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SOCIALLY (IR)RESPONSIBLE CONDUCT OF BRAZILIAN FIRMS ASSESSED IN CORPORATE SOCIAL RESPONSIBILITY INDICES

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1 INTRODUCTION

The movement around corporate social responsibility (CSR) has progressed over decades, under various institutional contexts, in which there is an increasing demand for measurement tools capable of assessing firm's social responsibility, reflecting the complexity of CSR conceptual analysis. This need to measure corporate responsibility translates firm demands for CSR issues into systematic mechanisms that are able to affect not only corporate behavior, but also decision-making throughout the economic system (Scalet & Kelly, 2009).

Under the context of demand for CSR measurement, especially to meet demands of the emerging community of socially responsible investors, rating agencies have emerged. These agencies are responsible for external assessment of corporations according to a standard of social and environmental performance through the proposition of non-financial performance indicators for firms (Delmas, Etzion, & Nairn-Birch, 2013).

In the context of the Brazilian firm, this growing demand for external measurement of firm engagement in CSR has also gained prominence, which raises proposals for metrics that externally assess CSR aspects of a relevant proportion of firms through indices, rankings and ratings, such as: Corporate Sustainability Index (ISE) in the Brazilian stock market; and rankings promoted by the Corporate Reputation Monitor (MERCO), ratings provided by CSRHub and Thomson Reuters, in the context of international agencies.

It is pertinent to point out that, most of the literature suggests that firm's interest in undertaking CSR in its business, which includes its assessment in CSR indices and ratings, reflects the firm's good corporate conduct and their commitment to avoid actions that negatively impact their corporate image (Fombrun & Shanley, 1990; Fombrun, 2005). In this context, CSR assessment by rating agencies has an aggregate impact in the movement in favor of CSR, given that it creates constant pressure to recognize and legitimize best practices that promote firm's non-financial performance (Scalet & Kelly, 2009). In contrast to this, there is another trend, known as the "window dressing" hypothesis, which defends the corporate commitment to CSR as a firm strategy to compensate for its involvement in controversial issues that reflect its "dubious" behavior in relation to its real CSR actions (Kolk & Perego, 2013; Kotchen & Moon, 2012).

In this context, it is expected that external assessment by independent agents ought to be able to accurately assess firm CSR and sustainability concerns given that they declare to use adequate well-grounded methodologies. Thus, such external assessment must be exempt from bias which may be present in the self-assessment disclosed by firms as predicted by the "window dressing" hypothesis. This argument leads to the expectation that firms that are better graded by external assessment are more committed to CSR and sustainability and, thus, are less likely to be involved in socially irresponsible issues which reflect negligent firm conduct. Taking into account the increasing importance of CSR indices as proposals for measuring and assessing firm commitment to CSR, as well as the growing concern of stakeholders with business actions, this study aims to answer the following research question: Brazilian firms that are better ranked in CSR indices are less involved in social and environmental controversies? Thus, the work aims to investigate the degree of involvement in social and environmental controversies of Brazilian firms that are assessed by CSR indices. For this purpose, a sample of Brazilian firms present in some CSR indices (ISE, MERCO, CSRHub and Thomson Reuters) in the period 2013-2017 was studied.

Based on a quantitative analysis of the degree of involvement in social and environmental controversies of the Brazilian firm, the results of this research are in accordance with the “window dressing” theoretical approach, given that firms that are better assessed by CSR indices are more involved in social and environmental controversies. In addition to denoting socially irresponsible conduct by such firms, the finding suggests that firms may not be so much socially responsible as publicly showed in external assessment provided by CSR indices. In fact, CSR indices seem to be unable to precisely assess firm CSR.

This article is structured in five sections, including this introduction. Next, the literature review is presented, which includes aspects related to evaluation of CSR by different indices and involvement of firms in socially irresponsible issues. In the third section, methodological procedures are outlined, while in the fourth section, the results of this research are presented. And finally, in the fifth section, the final remarks.

2 THEORETICAL FRAMEWORK AND RESEARCH HYPOTHESIS

2.1 External evaluation of CSR performance

Since key stakeholders tend to reward or penalize corporations based on their CSR activities and impacts, which can affect firm survival, managers increasingly seek to devote more attention to CSR activities and pay special attention to their assessment and reporting on CSR performance (Barnett, 2007; Čuček, Klemeš, & Kravanja, 2012).

Despite the efforts made by firms to report their commitment to CSR, there is a wide demand for information from different stakeholders. Due to risk of opportunistic behavior, the reliability of what is disclosed by the firm in relation to its CSR actions becomes often difficult to verify, because stakeholders do not have direct access to relevant information, especially when the firm does not adopt quality standards when rendering accounts about its CSR actions (Chatterji, Levine, & Toffel, 2009).

In this scenario of increasing demand for more comprehensive information on firm CSR by various stakeholders, proposals for external CSR assessment arise, such as market indices, CSR ratings and rankings, assessments by NGOs, consultants and research agencies (Windolph, 2011). It should be noted that the implementers of this type of CSR assessment use a variety of research combinations, financial statements, popular press articles, academic journals and government reports as data sources for appraising CSR (Chatterji, Levine, & Toffel, 2009). From these sources, analysts evaluate different categories related to firm’s CSR aspects in order to measure CSR performance (Sharfman, 1996).

An increasing number of indices, ratings and rankings that rank firms based on their CSR and sustainability performance have emerged (Antolín-López, Delgado-Ceballos, & Montiel, 2016). There is a trend towards the defense of these external independent rating providers considering them as able to guarantee more objective measurement of CSR performance, given that they go beyond the information reported by the firm (Graves & Waddock, 1994; Sharfman, 1996).

