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Corporate Governance mechanisms as drivers that enhance the credibility and usefulness of CSR disclosure

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Abstract

The aim of this paper is to examine what kinds of CG mechanisms (institutional, firm or group level) are driving getting an Assurance or a GRI application level, like CSR disclosure decisions linked with credibility and usefulness of the information disclosed, in the particular context of energy companies. Previous evidence is scarce and does not jointly consider all level of CG mechanisms. Our sample is composed by 176 energy companies worldwide which currently report about CSR through a sustainability report. On the basis of our findings, we could support the idea that the credibility of the CSR report of the utilities companies will be greater if the company listed in a Relation-Based country has an Assurance report. In addition, those companies that have a concentrated ownership and the fewer insiders sitting in the BoD present more probabilities of having an Assurance. Moreover, the usefulness of the CSR information provided by this kind of firms will be higher, the greater the efficiency of the BoD will be. The enhancement of the credibility and the usefulness of the information reported is essential for companies involved in this sector due to the frequent claim of window-dressing behaviours.

Key Words: CSR reporting, Board of Directors, Ownership, GRI, Assurance.

1. INTRODUCTION

Social and Environmental Accounting (SEA) appears such as an extension of financial statements based on the assumption that companies have some commitments to society apart from getting the best value for their shareholders (Gray et al. 1987). As a consequence of this “new” concept of the business in which maximizing shareholder’s value is not the unique priority (Freeman, 1984), companies start to disclose about their socially and environmentally behaviours as a way of giving responses to their stakeholders (Moneva and Llena 2000). In this sense, some researchers argue that SEA should give answer to stakeholders, which implies considering them in the process, instead a way of stakeholder management (Owen et al. 2000).

Over the last few decades CSR reporting has undergone remarkable development (Castelo-Branco et al. 2014) even though strong differences at country and industry level are reported (Adams 2002, Sweeney and Coughlan 2008). The results emerged from the recent survey carried out by KPMG about the CSR reporting practices (KPMG 2015) allow corroborating the widespread of the CSR or sustainability report since from 2005 the number of companies which are publishing them has increased from a 64% to a more than a 90% from 2011 until now.

Nevertheless, some debates have arisen as a consequence of the great increase in the publication of CSR reports. Among them, those regarding to managers’ motivations behind the publication of CSR reports (since it is not mandatory in many countries) and credibility of the information disclosed highlight.

In this sense, the reasons that lead a company to publish a CSR report could be diverse. More specifically, the debate rounds on the doubt if this decision is taken by companies because they understand it such as a response to their stakeholder and helps them to improve their organization (derived from a deep and real dialogue) or, on the contrary, because they have been forced to do it by external pressures (legitimation or being able to compete in some markets - Crowther 2000, Young and Marais 2012).

Additionally, the credibility and trust in the CSR information have been called into question (Mahoney et al. 2013, Thorne et al. 2014, Michelon et al. 2016). In order to address this problem, companies are adopting their disclosure decisions attempting to increase the quality, and consequently the credibility, of their CSR reports following GRI guidelines (Kolk and Perego 2010, García-Benau et al. 2013) and getting Assurance (Simnett et al. 2009, Hodge et al. 2009, Pflugrath et al. 2011, Moroney et al. 2012).

The main motivation of this study lies in the need to identify the factors that drive the adoption of practices to enhance high quality in CSR disclosure: following GRI guidelines and Assurance. This is due to the need to contribute to the existing literature in which the same topic was approached from a different perspective. In 2015 Michelon, Pilonato and Ricceri have examined the complexity and quality of CSR information in the light of different CSR practices among which GRI adoption and Assurance decisions.

From the literature it is emerging that several efforts were done to identify the drivers of CSR reporting (Hahn and Kühnen 2013, Dienes et al. 2016). In addition to company size, profitability and industry, it is

highlighted the effect that different Corporate Governance (CG) mechanisms play on the existence and extend of CSR reports (Michelon and Parbonetti 2012, Rodríguez-Ariza et al. 2014).

Despite this evidence and the high widespread of these two disclosure practices -Assurance and GRI adoption - (KPMG 2013a, 2015), there is a lack of research about the effect that considering together all level CG mechanisms (Jain and Jamali 2016) have on these two specific disclosure decisions (Assurance and GRI adoption).

