

An Analysis of Corporate Social Responsibility Disclosure by Advertising Agencies

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Abstract

The corporate annual report has become more than a mandatory financial report for public companies, with many companies also using it as an important marketing communication tool. As corporate social responsibility (CSR) is an issue of growing interest in the business world, many publicly listed companies, including advertising agencies, are voluntarily disclosing information regarding their CSR activities in their annual report. This descriptive study analyses the annual reports of the top six holding companies in the global advertising industry, in order to observe which advertising companies disclose their CSR activities and what activities they undertake, and the development of a CSR disclosure index for advertising agencies. The results indicate that some advertising companies do engage in CSR activities and disclose them in the annual report, but the level of these CSR disclosures is different between the organisations.

Introduction

It is a mandatory requirement for public companies in most countries to produce a financial report on a periodic basis for relevant regulatory bodies and shareholders. The financial report usually includes a director's report, three financial statements (financial position, performance and cash flows) and an audit report, as well as relevant notes to the accounts. With regard to the shareholders and other third parties the mandatory reports are usually disseminated within the *annual report*, which may also contain non-mandatory information. Companies may also use the annual report as a marketing or communication tool for voluntary disclosure of non-financial information to their various stakeholders, including shareholders, employees, customers, suppliers, media and the government, and to develop a particular brand image for the organisation (Berkey 1990; Hopwood 1996; Judd and Timms 1991; Neu, Warsame and Pedwell 1998; Stanton and Stanton 2002).

Over the years there has been an increase in the voluntary disclosures, with changes in the design and content to include graphics, photographs and disclosures relating to human resources, the environment and the community (Marino 1995; Stanton and Stanton 2002; Ze'ghal and Sadrudin 1990). More recently, and coinciding with some major corporate ethical disasters, many companies have been including sections on governance, ethical practice and social responsibility.

Corporate social responsibility (CSR) disclosure has been the subject of substantial academic accounting research (Farook and Lanis 2005; Gray, Owen and Maunders 1987), however, while there has been research relating to annual reports in general, little has been undertaken focusing on CSR disclosure by marketing/advertising companies (Stanton and Stanton 2002). While there are often criticisms of the ethics of advertising practice, including its effects on the more vulnerable sections of society (Belch and Belch 2007), it is important to see how the creators of advertising messages, which can influence many people in society, view their social responsibility, and if indeed they discharge their social accountability by voluntarily disclosing CSR information (Gray, Kouhy and Lavers 1995).

The research objectives of this paper are: (1) to analyse the annual reports of the top companies in the global advertising industry in order to observe which advertising companies disclose their CSR activities and what activities they undertake, and (2) to pave the way for the development of a formal disclosure index for advertising agencies. This will be achieved through analysing the annual reports of the top six holding companies (Dentsu, Havas, Interpublic Group, Omnicom Group, Publicis Groupe and WPP Group) in the advertising industry, which include the major global agencies, to determine if indeed these companies undertake any socially responsible activities and in that context how they disclose the information.

Corporate Social Responsibility and Disclosure

CSR is defined broadly as "including the concern for the impact of all of the corporation's activities on the total welfare of society" (Bowman and Haire 1976, p. 13). This assumes that the entity is influenced by and, in turn, has influence upon the society in which it operates (Deegan 2002; Farook and Lanis 2005). CSR disclosure is "... the process of providing information designed to discharge social accountability. Typically this act would ... be undertaken by the accountable organisation and thus might include information in the annual report, special publications or even socially oriented advertising" (Gray, Owen and Maunders

1987, p. 4). Within this perspective, it is assumed that the entity is influenced by and, in turn, has influence upon the society in which it operates (Deegan 2002; Farook and Lanis 2005). To that effect, corporate disclosure is seen as a method by which management can interact with broader society to “influence external perceptions about their organisation” (Deegan 2002, p. 292).