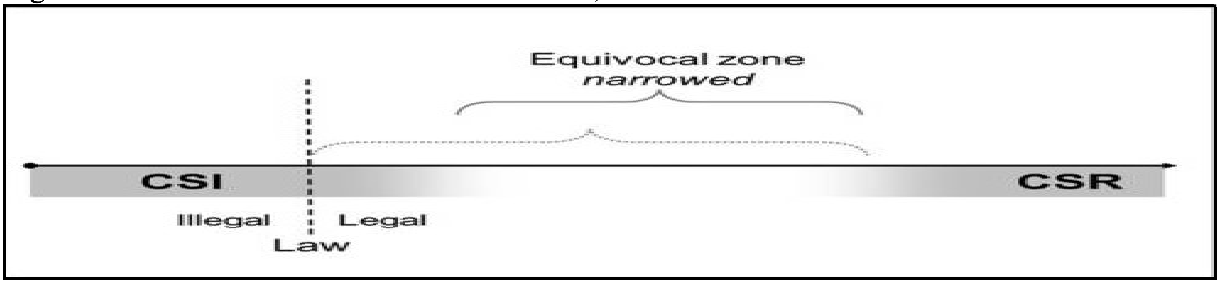
In the Brazilian firm environment, the growing demand for external measurement of firm engagement in CSR has also gained prominence. In the stock market, trying to address the demand from socially responsible investors, the Corporate Sustainability Index (ISE) has become a benchmark in CSR assessment of Brazilian firms, by selecting those firms that have the best rating in terms of engagement in CSR (Orsato *et al.*, 2015; Crisóstomo & Oliveira, 2016).

The increasingly external assessment of Brazilian firm under CSR criteria by specialized international rating agencies has been relevant. Among these agencies, the following stand out: Corporate Reputation Monitor (MERCO), which has published about Brazilian firm the “Merco Corporate Reputation Firms” and the “Merco Responsibility and Corporate Governance” indices, which cover, respectively, firms that have the best reputation and the ones considered the most responsible; the American agency CSRHub, which assesses firms based on information related to sustainability and CSR criteria obtained from different data sources; and Thomson Reuters, which is proposed to measure transparently and objectively CSR performance, considering firm's CSR commitment and effectiveness.

2.2 Firm involvement in socially (ir)responsible issues

In the last decades of the 20th century and the beginning of the 21st century, literature has devoted great attention to managerial research in the theme that integrates business and society. By addressing the challenge of ambiguities in CSR definitions, Carroll (1999) acknowledges that research produced more theory and definitions than was able to establish a systematic conceptual framework. Clark and Grantham (2012) considers that greater emphasis was given on the search to achieve the perception of ambiguous responsibility or to enact shallow CSR efforts that have little positive impact on society. Clark and Grantham (2012) agrees with the idea around critical ambiguity of CSR by suggesting that the exploration of its antithesis, which is called Corporate Social Irresponsibility (CSI), would provide a more specifiable variable, by proposing an assessment in scale continuous between CSI and its antithesis CSR. In this model (Figure 1), CSI corresponds to incorrect or illegal behavior, that is bounded by the start of the legality frontier where illegal behavior is constrained by legal rules emerged from stakeholders' pressure. From the legality frontier, CSR starts an, a priori, endless path, given its acceptance by stakeholders and the variety of forms it can be developed (Boatright, 2000). Besides the illegal behavior, CSI comprises firm legal behavior that may be subject to censure by legal rules at the present moment or in the future according to the dynamics both in incorrect behavior and in lawmaking.

Figure 1: The continuum of business behavior, from CSI to CSR



Source: Clark and Grantham (2012).

In addition, the exploitation of negative externalities should be considered as a key element of CSI, given that through them the firm would benefit itself at the expense of the social system, by generating negative impact of its economic actions on stakeholders welfarel-being (McWilliams, Siegel, & Wright, 2006). These negative externalities reflect Friedman's (1970) corporate view, under which the social responsibility of businesses is not being irresponsible, but being committed to the only purpose of increasing firm's wealth. Thus, CSI related activities are defined by Clark and Grantham (2012) as being all illegal activity, as well as those activities which are unsustainable for the global system due to exploitation of negative externalities.

The actions that denote firm's CSI are also known in the literature as controversies, risks or weaknesses of environmental, social and governance nature, which correspond to corporate facts related to these three themes and publicized as consequences of "suspicious" social behavior, inadequate environmental management, and governance problems, which, in addition to putting the firm in media spotlight, end up attracting the attention of investors and other stakeholders (Cai, Jo, & Pan, 2011; Carroll, 1979; Krüger, 2015). This type of news raises doubts about firm's future prospects and constitutes a risk to its corporate reputation, which can also lead to a negative impact on firm value , as considered by Aouadi and Marsat (2016).

