with the stakeholders who participated in the process. Essentially, BAT defined both the forum and the agenda for the report.

Lastly, and possibly most saliently, is the matter of the verification. The independent verification of the report is seen as important both by BAT and the stakeholders



involved in the process. “We have learned that independent verification is of considerable value in assuring stakeholders that the process is objective and in helping to ensure consistency and quality of reporting across many different companies” (BAT, 2002 (a), p. 22). However this verification had a narrow scope - providing an ongoing review of Group companies’ adaptation and implementation of AA1000 and to verify that the information contained in the social report is a true and fair reflection of relevant Group companies’ activities and performance (BAT, 2002 (a)). Bureau Veritas verified the process for accuracy, ensuring it was derived using the AA1000 (adapted) process, confirmed the base data by audit techniques and checked the accuracy and (or) source of numerical data. The ritual of auditing suggests the report presents a ‘true and fair’ view of BAT’s interactions with society. However, this audit process could not comment about whether the activities of the organisation were socially desirable as the scope was to verify process and form, not substance.

This social reporting exercise has already rewarded BAT. The company’s inclusion on the Dow Jones Sustainable Group Index (DJSI) from November 2002 (SAM Indexes, 2002)[7] is a major coup for a company in an industry traditionally ‘black-listed’ by ethical and socially responsible investors and funds. For inclusion, a significant weighting in the scoring process is placed on the quality and public availability of economic, environmental and social information (SAM, 2003). Two explanations for BAT’s achievement of a ‘score’ worthy of inclusion on the DJSI were cited by Lawrence (2002). First, the production of a social report and second, the involvement in workshops, conducted by Sustainable Asset Management[8], for companies wishing to improve their score. BAT’s legitimate status may be under

siege, but this listing will enhance its image significantly as it is now considered 'sustainable' by the DJSI standards (Van Der Laan and Moerman, 2003).

## **When the Smoke Clears**

BAT's stated motivation for embarking on the process of corporate social reporting is to discharge a broader notion of accountability through stakeholder engagement. The motivation, rather than being in response to needs of stakeholders, is posited in this paper as a management strategy to forestall the introduction of more onerous regulation and to obfuscate or deflect poor social performance. Rather than a pluralistic view, where stakeholders are perceived as equally empowered (Tinker et al, 1991), BAT has used its position as a large multinational corporation to re-orient the debate. In part, this relies on managing the perceptions of society through the social report by privileging certain issues and associating or identifying with institutions with a strong base of social legitimacy (Dowling and Pfeffer, 1975: Lindblom, 1993). This view is embraced in legitimacy theory.

BAT is facing a legitimacy crisis, its equivocal and partial social report is an attempt to manage the situation by redefining the public policy agenda (Davidson, 1991). This masquerading of a public image campaign as an objective, broad-based discharge of accountability should be critiqued in light of the impending enhancement to international tobacco regulation and the many 'relevant publics' who are effectively silenced by this report. Further research will serve to confirm or redefine this assertion. The laudable purpose of producing a social report has been undermined by the less than subtle purpose of this document as the vehicle for the process of legitimization, an exercise in smoke and mirrors at its best!

1. Once 40 of the member states (192 in total) ratify, accept or approve the FCTC it is legally binding on those states and for every other state that ratifies, accepts or approves from that point.
2. The cost of the 2001/2002 Social Report is estimated by BAT to be £3 million (BAT, 2002 (b))
3. The social, political and historical implications of this issue are acknowledged, but are not within the ambit of this paper.
4. The question of which occupational group will be granted or gain authority over this process is still unresolved.
5. In 2002 the GRI guidelines were revised and updated however the 2000 guidelines were current in BAT's 2001/2002 Social Report.
6. The GRI Category *Products and Services* is operationalised by aspect 6.95 which is concerned with the major social issues and impacts associated with the use of principal products and services (GRI, 2000, p. 35). This aspect is omitted in the Social Report 2001/2002.
7. For information on companies which are included on this index and the screening methods employed refer to <http://www.sustainability-indexes.com/>
8. Sustainable Asset Management (SAM) are the group responsible for producing the DJSI.

## APPENDIX 1

### STAKEHOLDER DIALOGUE FIRST PARTICIPATING GROUP COMPANIES

As well as overview reporting by British American Tobacco p.l.c., our process involves dialogue and reporting by Group companies around the world. Companies in 13 countries in addition to the UK have taken part in the first cycle and more will join over time. The initial countries were mainly chosen by the external CSR consultancy EQ Management and represent a balanced spread across the Group's geographic operating regions.

**Africa and the Middle East:**

*South Africa, Uganda, Zimbabwe*

**America-Pacific:**

*USA*

**Asia-Pacific:**

*Australia, Hong Kong, Malaysia, Sri Lanka*

**Europe:**

*Germany, Hungary, Russia*

**Latin America and Caribbean:**

*Argentina, Brazil*

British American Tobacco (2002), *Social Report 2001/2002*, p.10

## APPENDIX 2

### STAKEHOLDER GROUPS INVITED TO/ATTENDING ONE OR MORE UK DIALOGUE SESSIONS

Stakeholder Category	Invited	Attended	% of Invitees Attended
Business ethics and socially responsible investment	32	13	41%
Medical organisations	24	4	17%
Youth, women, family organisations	14	2	14%
Education	7	0	0%
Community, welfare, religious	13	1	8%
Overseas development, environment	12	1	8%
Retail, consumer	15	1	7%
Business, trade	10	5	50%
Trade Unions	6	3	50%
Government, political committees, political parties	19	2	11%
Marketing, film, broadcasting	11	2	18%
Research organisations and think tanks	3	0	0%
Anti-tobacco groups	1	0	0%
TOTAL	167	34	20%

British American Tobacco (2002), *Social Report 2001/2002*, p.122

## APPENDIX 3

### COMPONENTS OF GRI – SUSTAINABILITY REPORTING GUIDELINES CATEGORIES

#### ECONOMIC

<b>Profit</b>	<b>Intangible Assets</b>	<b>Investments</b>
<b>Wages and Benefits</b>	<b>Labour Productivity</b>	<b>Taxes</b>
<b>Community Development</b>	<b>Suppliers</b>	<b>Products and Services</b>

#### SOCIAL

<b>Workplace</b>	<b>Suppliers</b>	<b>Products &amp; Services</b>
<b>Human Rights</b>		

#### ENVIRONMENTAL

<b>Energy</b>	<b>Suppliers</b>	<b>Land Use / Biodiversity</b>
<b>Materials</b>	<b>Transport</b>	<b>Compliance</b>
<b>Water</b>	<b>Products &amp; Services</b>	<b>Emissions, Effluents, and Waste</b>

Global Reporting Initiative (2000), *Sustainability Reporting Guidelines*.

## APPENDIX 4

### COMPONENTS OF GRI – SUSTAINABILITY REPORTING GUIDELINES CATEGORIES REPORTED BY BRITISH AMERICAN TOBACCO

#### SOCIAL

<b>Workplace</b>	<b>Suppliers</b>	<b>Human Rights</b>
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#### ENVIRONMENTAL

<b>Energy</b>	<b>Suppliers</b>	<b>Land Use / Biodiversity</b>
<b>Materials</b>	<b>Transport</b>	<b>Compliance</b>
<b>Water</b>	<b>Products &amp; Services</b>	<b>Emissions, Effluents, and Waste</b>

British American Tobacco (2002 (a)), *Social Report 2001/2002*.

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Figure 1: AA Principles

