

# Corporate social disclosures: a user perspective on assurance

**Wong, R. and Millington, A.**

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## **Corporate Social Disclosures: A User Perspective on Assurance**

### **Introduction**

The developing importance of assurance [1] on sustainable reporting is emphasised (Perego, 2009), as bodies such as AccountAbility and The Global Reporting Initiative recommend that corporate social disclosures (CSD) [2] should be assured (Kolk and Perego, 2010). CSD assurance is important in validating CSD and enhancing its credibility and stakeholder confidence. Despite increased importance, CSD assurance remains relatively under-researched. This paper contributes to this emerging area through a systematic investigation of stakeholder demand for, and perceptions of, CSD assurance within a sampling frame which recognises the diverse stakeholder groups that firms face when developing CSD reporting strategies (Azzone et al., 1997). Stakeholder needs are examined to further understanding on stakeholder requirements for CSD assurance.

Very few studies have examined systematically stakeholder perceptions of CSD assurance. Extant studies investigated the geographic and industrial incidence of (Kolk and Perego, 2010) and organisational motivations for CSD assurance (Park and Brorson, 2005), the credibility of independent assurance from an expert's perspective (Mock et al., 2007), the legitimation processes adopted by CSD assurors (O'Dwyer et al., 2011), the credibility provided to CSD from the perspective of assurors (O'Dwyer, 2011) and managerial perceptions of CSD assurance (Jones and Solomon, 2010). While assurance may increase the credibility of environmental reporting (Tilt, 2008), others are less convinced of its value (Jones and Solomon, 2010). Some studies have inquired the extent to which CSD assurance has been stakeholder inclusive, they were however conducted from an assuror's perspective (Edgley et al., 2010). Doubts were cast over assurors' independence (Gray, 2000) and the incomplete character of assurance exercises (O'Dwyer and Owen, 2007). Ball et al. (2000) found evidence of auditee control over the assurance process, and the current practice exhibits a managerial response rather than a commitment to transparency and accountability. O'Dwyer and Owen (2007) stated assurance is characterised by scope limitations, and accountant assurors tend to refer to data accuracy rather than performance issues. In any case, not much is known about stakeholder perceptions of CSD assurance.

Although prior work argued CSD and its assurance should be focussed on the needs of the stakeholders upon whom the accounting organisation has an impact (O'Dwyer and Owen, 2007), relatively little is known about either the usefulness of CSD to stakeholders or their assurance requirements. Investigations tend to focus on the usefulness of CSD to either financial (Campbell and Slack, 2008) or non-governmental organisation (NGOs) (Danastas and Gadenne, 2006) stakeholders. Stakeholder type has implications on the demand for CSD and its perceived credibility, and non-financial stakeholders generally show greater demand for environmental

disclosures and less trust in the information reported (Kuruppu & Milne, 2010). Stakeholders were also found to see such disclosures as insufficient and lacking in credibility, emphasising the “legitimizing effect” of assurance (Kuruppu & Milne, 2010, p.4). Further, few have examined the demand drivers for the voluntary adoption of assurance and the role of stakeholders in this process (Carey et al., 2000). Voluntary assurance is most commonly investigated from an agency perspective based on managerial perceptions, and findings suggest firms are more likely to use assurance if influenced by external stakeholders. Darnall et al. (2009) found the incidence of environmental audit positively related to perceived external stakeholder influence, while Park and Brorson (2005) stated companies may not seek assurance because stakeholder pressure is lacking. Furthermore, a “general absence of stakeholder participation in the assurance process” has been observed (O’Dwyer and Owen, 2005, p.205).

Underpinned by stakeholders’ needs to draw on information from multiple sources to support decision-making and the monitoring function of assurance on managers, this paper has 2 objectives. First, we examine stakeholder demand for and perceptions of CSD assurance and stakeholder preferences for assurance. Second, we analyse the determinants of stakeholder demand for CSD assurance. The objectives are addressed through surveying the views of 147 organisations that were drawn from 3 key stakeholder groups: institutional investors, procurers and third sector organisations [3].

This study is timely as there is increasing attention on CSD (O’Dwyer, 2011). The participation of organisations in the pilot scheme for Integrated Reporting (IR) in 2011 has further highlighted the value of CSD (IIRC, 2013). O’Dwyer (2011) also remarked that assurance is one of the means through which the reliability and the completeness of CSD can be assured. Thus, it is important to attain better understanding of stakeholder perceptions of the value of CSD assurance.

The study makes three contributions to the literature.

1. CSD assurance is a recent phenomenon (e.g. Bebbington et al., 2008; Islam & Deegan, 2008; Kolk et al., 2008; Kuruppu & Milne, 2010) and therefore there is limited understanding of the nature of its demand (Perego, 2009). An empirical study will help further understanding of stakeholder requirements in CSD assurance.
2. We focus on stakeholder demands for, and perceptions of, CSD assurance. Most studies on CSD assurance are motivated from a corporate or practitioners’ perspective, in terms of what information should be reported (O’Dwyer and Owen, 2007). Little attention is given to what users of CSD assurance consider important; and yet, it is these stakeholders at whom CSD and its assurance are targeted.
3. Our approach is based on a multiple stakeholder perspective which includes institutional investors, procurers and third sector organisations. Edgley et al. (2010) identified a lack of stakeholder inclusivity in assurance for

such disclosures. More attention to the needs of non-investing stakeholder would help make CSD assurance more decision useful for those stakeholders.

Our findings have significant implications for companies and regulators. While CSD assurance is becoming increasingly salient, regulatory requirements on CSD assurance remain limited. The European Commission only requires companies that have joined the Eco Management & Audit Scheme to commission verification of the environmental statement (Park and Brorson, 2005). Better understanding of stakeholder perceptions of, and demand for, CSD assurance will better inform regulators.

The remainder of this paper is organised as follows. Section 1 discusses the key studies that inform a conceptual framework for this study. The research design and method of the empirical study is discussed next. Findings are then discussed in Section 3. The concluding section presents the implications of this paper as well as suggestions for future studies.