Advertising Agencies and CSR

An advertising agency is defined as an “outside firm that specializes in the creation, production, and/or placement of the communications message and that may provide other services to facilitate the marketing and promotions process” (Belch and Belch 2007, p.70). While advertisers have a social responsibility not to offend people by their advertising images (Waller 1999), there are often criticisms of unethical advertising practice, including untruthful or deceptive advertising, offensive message appeals, its effects on the more vulnerable sections of society, such as children and the poor, and the economic, social and cultural consequences of advertising (Belch and Belch 2007; Waller 1999; Waller 2005). In providing communication services to advertisers, advertising agencies play a major role in society by assisting in the formulation and dispersion of information and ideas to the broader community. According to Murphy (1998a, p.7), advertising agencies are “equally responsible with advertisers and the media for the ethical posture of advertising”.

Despite the role of agencies, the study of advertising ethics has been primarily focused on the philosophical ideas behind the topic and the “macro” perspective of the effects of advertising on society, rather than the “micro” perspective of attitudes of the firms and practitioners in the industry (Drumwright and Murphy 2004; Hunt and Chonko 1987; Waller and Fam 2000). However, from a company perspective, some advertising agencies have promoted their ethical and socially responsible practices or have produced a “corporate responsibility report” (for example, ADCORP 2004; WPP 2005a). While there appear to be some differences on the “micro”-level, it is important to see how the creators and producers of advertising messages view and promote their social responsibility.

The following will now analyse the annual reports of the top six holding companies in the global advertising industry, with the aim of answering objective 1.

Methodology

Given the exploratory nature of this research it was decided to analyse the annual reports of the top six holding companies in the advertising industry. The “Top Six” were chosen as they are perceived to be the main advertising holding companies for the global advertising industry, and they are chosen by *Advertising Age* to show the “Agency Family Tree” with the revenue ranking (Advertising Age 2003, 2004, 2005). The “Top Six” companies are: Omnicom Group, WPP Group, Interpublic Group, Publicis Groupe, Dentsu, and Havas. Copies of the annual reports were obtained from each organisation’s website. Basic information about these holding companies is found in Table 1.

Table 1: World's Top Six Advertising Holding Companies

| <i>Advertising Organization</i> | <i>Website</i> | <i>Billings</i> | <i>Headquarters</i> | <i>Agency Brands include:</i> |
|---------------------------------|----------------------------------------------------------------|-----------------|---------------------|---------------------------------------------------------------------------------------------------------------------------------|
| Omnicom Group | www.omnicomgroup.com | \$9.75 billion | New York, USA | BBDO Worldwide; DDB Worldwide; TBWA Worldwide; OMD Worldwide; Clemenger Communications Ltd; ICON; Interbrand; Kaleidoscope |
| WPP Group | www.wpp.com | \$9.37 billion | London, UK | Asatsu-DK; Bates Asia; The Campaign Palace; Grey Global; Young & Rubicam; J. Walter Thompson Company; Ogilvy & Mather Worldwide |
| Interpublic Group | www.interpublic.com | \$6.20 billion | New York, USA | McCann Erickson WorldGroup; Foote, Cone & Belding Worldwide and Lowe & Partners Worldwide |
| Publicis Groupe | www.publicis.com | \$4.78 billion | Paris, France | Publicis Worldwide; Leo Burnett; Saatchi & Saatchi; Starcom MediaVest Group; ZenithOptimedia |
| Dentsu | www.dentsu.com | \$2.85 billion | Tokyo, Japan | Dentsu Inc.; Dentsu China; Dentsu Asia; Renegade Marketing Group; Cayenne; Media Palette, |
| Havas | www.havas.com | \$1.87 billion | Suresnes, France | Euro RSCG Worldwide; MPG, and Arnold Worldwide Partners. |

Source: "Advertising Age's Agency Family Trees: 2005 Revenue Ranking for the Top Six Holding Companies"

Once the annual reports were obtained, a search was undertaken to determine if they had any CSR disclosure in chapters, sections, or statements. In particular words like "corporate responsibility", "social responsibility", "CSR", and "code of ethics" and, in general, to look for items included in extant CSR disclosure indices and for activities that are considered in the literature to be related to CSR, especially those that may be relevant to advertising agency activity. The CSR disclosure issues were classified based on the following rudimentary criteria: whether certain words were mentioned; whether there was a statement on CSR; whether there was an indication that the company had a Code of Conduct; whether there was a Committee coordinating this area for the company; whether they listed some CSR activities; whether they presented some examples, pictures or case studies, of their pro bono campaigns; and whether their CSR activities extended to their human resources and the environment.