In this context, a question emerges asking about justification for the firm's commitment to CSR: it would signal firm effort to follow an adequate path, keeping itself far from involvement in controversial or socially irresponsible actions, and gaining reputation and corporate image (Fombrun & Shanley, 1990; Fombrun, 2005), or, on the other hand, it would be justified as an opportunistic strategy for firm to compensate for its irresponsible behavior in matters related to its business activities, searching for legitimacy (Dowling, 2014; Kotchen & Moon, 2012). In the latter case, in which firm incorporates CSR as a strategy to compensate for its socially irresponsible actions, based on economic theory of Coase (1937), CSR would be justified only as a solution to problems associated with social costs. The empirical evidence, based on this idea of CSR capable of reducing social costs to firm, agrees with the notion that firms would be penalized when perceived as conducting their business in a way that conflicts with social values (Greening & Turban, 2000), as is the case of ethical and social scandals and environmental issues in corporate field which could financially harm even large organizations (Mazutis, 2018). In order to avoid this penalty, firms would increase their attention to aligning their corporate conduct with society's expectations, adhering to socially responsible actions aiming to minimizing their negative social and environmental impact, what is proposed by Legitimacy theory. However, the pressure exerted by stakeholders on the firm to aggregate sustainability and social responsibility issues in its business could lead it to account for its actions, publicizing only positive information about its social action, and avoiding the dissemination of negative information about its conduct, which could represent an incentive for firms to pass on false information in the search for promoting self reputation and visibility (Laufer, 2003; Windolph, 2011).

This attempt by firm to not only cover up negative information about the negative social and environmental impact of its activities, but also to publicize information on CSR issues in a symbolic and inconsistent manner, reflects the risk of its opportunistic behavior, known in the literature as the "window dressing" or "greenwashing" hypothesis, under which, in addition to making CSR initiatives less effective, it allows legitimizing "questionable" business and "tricking" stakeholders in relation to firm's true commitment to CSR (Cai et al., 2011; Jo & Na, 2012; Scalet & Kelly, 2009).

Griffin and Weber (2006) provide the theoretical view that "window dressing" is an activity strategically defined by the firm, according to which CSR assumes little strategic value in central decision-making and would only become a concern in later stages of the firm external communication process, in which reputation is better managed and created. In this sense, the commitment to CSR itself is avoided, resulting in inconsistencies between firm's true attitude towards CSR and its disclosure to the public. Therefore, the practice of "window dressing" can be seen as an activity aimed at changing public perceptions, communicating positive socially responsible behavior, while rejecting internalization of effective CSR policies.

This kind of opportunistic behavior, *a priori*, could be avoided by firm's external CSR assessment through sustainability indices and ratings, given that they are expected to be independent and able to accurately appraise firm commitment to CSR and sustainability concerns (Parguel, Benoît-Moreau, & Larceneux, 2011). In fact, a positive CSR assessment must mean that the firm integrates CSR as an important firm policy and that the firm is committed to avoid involvement in controversial actions that signal negligent corporate behavior (Abdullah & Aziz, 2013; Souza, Valadão Júnior, & Medeiros, 2017).

It is expected that the actual firm's intention of an effective commitment to CSR would be adequately appraised by its external assessment by CSR indices that are supposed to capture the real firm sustainability performance and offer consistent information on firm's CSR engagement to stakeholders, reducing information asymmetry. In this context, this study follows the theoretical proposal that suggests that the assessment of firms by external CSR indices may be considered as a benchmark that is able to reveal the real firm concern with CSR and sustainability. Thus, the idea is that indices and ratings that externally assess firms according to CSR criteria tend to exhibit greater scope and consistency in reducing informational asymmetry between stakeholders, compared to what is disclosed by the firm itself about its sustainability and CSR orientation through information contained in its internally prepared reports, especially when they do not follow disclosure quality standards. Thus, with more positive external assessment by CSR and sustainability indices indeed mean the firm is more committed to social and environmental issues, so that a better graded firm is less likely to be involved in controversies associated to such issues as expressed in the following hypothesis.

Hypothesis*: Firms that are better rated on CSR indices are less involved in social and environmental controversies.*

3 DATA AND RESEARCH METHODS

3.1 Sample

The sample consists of 1,007 observations from 275 Brazilian firms that were assessed by at least one of the CSR indices that are object of study in this research (ISE, MERCO RP, MERCO SR/CG, CSRHUB and THOMSON ESG) in the period 2013-2017, as depicted in Table 1.

Table 1: Description of the sample: observations per year for each CSR index

Índice	2013	2014	2015	2016	2017	Total
ISE	37	40	39	34	34	184
MERCO RP	100	100	-	100	100	400
MERCO SG/CG	100	100	-	100	100	400
CSRHUB	95	101	103	109	110	518
THOMSON ESG	82	87	84	86	-	335

Source: Prepared by authors from bases ISE, MERCO, CSRHUB e THOMSON (2018).

In the period from 2013 to 2017, the total number of observations of Brazilian firms that joined ISE portfolio was 184, while firm assessments provided by MERCO, CSRHUB and THOMSON ESG corresponded to, respectively, 400, 518 and 335 observations. The sample is well distributed among various industries of economy, as shown in Table 2.

Table 2: Industry distribution of firms assessed by CSR indices

Industry	N	%
Finance and Insurance	101	10.03
Software and Data	23	2.28
Construction and Transportation	102	10.12
Electricity, Water and Sanitation	125	12.41
Food, Beverages and Tobacco	75	7.44
Equipment, Electrical machinery and Transport equipment	113	11.22
Communications	45	4.47
Textiles and Footwear	15	1.49
Chemistry, Pulp and paper and Metal-mechanics	142	14.10
Oil and Gas	31	3.08
Trade	79	7.85
Others	156	15.49
Total	**1,007**	**100.00**

3.2 Data analysis procedures

Firm assessment by CSR indices and ratings takes into account firm scores obtained in MERCO rankings, CSRHUB rating, THOMSON ESG rating and firm adherence to ISE index, operated as a dummy variable. Data were obtained from reports with a list of rankings and ratings provided by each rating agency from their websites. The data on firm's involvement in socially irresponsible issues, known for social and environmental controversies, are obtained through reports released about Brazilian firms by SITAWI Finance for Good agency, which has published an annual survey on this topic since 2013 (SITAWI, 2017). Table 3 summarizes the abovementioned variables.