## **Section 1 – Conceptual Development**

### ***The Demand for Voluntary Assurance***

Stakeholders not only require accurate and valid information about corporate social and environmental impacts to support decision-making but use multiple sources of information to ensure decisions made are well-informed. Given the questionable quality of CSD, effective third party assurance and information from other sources are expected to play a key role in validating CSD. Further, assurance can be used as a tool to monitor company managers. One of the forms of environmental audit or assurance identified by Darnall et al. (2009) is external assurance. This is the focus of this paper. A firm hires an external assessor to examine its environmental practices. External audits represent a response to stakeholder demands for independent validation and reporting (Power, 1997) and confer objectivity and independence (Karapetrovic and Willborn, 2001). In considering these potential benefits, firms can be expected to spend resources on CSD assurance.

### **Multiple Information Cues**

Given the inadequate quality of CSD (Boiral, 2013), we posit that the demand for CSD assurance will be determined by stakeholder perceptions of the value of CSD and third-party information supplied by information intermediaries. The model of perceptions of information value and attributes is underpinned by the Brunswik Lens model. The use of this model was first found in the psychology literature (Birnberg and Shields, 1989) and was adapted by Libby (1975) to examine “user oriented issues” in accounting (Birnberg and Shields, 1989, p.45). Users rely on multiple cues to make decisions. While some cues may be more important than the others, no individual cue or combinations of cues is a perfect predictor of events (Libby, 1981). This indicates that stakeholders make decisions based on information from multiple sources. It is unlikely any one of the sources or any information attribute alone is

independently and sufficiently adequate in supporting decision-making. If stakeholders find information on corporate social and environmental performance valuable, they may also draw on other information that includes CSD, assurance statements, socially responsible investment indices and private disclosures to support decision-making. Notwithstanding, given that socially responsible investment has grown significantly over the past decade (Solomon et al., 2011) and institutional investors were found to be driving private one-to-one meetings with companies (Roberts et al., 2006), companies may be expected to make available private meetings predominantly for investing stakeholders. Regarding assurance, Simnett et al. (2009) remarked that it is discretionary and costly for companies. If companies choose to purchase assurance, benefits such as enhanced credibility (IAASB, 2004; and Tilt, 2008) should outweigh the costs.

### *Assurance as a Tool for Monitoring and Control*

Prior studies examined audit/assurance as a monitoring mechanism which is integral to agency theory, and those studies tend to examine managers' demand for voluntary assurance. For example Watts and Zimmerman (1983) stated that many company managers voluntarily subjected corporate reports to scrutiny and such actions will ultimately be rewarding for managers. This is consistent with the use of audits as a monitoring tool to strengthen the credibility of corporate information (Gorton and Mullineaux, 1987). Simnett et al. (2009) noted that few empirical studies that examined the drivers for voluntary adoption of assurance existed and most focused on the drivers for companies to purchase assurance (Carey et al., 2000). Hence there are very few (if any at all) studies that examine the demand drivers for assurance from a non-managerial stakeholder perspective.

Moreover, some stakeholders may monitor company managers on their own. Consistent with stakeholder theory, companies are more proactive in CSD towards stakeholders who appear to be more powerful (Magness, 2006), and private disclosures were made available to selected and powerful stakeholders. Roberts et al. (2006) suggested some investors can exercise control over investee companies through private financial disclosures. Given that private CSD are often regarded as highly valuable (Solomon and Solomon, 2006), stakeholders may feel adequately assured by information stemming from private disclosures which may diminish their need to consult CSD assurance statements and public reporting.

Kolk and Perego (2010) noted assurance fulfils an important role in ensuring control over the quality of CSD, however, the extant evidence on its value is mixed (Edgley et al., 2010; O'Dwyer and Owen, 2005; 2007). There exist uncertainties regarding the value of assurance due to the varying content of assurance statements and approaches to verification (Deegan et al., 2006). Notwithstanding, CSD assurance seems instrumental in increasing the credibility of reporting (Kolk and Perego, 2010). Stakeholder demand for assurance is associated with its monitoring role that is beneficial to both managers and users of CSD.

Assurance may help increase stakeholder confidence in the integrity of CSD, but only if stakeholders can rely upon assurance statements. Some studies found stakeholders do not consider assurance statements overly trustworthy. Often this is due to the questionable independence of assurers (Ball et al., 2000; O'Dwyer and Owen, 2005), and stakeholders tend to place more trust on assurance provided by consultants who are not financial auditors. The issue of stakeholder confidence is intertwined with stakeholder perceptions of the assurers' independence. O'Dwyer and Owen (2005) differentiated 2 types of assurers, namely accountant assurers and consultant assurers. Previous studies provide mixed evidence in terms of which 1 of the 2 types of assurers provide higher quality assurance. Assurance provided by accountant assurers seems more limited in approach and thus is of lower assurance levels, while assurance provided by consultant assurers are of higher levels due to its more evaluative nature (O'Dwyer and Owen, 2005). "Big N" accounting/audit firms are more effective monitors than smaller auditors, due to their higher stakes in terms of reputational capital (Simnett et al., 2009). The demand for CSD assurance depends on the level of stakeholder trust of assurers, which is influenced by perceptions of assurers' independence.

While the first research objective regarding perceptions of CSD assurance can be achieved by examining responses to the open-form questions in the survey instrument in the first half of Section 3, the demand for assurance can be investigated through statistical analyses of causal relationships between the demand for assurance and its determinants in the second half of Section 3. A discussion that underpins a model of stakeholder demand for assurance follows in the next section.

### ***Hypothesis Development***

#### ***User Perceptions of the Value of CSD***

We posit that stakeholder demand for CSD assurance will be positively related to stakeholder perceived value of CSD in decision-making, since stakeholders wish to ensure information that is central to decision-making is both decision-useful and validated by more than one source. Recent institutional and legal developments have emphasised the value of CSD for a range of stakeholders that includes but is not restricted to institutional investors.