Although several studies have considered the role of specific CG mechanisms on these two disclosure decisions, particularly group level CG mechanisms (Board Size - Rodríguez-Ariza et al. 2014 -, Independent Directors - Martínez-Ferrero and García-Sánchez 2017 -, and Gender Diversity – Fernández-Feijoo et al. 2012) and firm level mechanisms (ownership dispersion - Ruhnke and Gabriel 2013, De Beelde and Tuybens 2015), there is no evidence of considering the three levels (institutional, firm and group level) at the same time. Consequently, our view aims to contribute to the literature assuming to identify the relationship between different levels of Corporate Governance (CG) mechanisms and the CSR disclosure decisions related to the GRI adoption and the Assurance of CSR.

This reasoning has led us to define the aim of our study as a need to analyze which kinds of CG mechanisms are determining that GRI adoption and Assurance decisions will be taken.

Our sample was entirely composed by the energy companies listed in 33 countries. All of these companies have prepared and published a CSR report. Due to the relevant role that industry plays on the CSR disclosure decisions (Perego and Kolk 2012, Legendre and Coderre 2013, Zorio et al. 2013, De Beelde and Tuybens 2015; Pérez et al. 2015), we have addressed our attention on the “energy industry” because companies operating in this sector are, from one hand, identified as the top publisher of CSR reports (Boiral 2013, Alonso-Almeida et al. 2014, KPMG 2015), and, from the other hand, often accused of “green-washing” the negative environmental impacts of their regular activities (Vries et al. 2015).

To collect the data on the two CSR disclosure decisions studied, we have checked those which publish CSR reports according to Thomson Reuters Asset 4 Database (Ioannou and Serafeim 2012) and later, we have downloaded the reports from the companies’ websites, Corporate Register or the GRI website to check the information needed about GRI guidelines adoption and Assurance. The financial and CG data were provided by DataStream.

From our findings, we can conclude that different level of CG mechanisms can contribute to explain the CSR disclosure decisions of adopting GRI and getting an Assurance and this implies that they are drivers of the improvements on the credibility and usefulness of the CSR reports.

Therefore, we could support the idea that the credibility of the report –measured by the Assurance- of the utilities companies depends on the Institutional and Firm level CG mechanisms. Moreover, the usefulness of the CSR information – using GRI as a proxy - is explained by Group level CG mechanism, in particular by the size of the BoD.

The paper is organised as follows. Section 2 is devoted to the CSR reporting and CG mechanisms theoretical discussion. In Section 3, we look more closely at the sample and the variables chosen, as well as the methodologies employed. Section 4 presents the results of our study and their discussion. Finally, in Section 5 we state our conclusions, the limitations of the study and the lines of investigation that remain open.

2. LINKING THE LITERATURE ON CSR DISCLOSURE PRACTICES AND MECHANISMS OF GOVERNANCE

Previous literature has made several efforts trying to identify some factors or drivers of CSR reporting (Hahn and Kühnen 2013, Dienes et al. 2016), and most of the researchers agreed the idea that company size (Brammer and Pavelin 2006, Nikolaeva and Bicho 2011), profitability (Haniffa and Cooke 2005, Clackson et al. 2011), and industry (Sweeney and Coughlan 2008, Fifka 2013) play a relevant role on the CSR reporting.

These factors are also recognized such as drivers of specific CSR reporting practices as Assurance (Kolk and Perego 2010, Castelo-Branco et al. 2014, Cho et al. 2014, De Beelde and Tuybens, 2015, Kend 2015, Sethi et al. 2015) or GRI adoption (Niskolaeva and Bicho 2011, Legendre and Coderre 2013, Martínez-Ferrero et al. 2015)¹.

The theoretical arguments that explain the effect that all these variables have on the CSR reporting are Legitimacy (Deegan 2002) and Institutional theories (DiMaggio and Powell 1983). According to these approaches, companies are pressured by the environment in which they compete to behave in a certain way, that is, if many companies from the industry or the country have adopted GRI or getting an assured CSR report, the others have been forced to do that if they want to be able to compete in the same market.

Additionally, it has been pointed out the relevant role that Corporate Governance mechanisms play on the CSR disclosure decisions (Aras and Crowther 2008, Michelon and Parbonetti 2012, Mallin et al. 2013, Amran et al. 2014, Rodríguez-Ariza et al. 2014). Based on this, a sort of bridging process emerges between the literature on Corporate Governance mechanisms and that concerning CSR reporting, being most studies focused on relationship between certain characteristics of CG and sustainability-related disclosure.