Table 3: Variables on firm assessment and involvement in controversies

Variable	*Proxy*	Measurement	Data sources
Involvement in socially irresponsible actions	Degree of involvement in controversial actions	Number of controversial events in which the firm was involved	SITAWI Agency
		Controversy index (CI)	
Assessment by CSR indices and ratings	MERCO Ranking Score	Logarithm of the firm's score on a scale of 3,000-10,000	Reports from CSR indices, ratings and rankings agencies (MERCO; CSRHUB; THOMSON; ISE)
	CSRHUB Rating Score	Firm score on a scale of 0-100	
	THOMSON ESG Rating Score	Firm score on a scale of 0-100	
	Adhesion to the ISE index	Dummy (0-firms do not belong to ISE; 1-firms adhere to ISE)	

SITAWI Finance for Good was founded in 2008 with the mission of mobilizing capital for positive socioenvironmental impact. It is a pioneer organization in development of financial solutions for social sector and in analysis of socioenvironmental performance of firms and economic industries (SITAWI, 2017). The monitoring carried out by SITAWI captures public facts relating to six relevant themes to CSR (communities, governance, environment, workers, human rights and business conduct) that have impacted or will negatively impact the firm, in different degrees of severity (low, moderate, severe and very severe) (Table 4).

Table 4: Scope of CSR themes taken into account by SITAWI

Themes	**Subthemes**	**Themes**	**Subthemes**
Communities	Adverse impact on communities	Human rights	Respect for human rights Freedom of association Non-discrimination Child and slave labor
Environment	Accident and pollution mitigation Biodiversity Water resources Use of energies Atmospheric emissions Waste Management Local pollution Environmental impact on transport Product life cycle	Business conduct	Quality and safety of products and services Consumer information Abusive practices Responsibility in contracting suppliers Environmental factors in the supply chain Social factors in the supply chain Corruption prevention Prevention of anticompetitive practices Transparency in government relations
Workers	Management of labor relations Employee participation Restructuring processes Career management Compensation of employees Health and safety Working hours	Governance	Administrative Council Audit and internal controls Shareholders Executive compensation

Source: SITAWI (2017).

These degrees of severity represent the potential impact of firm controversy from an economic and financial point of view, relative to firm size. In its monitoring report, SITAWI seeks to present a quantitative and qualitative analysis, highlighting the worst social and environmental practices in firms, the impacts generated on their stakeholders and how these negative impacts can affect their reputation and economic performance.

The computation of firm involvement degree in controversial actions takes into account both the annual number of controversial social and environmental events in which the firm was involved and the controversy index per firm which is calculated using a multiplier factor supplied by SITAWI for each combination between controversy severity degree and firm size which values are exhibited in Table 5. Thus, the firm-year controversy index (CI) comprises firm-year controversies taking into account firm size and controversy severity degree. The CI is computed the sum of the product of each severity degree number of controversies and the respective multiplier factor.

Table 5: Multiplier factor of Controversy index

Severity / Firm size	Small	Medium	Large
Low	0.10	0.05	0.03
Moderate	0.20	0.10	0.07
Severe	0.40	0.20	0.13
Very severe	0.80	0.40	0.27

Note: classification by firm size considered the Enterprise Value (market value of firm plus net debt), in which small size includes firms of EV < R$ 5 billion; medium size, firms of R$ 5 < EV <R$ 20 billion; and large size, firms of EV > R$ 20 billion. Source: SITAWI (2017).

In addition to descriptive statistical analysis, other methods are used: normality tests, correlation analysis, and tests for the difference in means of the degree of involvement in controversial issues between firms with higher and lower scores in CSR indices having the median score as the cutoff parameter.

4 RESULTS AND DISCUSSION

4.1 Descriptive statistical analysis

Table 6 presents descriptive statistics of the degree of involvement in CSR controversies, considering the severity level of socially irresponsible actions of Brazilian firms. In general, the coefficient of variation for each variable shows that there is high variability in the sample. The mean of total controversies observed for Brazilian firm is 2.812, while there is a minimum value of 0 controversies and a maximum value of 72 controversies per firm.

Table 6: Descriptive statistics of the number of CSR controversies by severity degree

Variable	N	mean	SD	CV	median	minimum	maximum
Low	452	0.947	2.040	2.154	0.000	0.000	16.000
Moderate	452	1.248	2.839	2.276	0.000	0.000	30.000
Severe	452	0.558	2.047	3.671	0.000	0.000	23.000
Very severe	452	0.060	0.616	10.320	0.000	0.000	9.000
Total	452	2.812	6.386	2.271	0.500	0.000	72.000
Controversy index (CI)	428	0.248	0.613	2.467	0.000	0.000	7.820

Controversies of moderate severity degree have the highest mean, 1.248, followed by controversies of low, severe, and very severe degrees with mean 0.06. Maximum number of moderate severity controversies reached the high number of 30, while severe severity controversies reached 23. Fortunately, the average and maximum number of very severe controversies are the lowest. As a whole, this picture shows a salient number of controversial occurrences involving Brazilian firms.

Table 7 shows descriptive statistics of indices that assess quantitatively CSR performance of Brazilian firm. In general, the coefficient of variation of each index shows low variation in the sample meaning, at a first glance, there is not a huge gap among firms' commitment to CSR.