Institutional investors have come under increasing pressure to encompass social performance in investment selection. UK pension funds have been subject to regulatory, institutional and social pressures to consider business social responsibility in investment decisions. These pressures have encompassed legal requirements to state their investment principles and to identify the role of social, environmental and ethical considerations in investment planning (HMSO, 1999), the setting of social agendas by industry trade bodies (e.g. National Association of Pension Funds, 2013; Local Authority Pension Fund Forum, 2007) and significant public interest in socially responsible investment (The Ethical Investor, 1999) [4]. The importance of

actively managing social and environmental risks has also been heightened by the application of the recommendations in a report published by the Turnbull Committee in 1999. Since December 2000, all listed companies are required to state to what extent environmental and other reputation related risk has been managed (Miles et al., 2002). Moreover, the establishment of FTSE4Good in July 2001 has further heightened the importance of CSD.

Sustainable public procurement has also acquired more prominence. The World Summit on Sustainable Development in 2002 called for governments to promote public procurement policies that encourage the development and diffusion of environmentally sound goods and services (WSSD, 2002). In 2005, the UK government stated its goal to be amongst the leaders in Europe on sustainable procurement by 2009 (Walker and Brammer, 2009). These developments have seen a cascade of sustainable procurement requirements at all levels of government.

Also, the emerging salience of climate change and greater consumer awareness has heightened the reputational risk associated with poor CSR performance. These developments have focussed the attention and increased the power of NGOs (Brammer and Millington, 2004). NGOs play an important role in representing the view of specific groups of people in society or on certain issues (The European Commission, 2000). NGOs and third sector organisations such as Greenpeace, among others, are active users of CSD.

The above developments emphasise the value of CSD to stakeholders. CSD assurance is seen to be growing at a similar pace with CSD (Deegan et al., 2006), which suggests that stakeholders may perceive complementary decision-making value in both sources of information. Given the importance of CSD in supporting decision-making, we expect stakeholders who attach a high value to CSD to require CSD assurance that attests to the credibility of CSD.

*Hypothesis 1: There is a positive relationship between the perceived value of CSD and stakeholder demands for CSD assurance.*

### *Stakeholder's Use of Information Intermediaries*

Apart from CSD assurance, another way to obtain reassurance on CSD is through information supplied by information intermediaries (infomediaries) (Healy and Palepu, 2001). Infomediaries are formal organisations that provide mediated information to audiences; they collect and distribute information about companies and social issues and inform users what they do not experience directly and can render otherwise remote happenings "observable and meaningful" (Deephouse and Heugens, 2009, p.542). Responsible investment indices (RII) are collectively a key source of information on corporate social and environmental performance as they provide information that validates CSD.

In the capital market, inclusion in RII is a strong signal about a company's commitment to managing environmental and social risk (Harding, 2006). The production and the quality of CSD is often used as one component in the screening process for including companies in ethical indices (Walmsley and Bond, 2003). The FTSE4Good index has, for example, excluded several FTSE100 companies, simply because of a perceived lack of information, which could have been provided in CSD (Skorecki and Targett, 2001). The inclusion of a company's shares in a RII provides validation of the company's CSD. Thus both CSD assurance and RII are regarded as complementary sources of information that support CSD.

*Hypothesis 2: There is a positive relationship between stakeholder's use of responsible investment index and stakeholder demand for CSD assurance.*

#### *User Perceptions of the Quality of the Reported Data*

Assurance has emerged as part of the monitoring mechanism in CSD. Hammond and Miles (2004) stated that given CSD operates largely voluntarily, it is important that stakeholders can assess the quality of CSD for such reporting to be useful, though the criteria for assessing the quality of CSD are highly subjective (Walmsley and Bond, 2003). For CSD to be decision-useful information should be relevant and it should faithfully represent the underlying activities of a firm: it should be free from any major bias and error (GRI, 2006). CSD assurance may help organisations escape perceptions of green wash (Simnett et al., 2009). Increased credibility of the reporting will culminate in improved relationship with stakeholders that may lead to increased stakeholder confidence (Wallage, 2000). Given that the main purpose of CSD assurance is to provide an independent opinion on CSD to enhance its credibility (Kuruppu & Milne, 2010), the more biased CSD is perceived to be, the more stakeholders will value assurance.

*Hypothesis 3: There is a negative relationship between the demand for CSD assurance and stakeholder perceptions that CSD is unbiased*

#### *Access to Private Corporate Disclosures*

Information obtained at private meetings with managers is considered very high quality and valuable (Solomon and Solomon, 2006). Park and Brorson (2005) advocated that companies do not use third party assurance because direct contact with stakeholders and specialists are adequate substitutes. However, obtaining information of such high quality is resource intensive. Al-Hawamdeh and Snaith (2005) found a dialogue-assisted monitoring process through one-to-one meetings between institutional investors, fund managers, analysts and company managers costly. The cost, in terms of time spent, suggests corporate managers are selective when offering private meetings. Reporting entities may perceive different stakeholders to have different degrees of powerfulness (O'Dwyer et al., 2005), and that firms are more proactive towards those who are more powerful (Buhr, 2002). Although evidence suggests firms may consider institutional investors, major customers

and third sector organisations important stakeholders in CSD (Collison et al., 2003; Stikker, 1992; and Tilt, 2007), differences may be expected between stakeholder groups (Mitchell et al., 1997) due to the different stakeholder characteristics. Given that stakeholders operate on the budget constraints of time, stakeholders who have access to private disclosures are less likely to use CSD assurance.

*Hypothesis 4: There is a negative relationship between stakeholder access to private corporate disclosures and stakeholder demand for CSD assurance.*

### Controls

Stakeholder resources are negatively related to the demand for CSD assurance. Better resourced organisations are more likely to have the capacity to carry out research and validation of CSD. Also, different stakeholder groups may exhibit different preferences in their demand for CSD assurance. Thus, stakeholders across groups will be compared for their responses; however, we have no prior expectation about significance or causality.