Despite the fact that large evidence shown about the existence and extend of CSR reporting and CG mechanisms, it is important to highlight that there is scarce research on how the CG mechanisms are influencing on others CSR disclosure decisions (see Table 1) such as Assurance (Fernández-Feijoo et al. 2012a, Ruhnke and Gabriel 2013, Peters and Romi 2015, Kend 2015, De Beelde and Tuybens 2015, Martínez-Ferrero and García Sánchez 2017) and GRI adoption (Rodríguez-Ariza et al. 2014).

INSERT TABLE 1

¹ More details are reported in Table 1.

When the effect of CG mechanisms on specific CSR disclosure decision is analysed, mainly two different approaches have been followed. On the one hand, there is a point of view in which the CG mechanisms are examined in order to explain the decision to assure the CSR reports (Peters and Romi 2015). In other studies the attention was focused on a two steps relationship, the first one between CG mechanisms and CSR and the second one between CSR and the reporting quality (Rodriguez-Ariza et al. 2014, Mallin et al. 2013). The way of reasoning followed in our study aims to search for a link directly from the CG mechanisms and CSR disclosure that is related with the decisions on the GRI adoption and Assurance. In this respect, we consider this approach different and not fully covered in the existing literature.

This fact joint with the lack of research that consider together the impact that multi-level CG mechanisms (Institutional, Firm and Group level) have on CSR disclosure decisions (Jain and Jamali 2016), provide us the perfect chance to test them.

Institutional level CG mechanisms

Companies are pressured by the environment in which they compete to adopt certain CSR disclosure practices – between them adopting GRI and getting an Assurance – if they want to be able to compete in the market (Adams 2002, Lattemann et al. 2009, Kolk and Perego 2010, Clarkson et al. 2011, Fernández-Feijoo et al. 2012b). At the same time, CG mechanisms are determined by the institutional environment in which each company has developed its activities (Klapper and Love 2004, Doidge et al. 2007, Li and Harrison 2008a, 2008b, Miras and Escobar 2016).

While most researchers (Chen and Bouvais 2009, Kolk and Perego 2010, Fernández-Feijoo et al. 2012a, De Beelde and Tuybens 2015, Kend 2015, Sethi et al. 2015) pointed out that the institutional environment in which each company operates presents a significant influence on the Assurance decision, there is no evidence from the GRI adoption decision.

This situation finds its theoretical support in Institutional (DiMaggio and Powell 1983, Baughn et al. 2007) and Legitimacy (Deegan 2002) Theories. On the one hand, Institutional Theory states that organizations are continuously adapting their structures and policies to the institutional norms and cultural context in which they operate (Scott & Meyer, 1994) as an attempt to survive in the markets. Apart from the influence of regulation in each institutional environment, companies will imitate the successful behavior or practices carried out by their peer organizations (DiMaggio & Powell, 1983). On the other hand, from a strategic view Legitimacy Theory defend that companies carried out CSR reporting practices in order to fulfill their commitments with society (Burlea & Popa, 2013), such as a response to changes in social awareness (Chelli et al. 2014) or reaction to environmental pressures (Guthrie & Parker, 1989). This legitimation depends on the environment in which they operate. However, some evidence could be found in the literature that suggest that sometimes CSR reporting practices are camouflaging not such a good CSR performers (Michelon et al. 2016). In this sense, companies due to pressures will be “obliged” to report in the same way than other companies if they do not want to be out of the market.

Several approaches have been used in literature to reflect these “Institutional level CG mechanisms” (Jain and Jamali 2016). Between them, the Governance Index Environment (GEI – Li 2009) is one of the most

used due to its complexity and its capacity to reflect the different characteristics related to the governance mechanisms. This index classifies each company into Rule-Based or Relation-Based environments (Li et al. 2004)². In Rule-Based environments, regulation is transparent and efficient, and, consequently, the information reported by companies is credible. However, the control of the State in Relation-Based environments triggers a general mistrust on the information provided, and companies feel lower pressure to report about this issues (Lattemann et al. 2009). These arguments lead us to verify if our two CSR disclosure decisions that enhance the credibility of the report will be taken equally in both institutional environments.

According to previous literature, Assurance and GRI adoption will be more necessary in those Relation-Based environments in order to enhance the reliability of the CSR information disclosed.