Table 7: Descriptive statistics of the evaluation on CSR indices

Variable	N	mean	SD	CV	median	minimum	maximum
Thomson ESG	335	54.362	17.672	0.325	56.74	6.31	90.86
MERCO SR/CG	400	4,631.50	1,583.06	0.342	4,465	3,000	10,000
MERCO RP	400	5,579.12	1,419.45	0.254	5,644	3,000	10,000
CSRHUB	518	55.198	5.636	0.102	56	36	72

In order to identify the existence of correlation among CSR assessment indices themselves and the number of controversies, a correlation analysis was performed as exhibited in Table 8.

Table 8: Correlation matrix between normalized metric variables (Pearson's correlation)

		1	2	3	4	5	6	7	8	9	10	11	12	13
MERCO RP	1	1												
LNMERCO RP	2	0.9998	1											
		0.0000												
MERCO SR/CG	3	0.736	0.736	1										
		0.0000	**0.0000**											
LN_MERCOSRCG	4	0.740	0.740	0.999	1									
		0.0000	**0.0000**	**0.0000**										
THOMSON	5	0.366	0.367	0.401	0.400	1								
		0.0004	**0.0003**	**0.0001**	**0.0001**									
CSRHUB	6	0.164	0.167	0.230	0.229	0.529	1							
		0.0619	**0.0582**	**0.0089**	**0.0092**	**0.0000**								
ISE	7	0.1251	0.1251	0.1350	0.1350	0.5535	0.4423	1						
		0.0123	**0.0123**	**0.0068**	**0.0068**	**0.0000**	**0.0000**							
TOT_CNTRV	8	0.1759	0.1764	0.1552	0.1528	0.3159	0.0994	0.2118	1					
		0.0421	**0.0415**	**0.0779**	**0.0826**	**0.0000**	**0.0565**	**0.0000**						
VERY SEV	9	-0.051	-0.051	-0.029	-0.029	0.081	-0.027	0.034	0.279	1				
		0.5556	0.5556	0.7477	0.7401	0.2008	0.5993	0.4756	**0.0000**					
SEVERE	10	0.083	0.081	0.117	0.118	0.220	0.050	0.185	0.683	0.245	1			
		0.3410	0.3552	0.1869	0.1798	**0.0004**	0.3376	**0.0001**	**0.0000**	**0.0000**				
MODERATE	11	0.156	0.157	0.083	0.079	0.295	0.080	0.167	0.869	0.276	0.617	1		
		0.0728	**0.0698**	0.3506	0.3696	**0.0000**	0.1257	**0.0004**	**0.0000**	**0.0000**	**0.0000**			
LOW	12	0.122	0.124	0.197	0.1944	0.249	0.016	0.143	0.811	0.196	0.470	0.630	1	
		0.1611	0.1550	**0.0245**	**0.0267**	**0.0001**	0.7576	**0.0024**	**0.0000**	**0.0000**	**0.0000**	**0.0000**		
CI	13	0.1816	0.1816	0.1429	0.1423	0.3153	0.1103	0.1737	0.7303	0.2810	0.5651	0.7279	0.6339	1
		0.0379	**0.0379**	0.1075	0.1092	**0.0000**	**0.0364**	**0.0003**	**0.0000**	**0.0000**	**0.0000**	**0.0000**	**0.0000**	

Note: Data transformation was performed using the normalization technique suggested by Royston (1982), which consists in generation of new variables from coefficients of W test statistic of the Shapiro-Wilk test obtained from original variables.

Contrary to the expectation (Hypothesis), CSR indices that assess Brazilian firms have a significant positive correlation with total number of controversies (TOT_CNTRV). CSR performance of Brazilian firm performed by ISE and THOMSON ESG indices show significant correlation with total number of controversies at level 1%. For MERCO RP index, it is significant at 5%, and the significance is at 10% for MERCO SR/CG and CSRHUB indices. Likewise, there was a statistically significant positive correlation between the proposed controversy index (CI) and CSR indices, except for MERCO SR/CG. These findings are a strong signal that indeed external CSR indices have not been able to accurately appraise the commitment to social and environmental concerns of the Brazilian firm given that better graded firms in these indices present higher levels of involvement in social and environmental controversies.

4.2 Analysis of involvement in socially (ir)responsible issues

In order to analyze the degree of involvement in controversial issues by Brazilian firms assessed by CSR indices, initially, Table 9 contains the annual distribution of involvement in controversies of Brazilian firm by severity degree yearly. In general, Brazilian firms were involved in a total of 1,271 controversies related to CSR issues in the period 2013-2017. In addition, it should be noted that most of these controversies were considered to be of a moderate severity degree (44.37%), followed by 33.67% of low severity. On the other hand, severe and very severe controversies together account for about 22% of total ESG controversies. Fortunately, very severe controversies represent the lowest proportion among them (2.12).

Regarding the annual evolution of involvement in controversies, it is noticeable there was an increase of both total number of controversies and moderate and severe degrees of from 2013 to 2015, followed by their decrease in following two years. Meanwhile, low severity controversies seem to face consistent growth.

Table 9: Involvement in controversies by severity degree and year

	very severe	severe	moderate	low	total
2013	2	**35**	**89**	**46**	**172**
% by degree	7.41	13.89	15.78	10.75	
% per year	1.16	20.35	51.74	26.74	
2014	2	**64**	**122**	**80**	**268**
% by degree	7.41	25.4	21.63	18.69	
% per year	0.75	23.88	45.52	29.85	
2015	11	**71**	**151**	58	**291**
% by degree	40.74	28.17	26.77	13.55	
% per year	3.78	24.4	51.89	19.93	
2016	9	**51**	**122**	**90**	272
% by degree	33.33	20.24	21.63	21.03	
% per year	3.31	18.75	44.85	33.09	
2017	3	**31**	**80**	**154**	268
% by degree	11.11	12.3	14.18	35.98	
% per year	1.12	11.57	29.85	57.46	
Total	27	**252**	**564**	**428**	1,271
% total	2.12	19.83	44.37	33.67	

Table 10 shows the involvement in controversies of firms assessed by various CSR indices. The analysis of the proportion of firms assessed by each CSR index in relation to the total number of firms that were monitored for involvement in CSR controversies by SITAWI agency indicate that the CSRHUB index was the one with the highest proportion of firms (42.26%) that were involved in social and environmental controversial issues, followed by Thomson ESG and ISE indices, which represented, respectively, 28.32% and 22.57% of the total monitored firms.

