Corporate Social Responsibility Reporting

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Corporate Social Responsibility (CSR) Reporting is an essential mechanism for ensuring the transparency and accountability of companies towards sustainability performance. To further promote that sustainable development agenda, CSR-related regulations and policies have emerged worldwide.

disclosure quality | CSR disclosure | global reporting initiative | developing countries

1. Introduction

CSR Reporting is an essential instrument for ensuring the transparent information of companies towards sustainable performance. Both shareholders and stakeholders demand financial as well as non-financial information for sustainable value creation. Stock exchanges worldwide have placed extra pressure on standard setters and listed companies to disclose CSR information [1]. Issuance of CSR reports is becoming a norm among various largest companies globally [2]. Despite an increasing trend toward the publication of CSR reports, the quality of these reports is a contentious issue [3]. CSR reporting has been criticized for its lack of relevance and credibility [4] and its failure to impact sustainable development [5]. The quality of the information is vital to enabling stakeholders to make sound and reasonable performance assessments and take appropriate actions.

In the recent decades academia has recognized the importance of transparent and responsible activities on environmental and social issues. A new paradigm of transparency can provide stakeholders the right to know the environmental and social information. Investors respond to disclosure of green investment more quickly when managers' decision regarding green investment reflect the value they place on the associated societal benefits [6].

In order to provide consistent information, various bodies have recommended a number of financial and non-financial disclosure standards in annual reports including Financial Accounting Standard Board (FASB), Global Reporting Initiatives (GRI), Directive 95/2014/EU and International Accounting Standards Board (IASB).

Voluntary disclosures provide incomparable and inconsistent information. The adoption of a standardized format such as triple bottom line reporting, Directive 95/2014/EU and GRI provided consistent and comparable information for firms and industry. Disclosure guidelines for nonfinancial information was introduced when companies focused on disclosing the information on environmental and social aspects in their annual reports [7]. For this purpose, various guidelines for measuring non-financial information were introduced such as triple bottom line, Directive 95/2014/EU [8] and Global Reporting Initiative (GRI) [9][10]. These guidelines mainly focus on management approaches (qualitative information) and performance indicators (quantitative information) [10]. According to

Hammond and Miles [11], the companies who have followed GRI guidelines are more committed to disclose CSR information than those companies who do not follow it.

According to the guidelines, organizations are accountable to internal and external stakeholders and must follow the disclosure principles for introducing the transparent sustainability reports [2][9]. For example in Europe, states have introduced legal requirements about non-financial disclosure by introducing Directive 95/2014/EU [8]. Most of the companies use GRI sustainability reporting guidelines because it gives same coding structure for different industries and voluntary reporting frameworks that are useful for all type of companies [11][12].

Organizations communicate social and environmental activities through reporting practice and this reporting usually takes place annually in order to communicate CSR strategies effectively to their stakeholders [13]. A number of companies disclose CSR reports from the perspective of social, economic, and environmental performance [14]. Disclosure of CSR reporting is not only mandatory but relevant for institutions, green investors, and other agents.

The quality of CSR reporting has received relatively more little attention among researchers in both developed and developing countries [15]. Prior studies have applied various standards for measuring the quality of CSR disclosures. For example, Beretta and Bozzolan [1] used the qualitative characteristics of financial reporting information (understandability, relevance, reliability, and comparability) to examine social disclosures' quality. Anis, Fraser [16] follow the Operating and Financial Review best practice (OFR) framework as a base for developing their measure of disclosure quality and found that the characteristics of disclosure quality must have some attributes such as forward-looking orientation, verifiability, relevance, supplementary and complementary financial statements, comprehensiveness, balance and neutrality and comparability. Applying the qualitative characteristics of financial information to social disclosures was considered limited and less relevant for social disclosures by some researchers who call for a separate evaluation framework to assess the quality of social discourse [17].

2. Quality of CSR Disclosure

CSR practice reporting in annual reports is becoming a global trend that is not limited to developed markets, but has started to penetrate into emerging markets [18]. The notion of corporate social responsibility (hereafter CSR) has become a standard element for national and international organizations. The majority of the studies highlight CSR discussion and CSR reporting in Australia, Western Europe and the USA [18][19] The ratio of conducted studies related to CSR disclosers in the USA is higher than in other parts of developed countries. By contrast, CSR discussion in developing countries have received less attention [18].

Existing studies observed that regulations focused on the quantity of information disclosed annually but not on the quality of the reports [20]. Studies have also detected that when disclosures are prepared according to the reporting standard (such as the GRI standards) and legal provision (such as Directive 95/2014/EU), the overall quality of their content could be different [21].

The quality of CSR disclosure is an important issue both for companies and their stakeholders. Quality of CSR disclosures allow stakeholders to “make sound and reasonable assessments of performance and take appropriate action” (GRI, 2006, p. 13). Companies who provide the quality of CSR information can win the trust and confidence of stakeholders [22]. However, measuring disclosure quality remains a highly contentious issue, and various definitions and measurements exist in literature [1][23][24]. There is no universal set of principles that constitute the quality of social disclosure, and there is a great deal of practice variation in evaluating the quality of social exposure.