So that, our first set of hypotheses are presented:

H1a: The decision of following GRI guidelines to prepare the report is explained by Institutional level CG mechanisms.

H1b: The decision of getting an Assurance of the CSR report is explained by Institutional level CG mechanisms.

Firm level CG mechanisms

Board of Directors has to develop monitoring and advisory roles as a solution for the conflicts of interest between Shareholders and Managers (Agency Theory - Jensen and Meckling 1976). This conflict will have an effect on the CSR reporting practices carried out since the different term consideration could make that they have a more long-term or short term vision.

Mainly, we are going to focus on two measures: the concentration of the ownership through the presence of a Reference Shareholder (RS) and the participation of insiders on the BoD.

In this sense, the existence of a RS is one of the most relevant characteristic of the ownership which is undoubtedly going to have an influence on the strategic decisions of the company since the owner has enough power to appoint directors to the board (Boyd 1994). In the literature we can highlight two different positions attempting to explain the relation between ownership and CSR disclosure decisions. From one side, some researches have supported the idea that these RSs could prefer the information asymmetries in order to preserve the control of the company (Hahn and Künnen 2013). From the other hand, this concentration on the ownership could play a positive role towards the CSR disclosure since the RSs have a long-term view of the company and are aware about the negative consequences descending from a not socially responsible perception (Graves and Waddock 1994, Margolis and Walsh 2003).

At this regard, De Beelde and Tuybens (2015) did not found statistically significant effect of ownership dispersion on CSR disclosure decisions and, in particular, Assurance adoption. However, Ruhnke and

² Five relevant aspects of each environment are considered: the political rights, the rule of law, free press, the quality of accounting standards, and the level of general trust.

Gabriel (2013) stated that their findings have confirmed that the more dispersed is ownership the higher is the probability of getting an Assurance.

Moreover, the presence of managers on the BoD could also have an effect on CSR disclosure decisions. Managers could perceive that behind following GRI or getting an Assurance a way of controlling their activity and, consequently not to support carrying out these CSR disclosure decisions. Otherwise, they could argue that these practices could enhance the credibility of the reports and be proud of complying with them.

From the previous argument we can derive the following couple of hypotheses:

H2a: The decision of following GRI guidelines to prepare the report is explained by Firm level CG mechanisms.

H2b: The decision of getting an Assurance of the CSR report is explained by Firm level CG mechanisms.

Group level CG mechanisms

Good management arguments (Waddock and Graves 1997, Brennan 2006) support why Group level of CG mechanisms affect the decisions of Assurance and following GRI. In this sense, this theory suggests that more effective boards are those which take the best decisions – in this case CSR disclosure – looking for an increase of the financial performance. In the literature the debate rounds on the definition “effective BoD”. The different studies are not allowing us to refer to a clear and shared conclusion.

Firstly, as to the link between BoD size and CSR reporting activity, two main ways of reasoning can be identified in the literature. On the one hand, many studies conclude that the smaller is the size of the BoD, the more effective are its activities, as the smaller number of board members contributes to reducing problems of communication and coordination (Jensen 1993, De Andrés et al. 2005). On the other hand, many studies have supported the opposite argument: the larger is the BoD size, the greater is its capacity to manage the complexity of the company, including the need to carry out CSR reporting and to properly foster the quality of this communication (Gandía 2008, Kent and Stewart 2008, Said et al. 2009, García-Sánchez et al. 2011, Frías-Aceituno et al. 2013).

Moreover, while Martínez-Ferrero and García-Sánchez (2017) argue that those companies with a bigger Board Size have more probability of getting an Assurance, Rodríguez-Ariza et al. (2014) discussed that European companies with larger Boards are used to get a GRI application level in their CSR reports. The evidence provided by these two researches is scarce and focused on stakeholder-oriented countries. This fact has the implication that the Group level CG mechanisms are more homogeneous due to the impact of the institutional environment on the other kind of CG mechanisms (Li and Harrison 2008), so that the evidence is not representative of all the different characteristics of the companies.