Regarding the proportion of firms involved in controversies in relation to total number of firms assessed by each index, it is observed that 55.43% of firms evaluated by ISE were involved in some type of CSR controversy, followed by 38.21% of firms evaluated by

THOMSON ESG index and 36.87% of firms assessed by CRSHUB index. However, when analyzing the average of controversies per firm for each CSR index, the highest values are presented, respectively, by MERCO SR/CG (7.40), MERCO RP (7.38) and CRSHUB (6.49) indices.

Table 10: Involvement in controversies by CSR index

Index	Number of firm observations that have controversies	% in relation to total of monitored firms by SITAWI	% in relation to total of firms in the sample	% in relation to total of firms evaluated in the index	N controversies per index	Average of controversies per firm	% in relation to total number of controversies
ISE	102	**22.57**	10.13	**55.43**	560	5.49	44.06
MERCO RP	83	18.36	8.24	20.75	614	7.40	48.31
MERCO SR/CG	81	17.92	8.04	20.75	598	7.38	47.05
CSRHUB	191	**42.26**	18.97	**36.87**	1.119	5.86	**88.04**
THOMSON ESG	128	**28.32**	12.71	**38.21**	831	6.49	**65.38**

In addition, the analysis of the participation of each CSR index in the total of controversies in period under study, which was 1,271, as already reported in Table 10, showed the vast majority of firm-year observations involved in controversies (88.04%) were assessed by CSRHUB index. THOMSON ESG index assessed 65.38% of them, while MERCO RP and SR/CG assessed almost 50%.

A typical situation refers to the ISE index that contains 44.06% of firm-year observations involved in controversial issues. In the ISE case, this is serious because it means this proportion of firms were successful in the ISE assessment process which does not publish a "grade" on firm CSR performance but just list the best graded ones.

Following the analysis of involvement in CSR controversies, Table 11 shows the number of firm-year observations involved in controversies, stratified by CSR index. When observing this proportion, total and annually, in each CSR index, one sees that CSRHUB and Thomson ESG indices were those that presented in every year the highest percentage of firms involved in controversial issues, which exceeds the annual percentage of 80%. This percentage was also expressive for MERCO RP and MERCO SR/CG indices in 2014 and 2016, when both reached around 70% of e annual involvement in ESG controversies. Regarding ISE index, this percentage exceeds 50% in the 2014-2015 biennium.

Table 11: Annual number of firms'controversies by CSR index

Index	2013	2014	2015	2016	2017	Total
ISE	79	153	158	83	87	560
% annual	45.93	57.09	54.30	30.51	32.46	44.06
% growth from 2013		**93.67**	**100.00**	5.06	10.13	
% annual growth		**93.67**	3.27	**-47.47**	4.82	
MERCO RP	101	179	-	191	143	614
% annual	**58.72**	**66.79**	-	**70.22**	**53.36**	48.31
% growth from 2013		**77.23**	-	**89.11**	41.58	
% annual growth		**77.23**	**-**	6.70	**-25.13**	
MERCO RS/GC	96	189	-	184	129	598
% annual	55.81	**70.52**	-	**67.65**	48.13	47.05
% growth from 2013		**96.88**	-	**91.67**	34.38	
% annual growth		**96.88**	-	-2.65	-29.89	
CSRHUB	161	245	256	236	221	1.119
% annual	**93.60**	**91.42**	**87.97**	**86.76**	**82.46**	88.04

% growth from 2013		**52.17**	**59.01**	46.58	37.27	
% annual growth		52.17	4.49	**-7.81**	**-6.36**	
Thomson ESG	148	228	230	225		831
% annual	**86.05**	**85.07**	**79.04**	**82.72**		65.38
% growth from 2013		**54.05**	**55.41**	52.03		
% annual growth		54.05	0.88	-2.17		
Total	172	268	291	272	268	1.271
% growth from 2013		**55.81**	**69.19**	58.14	55.81	
% annual growth		55.81	8.58	-6.53	-1.47	

Regarding ISE index, it can be seen that its peak number of firm-year observations involved in controversies occurred in the biennium 2014-2015, when it registered a 100% increase in involvement in ESG controversies in relation to base year 2013. In the same way, MERCO RP index had its peak of firm-year observations involved in CSR controversies in 2014 and 2016, registering increases of 77.23% to 89.11% in relation to the base year 2013. The MERCO RS/GC index had considerable increase of 96.88% in controversies in 2014 alone. Regarding CSRHUB and Thomson ESG indices, both experienced an increase of more than 50% in the degree of firm-year observations involved in CSR controversies in the 2014-2015 biennium.

These results provide an overview that all CSR indices that assess Brazilian firm's CSR performance had their firms evaluated involved in issues that reflect socially irresponsible conduct, indicating that CSR indices may be neglecting relevant issues in their evaluation process, which can weaken firm's CSR performance.