The influences on the demand for CSD assurance is expressed as a logistic regression model which is stated below –

Demand for CSD Assurance =  $f$ (Value of CSD to Users, Use of Infomediaries, CSD Unbiasedness, Access to Private Disclosures, Controls)

## **Section 2 – Research Design and Method**

### ***Data Collection***

In this study, the views of key stakeholders were surveyed through a questionnaire which is consistent with the research methods employed in O'Dwyer et al. (2005). This study gauges stakeholder perceptions and so closed-ended questions are considered most appropriate. Responses to closed-ended questions were requested on either a 5-point Likert scale, or through assigning points (specifically the proportions of time spent on information sources that add up to 100%). To capture the richness of stakeholder perspectives (Denscombe, 1998) 2 open-ended questions were included. The Likert scale responses were analysed with non-parametric statistical tests which do not require interval data (Moser and Kalton, 1975). The survey instrument was pre-tested on one participant each from the 3 stakeholder groups surveyed to identify and resolve any possible issues of ambiguity but none were found.

Studies that involve questionnaires or surveys are becoming increasingly common in accountability research (Brennan and Solomon, 2008). Given the resource constraints, this paper adopts telephone survey. It is also consistent with the method adopted by O'Dwyer et al. (2005), although data in that study was collected predominantly by postal questionnaires. Telephone surveys are

considered better than postal surveys in terms of response rates and facilitate interactive communication with the participants, as any potential ambiguities can be addressed and resolved instantly.

### ***Sample Selection***

In contrast to most earlier “user studies” (O’Dwyer et al., 2005; Solomon and Solomon, 2006; and Tilt, 1994; 2004), this study seeks to identify perceptions from more than one stakeholder group. Empirical evidence suggests firms tend to consider investing professionals (Investing), local authorities (Procuring) and NGOs (Third Sector) as stakeholder groups that are important to firms in terms of CSD (Konrad et al., 2006).

Samples were selected on a judgmental approach and extracted from 2 non-overlapping sources. The first source was the UK Social Investment Forum (UKSIF) as at December 2007 which provided a listing of entities who expressed an interest in corporate social performance and the 2008 Yearbook of the Society of Procurement Officers (SOPO) in Local Government was the second source. Investing stakeholders and third sector stakeholders were drawn from UKSIF. In this study, “investing stakeholders” denotes investment analysts, investment managers and investment researchers, while “third sector stakeholders” were not-for-profit entities on the UKSIF listing. The SOPO Yearbook listed contact details of major public procurers of goods and services. Procuring stakeholders worked for public organisations and were to procure goods and services while taking account of sustainability. This resulted in a target population of 494 entities from the 3 discrete stakeholder groups.

### ***Qualitative Analysis***

The first research objective is addressed through analysing stakeholder responses to the open-ended questions in the first half of Section 3. Stakeholders indicated whether they used CSD assurance. If they did, they would be asked to indicate the form of assurance they preferred. Stakeholders were provided with prompts indicating the type of CSD assurance providers that are most commonly used (O’Dwyer and Owen, 2005; 2007). The respondents’ explanation of their preference for one type of assurers revealed their perception of different types of assurers. The respondents were also asked to indicate which type of CSD assurance report they preferred. This question of choice stemmed from a concern on the variability and ambiguity within the contents of CSD assurance statements (Deegan et al., 2006). Prompts were provided, again drawing on findings in prior studies (O’Dwyer and Owen, 2005; 2007). Respondents who did not use CSD assurance were asked to explain their decision. Subjects were asked to recall recent experience that involved the use of CSD. The qualitative analysis was conducted while informed by a review of relevant extant studies, which has made possible the coding of stakeholder responses into categories.

### ***Variable Measurement***

Further to analysing stakeholder perceptions of CSD assurance, factors that influence stakeholder demand for CSD assurance are explored with logistics regression in the second half of Section 3. The variables used in the regression are explained below.

#### *Dependent Variable*

The dependent variable (the demand for CSD assurance) is measured using a dummy dependent variable (Assurance). This takes a value 1 if the respondents reply positively to the question “*Do you check whether corporate social and environmental reporting has been verified by an independent third party?*” and 0 otherwise.

#### *Independent Variables*

The value of CSD is measured using a variable (Value) which is based on responses to the question “*How valuable is CSD to your work?*” Responses are measured on a 5-point Likert scale, 1 being not very valuable, 5 being very valuable. To measure the importance of infomediaries, respondents were asked to identify “*how important inclusion in the FTSE4Good Index as an indicator of environmental and social performance*” on a 5-point Likert scale (1 not important, 5 very important) (FTSE4Good) [5]. CSD unbiasedness is estimated using a 5-point Likert scale based on the question “*Is CSD free from bias?*” This takes a value 1 for strongly disagree and 5 for strongly agree (Unbiased).

Access to private disclosures is estimated as the percentage of the stakeholder’s time spent on using private information (Private), relative to information from corporate reports and infomediaries. Time is limited for both providers and users of information. Users being rational will only spend time on information which contributes to decision-making. Given that face to face contact is considered the most important form of communication which is carefully planned between companies and stakeholders (Armitage and Marston, 2008), the percentage of time spent on private information by users is deemed an important independent variable in this research.

Likert-type scales are widely used due to their relative ease of construction and the fewer statistical assumptions involved (Karavas-Doukas, 1996). This also helps respondents complete the questionnaire, because less cognitive processing is required due to a standardized format (Podsakoff et al., 2003). However, a limitation of Likert-type scales is respondents may respond with overwhelmingly neutral scores (Oppenheim, 1992). To minimise this possible bias, consistent with previous studies (Powell et al., 2005), open-ended questions were included to invite comments as responses to those questions.

With respect to the control variables, stakeholder size was measured by the logged value of the percentage of time spent by employees on using CSD (LNStaff). Stakeholder type was measured by a set of dummy variables which

took the value 1 for investors (Investing), local authorities (Procuring) and third sector organisations (Third Sector) respectively.

Model Specification

The full empirical model is –

$$\text{Assurance} = \alpha + \beta_1 \text{Value} + \beta_2 \text{Use of FTSE4Good} - \beta_3 \text{Unbiased} - \beta_4 \text{Private} - \beta_5 \text{LNStaff} + \beta_6 \text{DummyThirdSector} + \beta_7 \text{DummyInvesting} + \beta_8 \text{DummyProcuring} + \varepsilon$$

and is estimated using logistic regression. The dependent variable, which is stakeholder demand for CSD assurance, is a binary variable.