Results

A summary of the main findings, based on a content analysis using the abovementioned classifications, is presented in Table 2. Note that two of the six companies, Omnicom and Interpublic, had no specific section with CSR disclosures, although Interpublic's annual report mentions the existence of a code of ethics, or "Code of Conduct", which it says is available for viewing at www.interpublic.com (Interpublic Group 2005, p. 211). Interestingly, both are US-based companies. Therefore, the main analysis was based on reviewing the annual reports of four organisations (Dentsu 2005; Havas 2005; Publicis 2005; WPP 2005).

Table 2: Type of CSR Information Available in Annual Reports

| <i>Advertising Organization</i> | <i>CSR Section</i> | <i>Page No.</i> | <i>CSR Strategy</i> | <i>General CSR Issues</i> | <i>HR Issues</i> | <i>The Environment</i> | <i>Pro-bono Campaigns include:</i> |
|---------------------------------|--------------------|-----------------|---------------------|-------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------|
| Omnicom Group | No | | - | - | - | - | - |
| WPP Group | Yes | 6, 97-101 | Yes | Impact of work Employment Social Investment | Diversity Development & Training Employee Ownership Communication Health & Well-being External Appointments Volunteering | Energy Consumption Paper Recycling | Red Cross, Disasters, Emergency Committee, Center for Int'l Disaster Information |
| Interpublic Group | No | | - | - | - | - | - |
| Publicis Groupe | Yes | 39-44 | - | Community Commitment Environment | Volunteer Initiatives | Energy Consumption Water Paper Recycling | Global Funds to Fight AIDS, American Cancer Society, UNICEF |
| Dentsu | Yes | 20-21 | Yes | Social Contribution Environment Human Rights | Respect for Human Rights | Dentsu Eco Program – management systems & impact assessments | UNESCO's World Terakoya Movement, Mt Fuji Protection Support, NPO Communication Support Project |
| Havas | Yes | 13-23 | Yes | Sustainable Development Human Resources Social Contribution Environment | Training Programs Diversity Communication | Energy Consumption Recycling Paper, Ink, Waste | British Heart Foundation, Amnesty Int'l Malaysia, Boston Childrens' Hospital |

Analysing the CSR sections of the annual reports of the “Top Six” advertising holding companies has not only answered objective 1, but also raised a number of practical observations. This will further assist in the development of a formal disclosure index related specifically to advertising agencies, which will answer objective 2.

CSR Disclosure Index for Advertising Agencies

While it is up to the company to voluntarily disclose their CSR activities, there may be social benefits in communicating these activities to the various publics, such as shareholders, employees, customers, suppliers, media and the government. Therefore, based on the content analysis results presented earlier in the paper a number of categories for CSR disclosures have been created as a starting point and with the view to furthering the development of a CSR disclosure index. This was achieved by grouping together like items and issues

presented in Table 2. The three main categories are: (1) a discussion of the company's CSR strategy; (2) general CSR issues; and (3) examples of CSR activities.

CSR Strategy. The companies that had CSR sections in their annual reports communicated the company's CSR strategy in some form, such as a vision statement, information on a CSR committee and/or a set of guidelines. A vision statement has been used by three of the companies (Publicis Groupe, Dentsu and Havas) that clearly set out a CSR standard towards which the company is working. Such statements can be very important to communicate CSR objectives internally and externally (Murphy 1998b). Havas, for example, presents a statement that declares the importance of the company's "civic and corporate social responsibilities", describes the areas of CSR that the company emphasises, and how the company will undertake these activities. Dentsu's statement also included what was believed to be the outcome of fulfilling its CSR commitment, that is, "to build a reputation for trustworthiness, raise our competitiveness and achieve sustainable development, thereby improving society and stimulating the economy."