Despite this, there is a consensus that CSR reports will be useful if certain qualitative characteristics are present [25]. In academic research, the concept of quality has been conceived and applied differently by different researchers. Existing literature has discussed different characteristics for providing qualitative information in CSR disclosure [2][17][21][26][27][28][29]. This section mainly reviews existing research that measures the quality of social disclosure and some of the frameworks/standards used for measuring reporting quality.

Habek and Wolniak [30] explained two qualitative characteristics of disclosures: relevance and credibility. Leitoniene and Sapkauskiene [31] described three qualitative aspects of social disclosures: relevance, reliability, and comparability. Similarly, the researcher Michelon [2], explain disclosure quality through three dimensions: the content of the information disclosed (what and how much is disclosed), the type of information used to describe and discuss CSR issues (how it is disclosed), and the managerial orientation (the corporate approach to CSR). Brammer and Pavelin [32] evaluated the quality of voluntary environmental disclosure through quality indicators. Raar [33] assesses the quality of social and environmental disclosure in companies with monetary, non-monetary, and qualitative discussion. Among other things that characterize the quality of social disclosure include a range of issues disclosed, nature of disclosure, frequency of reporting, style of disclosure, the scope of the report, themes of disclosure, period of disclosing information, and coverage of disclosure [11].

Overall, two general approaches for measuring the quality of CSR disclosure can be identified in the existing literature. One approach is to identify a range of criteria by conducting a literature review [34], while another approach measure quality through criteria from reporting (financial and non-financial) standards and guidelines [35]. While some studies rate information based on whether it is disclosed or not disclosed [36], others involve a more sophisticated rating of the information reported on a scale depending on how data adheres to reporting requirements [37]. For instance, Cormier, Magnan, and Van Velthoven [38] measured the quality of the information in CSR disclosure based on the nature of qualitative, quantitative, and monetary disclosure information regarding the theme. On the other hand, van Staden and Hooks [39] used a seven-point [33] and five-point ranking scale [39] to measure the quality of environmental disclosure. In terms of the second approach, prior studies have mainly applied financial reporting standards on CSR reporting (see. e.g., Beretta and Bozzolan [1][40]. This has been considered a major limitation, since using the qualitative characteristics of financial information to make social disclosures was considered less relevant and less justified by some researchers, who call for a separate evaluation framework for assessing the quality of social discourse [17][41]. One such framework that has received less attention in the existing literature is the Global Reporting Initiative, which defined principles for determining the reporting content and quality.

According to the Global Reporting Initiative (GRI), principles for measuring reporting quality include balance, comparability, accuracy, timeliness, clarity, and reliability. CSR reports should provide balanced information for making them decision-useful for stakeholders. According to GRI (2006) (p. 13), "the report should reflect positive and negative aspects of the organization's performance to enable a reasoned assessment of overall performance". Existing research found that companies disclose more positive events over the so-called adverse events [21][42] and criticizes companies for not providing balanced information [43]. Comparability of CSR information is another principle for providing quality CSR information that allows users or stakeholders to assess the performance of organizations [44]. According to GRI (2006) p. 14, "reported information should be presented in a manner that enables stakeholders to analyze changes in the organization's performance over time and could support analysis relative to other organizations". Measurement of a firm's performance over time and comparability with the other organizations in the same industry is the essential characteristic of quality disclosure.

Organizations must describe an accurate technique for calculation and data measurement. Qualitative information in the report should be validated (GRI, 2016). Accuracy of information is essential for the quality of CSR disclosure, 2 [28][42]. GRI (2016, p. 13) explain accuracy as "the reported information should be sufficiently accurate and detailed for stakeholders to assess the reporting organization's performance". Literature supports the conclusion that financial analysts, stakeholders, and investors should examine the quality of information through these principles [41][45][46]. Managers who make decisions regarding green investment use these principles to obtain quality information [6]. Timeliness is the fourth principle of quality disclosure of CSR, though it is not taken seriously in the literature of sustainability disclosure [47]. Timeliness is defined in the disclosure principle of GRI (2016, p. 16) as the disclosure of CSR information according to a regular schedule; the information should be available in time for stakeholders. This principle also indicates that recent information should be communicated helpfully to help stakeholders in decision making [28].

Clarity is the fifth principle of CSR disclosure quality. Under this principle, disclosure of CSR information must be understandable, usable, and accessible by all stakeholders to find specific information without great effort (GRI, 2016). In previous literature, researchers argued that lack of clarity, such as unnecessary and excessive information, acronyms, jargon or confusing language, is found in CSR disclosure, and misguides the stakeholders [21][48]. In addition to this, GRI recommends using maps, graphics, links, indices, tables, and other content so that stakeholders' understanding will not be limited. Finally, the information in CSR disclosure should be reliable. According to GRI (2016, p. 16), processes used to prepare a report should be gathered, recorded, compiled, analyzed, and disclosed in a way that could be subject to examination.

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