In the next section the response rate and the findings are presented. Descriptive statistics are presented first, supported by a discussion that is informed by responses to the open-ended questions. Regression results of responses to the closed-ended questions are presented and the findings discussed towards the end of the next section.

## **Section 3 – Findings and Discussion**

### ***Response Rates***

Between January and October 2008 147 organisations were surveyed (see Table 1 and Table 2). The response rate is approximately 30%. Stakeholder responses reported here are findings of a wider study which concerned stakeholder perceptions of the value of CSD. All quotes are identified by alphanumeric codes denoting industrial connections (i, P and T denote Investing, Procuring and Third Sector respectively). Prior to administering the survey, respondents were contacted either by phone or email and supplied with information on CSD and the study, and all respondents were identified as users of CSD. The responses of a random selection of participants who took part during the first 2 months of data collection were compared against the responses of respondents of the final 3 months. There is no evidence of non-response bias.

**[Table 1 – Insert Here]**

**[Table 2 – Insert Here]**

Procuring subjects comprised the biggest group of respondents. To ascertain whether any differences in stakeholder preference of any one group would unduly affect the overall results, dummy variables of stakeholder groups were included in the regression. The lack of a better balance of the 3 stakeholder groups will be further discussed in the concluding section as a limitation of this study.

### ***Descriptive Statistics***

**[Table 3 – Insert Here]**

Slightly more than half of the stakeholders use assurance. Results suggest most investing stakeholders use CSD assurance, which is supported by evidence that investors in general are risk adverse and therefore “needing very high levels of assurance” (Edgley et al., 2010, p.552). Most third sector stakeholders also use CSD assurance. Third sector stakeholders in general may not trust corporations (Sinclair and Walton, 2003), including corporate communication, and thus third sector stakeholders seek information that validates corporate reporting. Not many procuring stakeholders use CSD assurance, which is inconsistent with previous findings that procurers closely monitor CSR activities and discuss findings with suppliers (Unerman and O’Dwyer, 2010), and that major customers actively demand CSD (Grubnic and Owen, 2010). It is possible that procurers in this study are more concerned with the functionality of goods and services and do not accord the highest priority to CSD assurance.

Only 56% of the respondents use CSD assurance despite all the potential benefits they can derive from that. Almost 75% of investing and third sector stakeholders check whether CSD has been assured by a third party, while only 42% of procurers do so. Descriptive statistics indicate this inter-group difference is due to the value placed on CSD by the different groups (also see Table 6).

To further explore the factors which underpin the decision to use assurance, respondents who did not use assurance were asked to identify the reasons. Almost 31% questioned the relevance of CSD assurance, but most of these respondents were major procurers who might have better access to private disclosures. Trust is both an important factor and a key differentiator between stakeholder groups. Among third sector and investing stakeholders who did not use CSD assurance, almost half suggested they did not trust assurance, whereas none of the procurers suggested that this was an issue.

### ***The Quality of Assurance Statements***

CSD assurance is essential in reinforcing the importance of non-financial data by some organisations (Hopwood et al., 2010). The reliability of CSD can be enhanced by attestation by a third party (Holder-Webb et al., 2009). Findings indicate many stakeholders do not use assurance which is consistent with the suggestion that the value of CSD assurance is questionable despite its growth (Edgley et al., 2010). The decision not to use CSD assurance can be attributed to the quality of the statements. Respondent i34 remarked “assurance is not necessarily adding value to the ground”. Others also commented –

“We just don't use ... assurance - look at Enron and Arthur Andersen”  
(Respondent T9)

“... auditing has caused problem, particularly in the clothing sector. At present it fails more than succeeds in identifying issues and specialist auditors' quality varies dramatically” (Respondent T14)

Deegan et al. (2006) suggested the variability in the content of assurance statements undermines their contribution and the inconsistent approach to verification has adversely affected the credibility of verification with stakeholders. In assurance engagements, formal procedure is privileged over transparent communication (O'Dwyer et al., 2011). Further, in a case study of CSD assurance process, only selected areas were formally assured by a third party (Bhimani and Soonawalla, 2010), thus rendering such assurance biased. Therefore, CSD assurance statements may be seen as deficient as a communication mechanism and there is a need to increase their clarity. The nature of CSD assurance is seen as “less quantified, more elusive and less easy to assure” than financial data, and thus CSD assurance is far more difficult to achieve (Jones and Solomon, 2010, p.29).

The value of CSD assurance may also be influenced by perceptions of the extent of any expectations gap. Kells (2011, p.386) stated the possibility of

users of assurance “overestimating the strength of assurance”. This seems to be affecting the usefulness of CSD assurance, apart from the variability of assurance statements and the assurance process. Moreover, judging from respondent T9’s comment above, perceived independence between reportees and the assurers (which affects trust) seems a key concern for stakeholders.

### ***Trust of Assurance***

The value of CSD assurance can be undermined if stakeholders feel assurance providers cannot be trusted. Some respondents were not inclined to trust assurance providers. The value of assurance was questioned as Respondent i35 remarked “assurance may not mean a lot” because –

“We don’t trust auditors, they have close relationships with companies and the reports are often biased” (Respondent T25)

“... verification can be a joke” (Respondents i16)

With the growth of assurance and its role of increasing stakeholders’ confidence in CSD (Simnett et al., 2009), assurers can act as conduits between companies and stakeholders (Edgley et al., 2010); however, such a role seems unfulfilled. O’Dwyer and Owen (2005) found that about half of companies refer to assurance providers’ independence. The issue of managers controlling the assurance process was also highlighted by Smith et al. (2011). The assurer is subservient to the interests of the “paymaster” (O’Dwyer and Owen, 2005, p.227). Also Jones and Solomon (2010, p.21) stated –

“[management of the reportees] ... set the agenda, collect and process the data and prepare the reports [they] also decide the level of assurance and pay the assurers”

A respondent (T9) emphasised a high profile corporate scandal which was related to a major auditing failure. Such sentiments are also found in previous studies in which the independence of assurance providers of CSD was questioned (Deegan et al., 2006). It is noted that though there is still managerial capture of CSD assurance, stakeholders are becoming “increasingly included in the process as it matures” (Edgley et al., 2010, p.532). However, to date, there is little evidence to suggest that the credibility of CSD assurance has been increased.