WPP Group, Dentsu and Havas, in their CSR sections, also clearly identified the existence or otherwise of a committee in charge of the CSR activities for the organisation. This information included who is on the committee, their position in the organisation, and to whom the committee is answerable. This can give an indication of how important CSR is perceived to be in the corporate structure and as part of the company's overall strategy. If there is also a set of guidelines or an ethical code of conduct to follow, a link/address was available for those interested in accessing it. WPP Group discussed its own Code of Business Conduct (www.wpp.com), as did Dentsu (www.dentsu.com/profile/csr), while Havas, being a member of UN Global Compact, presented information on Global Compact and published the web address for more details (www.unglobalcompact.org).

General CSR Issues. There were a number of particular CSR issues that the companies see as important and hence disclosed them in the annual report. In general, the main CSR issues can be categorised into relating to four main areas:

- (1) work output: particularly focusing on the effect and the impact of their work in the marketplace, and that they undertake ethical work practices;
- (2) HR activities: range across a number of areas including looking after the health and well-being of the staff, staff training, staff diversity and staff volunteering;
- (3) social/community commitment: presenting activities that are aimed at the benefit of society in general, including assistance to charitable and non-profit organisations; and
- (4) environmental initiatives: emphasizing initiatives undertaken within the organisation to assist in protecting the environment and conserve resources, such as reducing energy and water consumption, as well as paper and ink recycling.

WPP, for example, states that its three most significant corporate responsibility issues are: the impact of its work, employment, and the social investment (WPP 2005b). The Publicis Groupe, on the other hand, appears to promote its community work and pro-bono campaigns in the annual report, while Dentsu focuses on environment-related activities. These issues may vary with the company, as the individual organisation will focus on its specific communication goals for the report.

Examples of CSR Activities. To assist in the understanding of exactly what the company does as part of its CSR activities, actual examples of the company's activities in the last

financial year were presented in the reports. These included such things as descriptions of staff volunteer programs or graphics of advertisements from pro-bono campaigns for particular charitable and non-profit organisations. The Publicis Groupe and Havas, in particular, showed examples of print advertisements from pro-bono work, such as for Médecins Sans Frontières and Amnesty International. WPP discussed the various CSR activities it undertakes in more detail and presented tables, graphs and charts to assist in reporting the figures of pro-bono work and donations by industry. Further work is required in order to tease out the specific items related to each category.

Conclusion

In conclusion, it appears that corporate social responsibility (CSR) is an issue of growing interest in the business world, and that many publicly listed companies are voluntarily disclosing information regarding their CSR activities in their annual report (Deegan 2002; Newson and Deegan 2002). This exploratory study analyses the annual reports of the top six holding companies in the global advertising industry (Omnicom Group, WPP Group, Interpublic Group, Publicis Groupe, Dentsu, and Havas) to observe what is being undertaken practically by advertising agencies, and to initiate the development of a CSR disclosure index for advertising agencies.

Of the six companies, four voluntarily presented a CSR section in their annual report and the discussion outlined the contents of these sections and the activities undertaken. The two companies that did not have any CSR disclosure were US-based companies. Additionally, the *level* of disclosure seemed to differ (as evidenced by the number of pages dedicated to CSR issues and the type of issues discussed) between those that did disclose, and it seems that the institutional environment of, and the impact of the relevant publics of some of the companies, are different. Furthermore, the CSR information disclosed in the annual reports (presented in the Results section and Table 2) was categorised into the following sections: CSR strategy (in the form of declaring a vision statement, a CSR committee or guidelines), general CSR issues (relating to issues like work output, HR activities, social/community commitment, and environmental initiatives), as well as examples of CSR activities. This basic typology should serve as a starting-point in developing a formal CSR disclosure index for advertising agencies.

Finally, armed with some empirical results, more specific issues may be analysed such as the role of agencies in shaping their clients' ethical behaviour to determine the degree of influence, as well as whether there is a link to practical ethical outcomes and performance. It is hoped that by publicly communicating their CSR activities, the various relevant publics will have more confidence and trust in the ability of advertising agencies to ethically undertake their business and social responsibilities.

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