Firms may be covering up actions that reflect conduct contrary to CSR principles, and end up taking advantage of this situation by promoting themselves in a good external assessment provided by CSR indices, which is in line with "window dressing" hypothesis defended in the literature, according to which firms simply promote CSR activities as an attempt or means to legitimize questionable business (Amazeen, 2011; Jo & Na, 2012; Kolk & Perego, 2013).

Table 12 allows a more case analyses of firm-year observations involved in CSR controversies based on a ranking of the most controversial Brazilian firms.

Table 12- Ranking of the most controversial Brazilian firms

year	firm	merco rp	merco rsc	thomson	ise	csrhub	total_ ctrovs	very sev	%	sev	%	mode	%	low	%	%year	%total
2015	JBS SA			+		-	23	0	0.00	7	30.43	14	60.87	2	8.70	7.90	1.81
2017	JBS SA					-	37	1	2.70	5	13.51	17	45.95	14	37.84	13.81	2.91
2013	Oi SA			-		-	28	0	0.00	12	42.86	13	46.43	3	10.71	16.28	2.20
2014	Petrobrás	+	+	+		-	46	0	0.00	19	41.30	16	34.78	11	23.91	17.16	3.62
2015	Petrobrás			-		-	35	1	2.86	21	60.00	10	28.57	3	8.57	12.03	2.75
2016	Petrobrás	-	+	+		-	27	0	0.00	5	18.52	16	59.26	6	22.22	9.93	2.12
2017	Petrobrás	-	+			-	31	0	0.00	3	9.68	12	38.71	16	51.61	11.57	2.44
2015	Vale SA			+	+	+	27	9	33.33	6	22.22	10	37.04	2	7.41	9.28	2.12
2016	Vale SA	-	+	+		+	72	9	12.50	23	31.94	30	41.67	10	13.89	**26.47**	5.66
2017	Vale SA	-	+			+	26	1	3.85	5	19.23	8	30.77	12	46.15	9.70	2.05
							352	21	5.97	106	**30.11**	146	**41.48**	79	22.44		**27.69**

Note: (+) represents that firm is better rated in CSR index, while (-) represents that firm is worse rated in CSR index. Mediam CSR performance score under each CSR index was used as cutoff parameter between the best and worst rated firms.

The results shown in Table 12 reveal that only four Brazilian firms accounted for the ten largest number of firm-year observations involved in CSR controversies in the period (2013-2017), which together accounted for approximately 28% of the total controversial facts, of which 41.48% correspond to moderate degree and 30.11% to severe degree.

The confrontation between number of CSR controversies of these firms and their assessment in CSR indices shows that there are some well graded firms in CSR indices that were involved in too many controversies. This is the case of Vale SA, which is among the four Brazilian firms that accounted for the largest volume of involvement in CSR controversies, and, contrary to the expectation, the firm was the one that achieved the best scores in its CSR performance in a greater number of indices: MERCO SR/CG in 2016 and 2017; THOMSON in 2015 and 2016; ISE in 2015; and CSRHUB in 2015, 2016 and 2017.

In view of the frequent involvement found by firms assessed by CSR indices in issues that reflect socially irresponsible conduct, mean comparison tests were run to verify if the average number of controversies, and the controversy index (CI), is lower for firms better assessed in these indices in relation to those firms that have lower CSR performance scores in these indices (Table 13), as proposed in Hypothesis.

Table 13: Mean comparison of firm involvement in controversies according to assessment in CSR indices

Index	Best rated firms in the Index		Worst rated firms in the Index		T test	Kruskal-Wallis
Degree of severity	N	Mean	N	Mean	*p-value*	*p-value*
ISE						
low	164	0.013	288	-0.001	**0.0015**	**0.0004**
moderate	164	0.014	288	-0.002	**0.0003**	**0.0001**
severe	164	0.016	288	-0.002	**0.0001**	**0.0001**
very severe	164	0.004	288	0.000	0.2301	0.5135
total	164	0.016	288	-0.005	**0.0000**	**0.0001**
Controversy index (CI)	163	0.017	264	-0.005	**0.0000**	**0.0001**
MERCO RP						
low	61	0.027	73	0.018	0.1761	0.2236
moderate	61	0.017	73	0.013	0.3155	0.3561
severe	61	0.010	73	0.012	0.3866	0.8026
very severe	61	-0.003	73	0.014	**0.0234**	**0.0645**
total	61	0.022	73	0.015	0.2055	0.2739
CI	61	0.015	70	0.010	0.3058	0.2961
MERCO SR/CG						
low	73	0.032	57	0.010	**0.0074**	**0.0357**
moderate	73	0.019	57	0.012	0.2275	0.5248
severe	73	0.018	57	0.007	0.1424	0.4806
very severe	73	0.010	57	0.006	0.3832	0.8493
total	73	0.025	57	0.013	0.0915	0.2569
CI	73	0.018	55	0.009	0.1635	0.3368
CSRHUB						
low	202	0.007	167	0.002	0.2100	0.1959
moderate	202	0.007	167	0.002	0.1841	0.1185
severe	202	0.009	167	0.004	0.1849	0.1771
very severe	202	0.002	167	0.001	0.4100	0.9122
total	202	0.008	167	0.000	**0.0506**	**0.0616**
CI	196	0.010	164	0.001	**0.0460**	**0.0465**
THOMSON ESG						
low	149	0.010	113	-0.008	**0.0006**	**0.0009**
moderate	149	0.021	113	-0.006	**0.0000**	**0.0001**
severe	149	0.017	113	0.002	**0.0107**	**0.0172**
very severe	149	0.006	113	-0.004	**0.0872**	0.2013

total	149	0.018	113	-0.012	**0.0000**	**0.0001**
CI	149	0.021	113	-0.008	**0.0000**	**0.0001**

Note: Median CSR performance score under each CSR index used as cutoff parameter between the best and worst rated firms. Comparison between average number of controversies. Variables normalized using Royston's (1982) technique.