Engaging stakeholders in a dialogue will increase the legitimacy of the CSD assurance process (O’Dwyer et al., 2011), which may increase the perceived independence of assurance, resulting in increased confidence and credibility in CSD assurance statements (Edgley et al., 2010). In doing so, assurers have become agitators for stakeholders as they “engender change in corporate attitudes and behaviour” (Edgley et al., 2010, p.554). However, any such change would only happen gradually, which is typical of any dialogic processes (Bebbington et al., 2007). Thus it would be some time until companies could become truly stakeholder inclusive in CSD assurance.

More stakeholder involvement in CSD assurance may also be an educative process that ultimately eliminates stakeholder ignorance in this area (Edgley et al., 2010). A few respondents (Respondents T7, P65, P67 and P72) justified their non-usage of CSD assurance with their own lack of knowledge in assurance. Respondent P72 did not use CSD assurance because he said he was not a sophisticated user. Notwithstanding, greater efforts by assurers may not convince potential users or increase their understanding of assurance (O'Dwyer et al., 2011). It is hoped stakeholders may better understand CSD assurance as it matures.

Some respondents were more inclined to trust assurance performed by consultant assurers but not accountants, a distinction drawn by O'Dwyer and Owen (2005). The lack of trust in the judgement of accountant assurers was again highlighted in a recent study (O'Dwyer et al., 2011). Stakeholder preferences for the type of CSD assurance are further explored in the following section.

### ***Type of CSD Assurance***

Respondents were asked whether they preferred financial auditors (accountant assurers) or specialist environmental auditors (consultant assurers). Respondents were then asked to explain their preferences through an open-ended question, the responses to which were then analysed and coded. The results are presented in Table 4 and Table 5 below.

**[Table 4 – Insert Here]**

**[Table 5 – Insert Here]**

In Tables 4 and 5, data shown in the last 2 columns under “Others” was gathered from the qualitative responses. Responses in the various columns represent explicit mention of the above issues as labelled. 13 participants declined to provide a response.

The results in Table 4 suggest specialist environmental auditors are overwhelmingly preferred to financial auditors as CSD assurers. Respondent T15 remarked –

“the Big 4 usually take a boiler plate approach [in assurance] whereas specialists [assurers] will take a more involved approach”

Respondent P22 stated –

“discrete, non-financial related entity needed [to provide assurance] to increase credibility”

This is consistent with the finding of O'Dwyer et al. (2011) that stakeholders may not necessarily trust the professional judgement of accountant assurers. This seems contrary to the finding of Jones and Solomon (2010) that CSD assurance can be an extension of financial audit in view of the logic of cost effectiveness, coordination and time pressures. Auditing professionals are known for their competence in auditing practices and their established history of professional services in audit engagement (Simnett et al., 2009). In addition, consultant assurers may be disadvantaged as they often do not have the traditions of independence which accountant assurers have acquired through their history of financial audit (Jones and Solomon, 2010). Especially among large European companies, the market for CSD assurance is dominated by professional service firms such as the sustainability assurance divisions of Big 4 professional services firms (O'Dwyer et al., 2011).

To the respondents in this study, accountant assurers' qualities did not seem appealing. The results in Table 5 raise the importance of subject matter competence, in an area that is both specialised and complex. Specialist environmental auditors were much preferred to a group that represents competence in auditing procedures. This is consistent with previous findings that "Big N" auditors do not necessarily provide better assurance on CSD (Simnett et al., 2009). Consultant assurers appealed more to stakeholders due to their stronger expertise in CSD.

Further, comments from the respondents emphasised perceptions of independence in the choice of CSD assurers. Respondent i11 indicated "anyone...less conflict of interest would be preferred to provide assurance". Respondent i10 commented "[in CSD assurance] independence is key". The ability of accountant assurers to claim independence will help them "assert some authority" which in turn makes their opinions more credible (O'Dwyer et al., 2011, p.45). Accounting and audit failures have reinforced the importance of assurer independence to stakeholders.

Having explored respondents' perceptions of key issues of CSD assurance, including the quality of assurance statements, the general trust in CSD assurance and the type of preferred assurers, the drivers that influence stakeholder demand for CSD assurance are examined in the next section.

### ***Factors Driving the Demand for CSD Assurance***

Descriptive statistics of the independent variables are first presented, followed by an examination of the correlations of the variables. The results of estimation by logistic regression are then presented which are followed by a discussion with reference to the hypotheses.

#### **[Table 6 – Insert Here]**

"Value", "FTSE4Good" and "Unbiased" are estimated using 5-point Likert scales. They take a value of 1 for strongly disagree / not important and 5 for strongly agree / very important. "Private" is estimated as the percentage of

the user's time spent on using disclosures from private meetings. Among all stakeholder groups, investing stakeholders tend to find CSD the most valuable and more unbiased than the other 2 groups. Both investing and third sector stakeholders find FTSE4Good more important than procuring stakeholders. This seems particularly important for third sector stakeholders who require external validation of corporate reporting, due to a distrust of corporations. Tilt (1994) suggested that CSD is not seen as credible by NGOs and CSD assurance may help enhance the credibility of CSD.

The correlations between the dependent variable and the independent variables and among the independent variables are presented in Table 7. The correlation coefficients between Assurance and Value [6], Private and FTSE4Good are significant and have the expected sign. The correlation coefficients also suggest stakeholder type has an impact on the demand for CSD assurance, with a positive and significant relationship between Assurance and Investing, and a negative and significant relationship between Assurance and Procuring. Although the variance inflation factors (VIFs) do not exceed 4, suggesting that multicollinearity is unlikely to be a problem, the correlation coefficients do display relatively high and significant levels of correlation between Value and Private (-0.510\*\*) and between stakeholder type, Value and Private. The relationship between Investing and Value is positive ( $r=0.372^{**}$ ) and the relationship between Investing and Private is negative ( $r=-0.458^{**}$ ). In contrast, Procuring stakeholders place a positive value on private information ( $r=0.554^{**}$ ) and a negative value on the Value of CSD ( $r=-0.425^{**}$ ).

**[Table 7 here]**

The overall explanatory power of the model [7] is satisfactory for a cross sectional study: Nagelkerke's  $R^2$  is 0.32 and the Chi-square statistic (31.91) is highly significant. The model predicts approximately 69% of the cases correctly. Taken together, Value, FTSE4Good and Unbiased contributes significantly to the explanation of stakeholder demand for CSD assurance and provide support for the hypothesised relationships.

**[Table 8 here]**

Most of the independent variables, including Value, FTSE4Good and Unbiased, are all significant ( $p < 0.10$ ,  $p < 0.01$  and  $p < 0.05$  respectively) and with the expected signs. A positive and significant relationship was found between stakeholder perceptions of the Value of CSD and Assurance ( $p < 0.10$ ), providing tentative support for Hypothesis 1. There is strong support for Hypothesis 2, as FTSE4Good is positively and significantly related to Assurance ( $p < 0.01$ ). Unbiased, which reflects stakeholder perceptions of the degree to which CSD faithfully represents corporate social and environmental performance, is negatively and significantly related to Assurance ( $p < 0.05$ ), providing support for Hypothesis 3. However findings in this study do not support a negative influence of access to private disclosures on the use of CSD assurance (Hypothesis 4).

**Discussion of Results**

Regression results provide tentative support to Hypothesis 1. Results in Table 8 provide some support for a model of stakeholder demand for CSD assurance that emphasises the value of CSD. Consistent with the Brunswik Lens Model, stakeholders draw on information from multiple sources to support decision-making which include CSD and information stemming from CSD assurance. The more stakeholders value CSD, the more stakeholders are inclined to use CSD assurance, whose function is to enhance the credibility of CSD. Results are also consistent with the observed trend that the provision of assurance has been increasing steadily since early 2000s (Perego, 2009), and that in general, there is a perceived need for assurance (Kuruppu and Milne, 2010). The complementary value of both CSD and CSD assurance is again accentuated.

Further, results in Table 8 provide strong support to Hypothesis 2. Stakeholder's use of RII positively predicts stakeholder demand for CSD assurance. This is consistent with the suggestion that stakeholders draw on information from various sources in decision-making. In a recent study in which an index of CSR performance was constructed, both company membership in FTSE4Good and the publication of CSD were included as factors (Gjølberg, 2009). Infomediarities such as FTSE4Good complement

CSD assurance, as both are representational measures that validate the fulfilment of reporting criteria by companies. To be included in RII, companies need to demonstrate satisfactory performance in relation to various CSR dimensions (Miles et al., 2002). Thus, companies would attain reliable and credible reporting, and possibly also reporting that is assured.

The results also support Hypothesis 3. The more unbiased CSD is perceived to be, the less inclined a stakeholder is to use CSD assurance. The monitoring function of assurance on managers is again highlighted. Moreover, this finding is corroborated by Edgley et al. (2010) that assurance adds value to CSD, by helping management spot deficiencies and preventing companies issuing misleading information. CSD assurance has the potential to perform a critical function in the corporate reporting process.

Results in this study do not support Hypothesis 4. CSD assurance may not be a substitute for private corporate disclosures in monitoring managers. Though Solomon et al. (2011) suggested “institutional investors are using the private reporting process to compensate for ... inadequacies of public ... reporting” (p.1119), private disclosures may remain exclusive to very few users. Also, Holland (1998) stated that public information is an important information base; its decision usefulness may not have been totally disregarded. Thus it is possible both private disclosures and CSD assurance are used to gauge the credibility of public reporting.

Finally, the relationship between LNStaff and Assurance is insignificant, providing no support for the relationship between stakeholder resources and the demand for CSD assurance. Neither of the stakeholder dummies (Investing, Third Sector) are significantly different to the omitted variable Procuring, suggesting no difference among stakeholder groups in terms of their demand for CSD assurance.

Despite its potential contribution, only 56% of respondents in this study were found to have used CSD assurance. Stakeholder comments regarding CSD assurors failing to enhance the credibility of CSD are consistent with Green and Li's (2012) finding that assurance reports lack clarity. In any case, CSD assurance is still maturing. Concluding comments are presented in the next and final section.

## Section 4 – Concluding Remarks

This study contributes new evidence to a relatively new research area. Jones and Solomon (2010) argued that more people based studies will complement desk-based studies in CSD assurance. This is one of the first papers that investigate stakeholder perceptions of CSD assurance, in which the views of 147 respondents in 3 key stakeholder groups were surveyed. Stakeholder preferences in CSD assurance were examined in the first half of Section 3 while demand drivers for CSD assurance were examined in the second half of Section 3. In particular, 4 hypotheses related to the demand drivers, specifically in terms of perceptions of the value of CSD and RII, the unbiasedness of reporting and access to private disclosures, were developed and tested.

Emerging pressures from stakeholders raise the importance of CSD assurance. Almost 75% of third sector and investing stakeholders use assurance while less than 50% of procurers do so. Similar differences were identified where trust is a central issue for third sector stakeholders and investing stakeholders but not for procurers. This suggests companies need to have a clear view on the target stakeholders for CSD and its resultant implications for CSD assurance. A better understanding of stakeholder information needs will help companies attain more stakeholder relevant CSD and purchase more stakeholder focused assurance.