The results reveal that there is a trend of higher average number of controversies in firm-year observations better graded by CSR indices, contrary to what was expected (Hypothesis). As can be seen, the average number of firm-year observations involved in controversies is higher for all controversy severity levels, and controversy index (CI), in better graded firms by Thomson ESG. With the exception of MERCO RP index, firms better evaluated in other indices (ISE, MERCO SR/CG, CSRHUB) tend to have a higher average number CSR controversies than firms that were worst assessed in these indices. Proceeding a detailed analysis of severity levels of CSR controversies, it is noticeable that for Thomson ESG index all the severity levels of involvement in controversies were higher and statistically significant at 1%, 5% and 10% for firms that were better scored in this index. Similarly, to ISE index, it was also found that, except for the very severe degree, all other levels of severity of involvement in controversies proved to be higher and statistically significant at 1% for firms included in this index. For MERCO SR/CG index, only low controversy levels were found to be higher and statistically significant at 1% for firms that were better rated in this index.

When analyzing the controversy index (CI), which considers both firm size and controversies degree of severity, it is clear that CI is also superior for firms that are better evaluated in CSR indices, which seems to show that firms more involved in controversies tend to have better assessment results. Thus, contrary to what was proposed under Hypothesis rationale, it was found that firms that are better graded by CSR indices seem also to be more prone to be involved in controversies. Thus, there is a possibility that CSR indices have not been able to accurately appraise firm commitment to CSR. Some explanations for this situation are required. One explanation could be that CSR indices may be neglecting, or not being able to capture, relevant firm issues in their assessments. Another reason could be that firms are being successful in "hiding" negative issues and in the process of publicizing positive issues as suggested by the voluntary disclosure theory. In this case, firms have been successful in promoting their positive image and positive externalities as proposed by the "window dressing" hypothesis (Connors, Anderson-MacDonald, & Thomson, 2015; Lin, 2010).

In addition, the literature indicates that firms only seek to comply with criteria required by indices that externally assess their CSR performance, but they do not make significant changes to their operations (Collison, Cobb, Power, & Stevenson, 2009). The literature also suggests that firms that emphasize technical success and face strong performance pressure are also more likely to engage in irresponsible behaviors, which may be the case for firms that, due to the fact that they have better scores on CSR indices, end up being more targeted to this involvement in controversies (Baucus, 1994; Szwajkowski, 1985).

These findings suggest that firms may not be as responsible as they publicly claim in their sustainability reports and in external assessment provided by CSR indices. Instead, they invest in CSR and commit irresponsible actions when it is potentially profitable to do so. (Baucus, 1994).

5 CONCLUSIONS

This paper carried out an investigation of the degree of involvement in social and environmental controversies of Brazilian firms assessed in CSR indices, which in the literature reflect the firm's socially irresponsible conduct.

Under the Legitimacy and Stakeholder theoretical frameworks, as well as on the emerging theoretical approach called “window dressing”, the motivation for this investigation emanates from the debate about emergence of CSR indices as proposals for measurement and external assessment of firm’s CSR performance, which they try to capture the firm’s engagement in CSR in order to obtain social legitimacy, as well as the growing concern on part of stakeholders about business actions that negatively affect firm image.

This study used a sample that consisted of a total of 1,007 observations of Brazilian firms evaluated in CSR indices in the period 2013-2017. The CSR indices used correspond to those that included a larger number of Brazilian firms in their assessment process, namely: Corporate Sustainability Index (ISE), Merco Corporate Reputation Firms, Merco Responsibility and Corporate Governance and CSR indices from CSRHub and Thomson Reuters agencies. The findings showed the existence of a high degree of involvement of these firms in CSR controversies. Mainly, results exhibited a positive correlation between CSR indices and the number of controversies of firms, which means that better graded firms would be more involved in controversies. In the same fashion, higher average number of involvement in controversies was observed for better graded firms in CSR indices. This set of results goes in the opposite direction of the proposal that the external CSR indices are able to accurately appraise firm commitment to CSR and matches the “window dressing” approach that considers that firms cover up negative issues and promote positive ones.

The findings suggest that Brazilian firms may not be as responsible as publicly claimed in the assessment provided by CSR indices, which would mean that firms have been successful in seeking to comply with the criteria required by indices that assess their CSR performance externally, but do not make significant changes in their operations. Besides, it also signalizes that CSR indices would be required to improve their methodologies in a way to be more effective in capturing issues that drive firms to controversies.

In addition, this great involvement in issues that reflect socially irresponsible conduct, which is supported by “window dressing” theoretical approach, could be explained from perspective of both indices and assessed firms. In the first case, it would indicate that the CSR indices can be neglecting relevant firm issues in its assessment process, which can weaken firm’s CSR performance. In the second case, it would indicate that firms may be successful in covering up actions that reflect conduct contrary to CSR principles, and end up taking advantage of this situation by showing a positive image by promoting a good external evaluation in CSR indices, which creates doubts about the true ones purposes and effectiveness of their CSR initiatives, considering that through this behavior the firm would only intend to improve its “impaired” image.

The results obtained from this study allow to expand the knowledge about the dynamics of relationships that exist between evaluation in CSR indices and socially irresponsible conduct, from perspective of Stakeholder and Legitimacy theories, allowing to further explore “window dressing” theoretical approach, emerging in the CSR context and still little debated and consolidated in the academy and in the environment of Brazilian firm.

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