Findings of this study should be of interest to managers regarding the form of assurance that stakeholders prefer. In this study, stakeholders clearly prefer specialist assurers rather than financial auditors; a perception of independence and subject expertise, rather than competence in auditing procedures, is considered key to the trustworthiness of assurers. Also, assurers may include details of the assurance process in the assurance statements to increase credibility. Overall, results are consistent with earlier studies regarding the value of non-specialist accountant assurers in evaluating CSD (O'Dwyer and Owen, 2007). Findings stress stakeholder preferences for specialist environmental assurers rather than financial auditors. This highlights the underlying distrust of CSD assurance by a significant group of investing and third sector stakeholders. O'Dwyer (2011) put forward the concern that the assurance service provided by assurers has a more advisory focus which can undermine the perceived independence of assurers. Interestingly, "interviewees at all levels...were highly sensitive to and dismissive of these potential independence concerns" (O'Dwyer, 2011, p.1284). In any case, while CSD assurance may add value for stakeholders by showing managerial commitments to credible reporting, CSD assurance rather than "performing any genuine accountability function by verifying the quality of ...[CSD]" (Jones and Solomon, 2010, p.26) may well remain a management tool. This is also reflected in some of the stakeholder comments in this study about CSD assurance not adding value.

The differences in the approach adopted by the 2 groups of assurers may be attributed to the use of International Standard on Assurance Engagements

(ISAE) 3000. Accounting assurers generally follow ISAE 3000 in assurance for CSD (Jones and Solomon, 2010), whereas consultant assurers may not. Consequently, the opinion expressed by the former group may be constrained by the objective and the process as defined in ISAE 3000, while consultant assurers can comment on other issues and adopt a different approach.

Despite the findings of this research, Big 4 audit firms still account for a considerable market share in sustainability assurance (Environmental Leader, 2013). It is very likely that the preference to hire the Big 4 for CSD assurance is size-biased, given that large companies are inclined to hire CSD assurance services. Also, Big 4 firms do try to “sell CSR consultancy services” to big companies (Jones and Solomon, 2010, p.28). The disconnection between company preferences and stakeholder preferences for CSD assurers is intriguing and warrants further investigation.

Notwithstanding, the landscape of CSD assurance is evolving quickly, and the composition of the sustainability services teams of the Big 4 appear increasingly diversified. For example, PwC recently took over Viridis, an environmental consulting group (Foster, 2012). Also, since 2010, Deloitte has been enhancing its Sustainability Services team by acquiring dcarbon8 and the sustainability team of Drivers Jonas Deloitte, an international real estate advisory firm (Deloitte, n.d.). It appears that at present there are some non-accountant environmental specialists working in the Sustainability Services teams of the Big 4 accounting/audit firms.

The regression results emphasise the perceived value and quality of CSD as demand drivers for CSD assurance, while acknowledging the role of infomediaries such as FTSE4Good. Zéghal and Ahmed (1990) argued that in examining corporate communication, it is essential to include all media that disseminate information about companies which is consistent with the Brunswik Lens model. Firms are reporting social and environmental impacts to be included in a reputable index (Knox et al., 2005). Both stakeholders and companies realise infomediaries can influence perceptions of the quality of CSD. Information from various sources that include CSD assurance and indices can be juxtaposed to gauge a company’s social and environmental performance. Results in this study suggest that Investing stakeholders (compared to Procuring stakeholders) tend to place a higher value on CSD, whereas the latter group are more prone to have access to private disclosures (Table 6). Such findings seem surprising given the significant growth of socially responsible investment and that institutional investors are seen to be driving private disclosures. Taken with the regression result that the use of FTSE4Good positively predicts the use of Assurance (Table 8), findings of this study suggest that overall stakeholders draw information from various sources rather than rely on any particular information sources, just as predicted by Brunswik Lens model.

With the advent of the pilot scheme of IIRC, CSD seems to have become more important than ever. One way to address stakeholder concerns regarding the decision usefulness of CSD is for companies to purchase CSD assurance. If doubts on the credibility of CSD assurance are not resolved, the

value of IIRC and the value of any assured reporting may easily diminish. In any case, there is still much inherent uncertainty in CSD assurance (Green and Li, 2012) because assurance standards are continuously evolving.

To make CSD assurance useful, a 2-pronged approach seems necessary. Apart from the maturity of assurance standards, stakeholders may benefit from a better understanding of the objective and the function of CSD assurance. Research evidence indicates at present the strength of assurance may have been overestimated by its users (Kells, 2011). A possible expectations gap may not merely exist in financial audits but also in non-financial assurance. Jones and Solomon (2010) stated that if companies are to involve stakeholders more in CSD assurance and take account of stakeholder feedback, stakeholder information needs may be better met and a more accountable relationship between companies and stakeholders can be nurtured. Notwithstanding, some researchers have stated that, to date, the educative efforts to involve stakeholders in the assurance process did not seem successful, and further efforts by assurers may not help users better understand assurance statements, unless users become more interested in assurance for CSD (O'Dwyer et al., 2011). It is hoped that such efforts may at least minimise potential misunderstanding and unrealistic expectations regarding CSD assurance.

The analysis in this study was restricted to 3 stakeholder groups from one country, and procuring stakeholders account for more than half of the respondents. Also, the use of assurance or otherwise was recorded as a response to a Yes/No question. Future research could investigate stakeholder perceptions and preferences across countries with more balanced respondent groups in a less categorical way, resources permitting.

Notes:

[1] An assurance engagement is defined as one in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria (IAASB, 2004, p.150, cited in Deegan et al., 2006, p.332).

[2] Corporate social disclosures (CSD) refers to public information made available by companies through company annual or standalone reports dedicated to reporting corporate social and environmental impacts. Here, CSD is deemed to encompass CSR disclosures, social and environmental disclosures, social and environmental information, social and environmental reporting, sustainability reporting and Triple Bottom Line (TBL) reporting.

[3] Respondents in this group work in private and non-governmental organisations. Here, the views of respondents who were working in the public sector (e.g. local authorities) were gauged in their capacity as procurers.

[4] NOP survey results suggest 77% of respondents supported ethical pensions.

[5] Respondents were asked about a set of infomediaries including: other sustainability indices, rating by BITC, rating by AccountAbility. FTSE4Good provided the best fit.

[6] The alternative measure of users' perceptions of the Value of CSD (Time) was highly correlated with Value and Private. Substitution of Value by Time has little effect on the explanatory power of the model but results in a small reduction in the significance of the explanatory variables. This probably reflects increased levels of multicollinearity.

[7] Missing values have reduced the number of observations from 147 to 119 cases in the regression model.

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