Secondly, concerning the relationship between the presence of independent directors on the BoD and the CSR reporting, the studies to date have not reached a common conclusion. Some contributions have highlighted a positive relationship (Karamanou and Vafeas 2005), others have found a negative

relationship (Haniffa and Cooke 2005, Prado-Lorenzo and García-Sánchez 2010), and yet others were not able to identify a significant relationship at all (García-Sánchez et al. 2011, Frías-Aceituno et al. 2013). In support of a positive relationship, there is an idea that BoD members could be considered uninfluenced by managers and much more open to support an CSR disclosure, as this is a measure to improve the protection of stakeholders' interests, especially those of minority shareholders (Haniffa and Cooke 2005, Michelon and Parbonetti 2012). Related to the two specific CSR disclosure decisions under study, only Martínez-Ferrero and García-Sánchez's (2017) research shows a positive effect of having a BoD with more independent members.

Finally, the diversity argument is based on the idea that this factor could positively influence a company's capacity to improve its disclosure practices (Samaha et al. 2012). The diversity factor includes the gender and nationality of BoD members (Prado-Lorenzo and García-Sánchez 2010). Concerning diversity-related factors, we were not able to identify a prevalent position, even if some studies have specifically highlighted a positive relationship between gender diversity and the quality of disclosure, especially regarding CSR (Barako and Brown 2008, Prado-Lorenzo and García-Sánchez 2010, Frías-Aceituno et al. 2013). In Rodríguez-Domínguez et al. (2009), the greater number of independent and female directors was related to the existence of a formal code of ethics. Their findings show that more female directors do not necessarily lead to more ethical companies.

Furthermore, Fernández-Feijoo et al.'s (2012a) article aims to analyze if a specific characteristic of the BoD (Gender presence) has a significant effect on the Assurance decision. Additionally, Rodríguez-Ariza et al. (2014), Peters and Romi (2015), and Kend (2015) introduce in their analyses other BoD characteristics – apart from the ones pointed out in Table 1 – such as BoD independence and BoD activity, which did not show any statistical significance. Nevertheless, Peters and Romi (2015) have provided some evidence on the existence of a link between sustainability-oriented CG mechanisms and the voluntary assurance of corporate sustainability reports.

From the discussion of the literature on group level CG mechanisms we can set up the following hypotheses:

H3a: The decision of following GRI guidelines to prepare the report is explained by Group level CG mechanisms.

H3b: The decision of getting an Assurance of the CSR report is explained by Group level CG mechanisms.

In both hypotheses we assume that all kind of CG mechanisms (Jain and Jamali 2016) play a positive role on the disclosure decisions related with the adoption of GRI guidelines or with the Assurance service.

3. SAMPLE DESCRIPTION, VARIABLE SELECTION AND MODEL DEFINITION

In our sample, we have included CSR reports prepared and presented by listed companies in the energy companies. This choice is motivated by several facts. First of all, many researchers have pointed out the need of focusing this kind of research on one industry (Pérez et al. 2015) because the nature of the

activities carried out by each company determines their attitude towards CSR (Vries et al. 2015) and the information required by their stakeholders (Patten 2002). In particular, Perego and Kolk (2012), Legendre and Coderre (2013), Zorio et al. (2013) and De Beelde and Tuybens (2015) highlight the key role of industry for Assurance and GRI adoption decisions. Due to the pertinence of choosing one industry, we have decided to focus on the “energy companies” since it is one of the industries with a higher percentage of companies that present a CSR report (around 80%, KPMG, 2015) probably due to the high environmental impact of their activities, which allow us to have an appropriate sample size. In addition, Boiral (2013) and Alonso-Almeida et al. (2014) pointed out that they have been preparing this reports for years and have been pioneers and top ranking on this kind of publications, which implies that they are carrying out the most developed CSR reporting practices.

These reports refer to the financial year 2012 or 2012/13 due to the non-coincidence between the natural year and the financial year. The choice of this financial years has given us the opportunity to set the most complete sample we are able to collect in order to include as many reports and many countries as possible since the lags in the publication are between one and two years (Boiral, 2013).

Our selection process starts by looking for the energy companies that had published a CSR report in the Thomson Reuters ASSET4 Database³ in 2012. Once we had a selection of companies, their reports were downloaded from the Corporate Register, GRI website, or, in a few cases, directly from the company website.

From this initial sample⁴, we removed companies for which CSR reports did not exist, no information about CSR was reported (we also checked integrated reporting), or reports were no longer available anywhere. Additionally, we did not include in the final sample reports written in Chinese or Russian. Considering all these points, the final sample is including the entire set of companies available in the database and is composed by 176 CSR reports from companies listed on the stock markets of 33 different countries.

Other data regarding these reports (GRI and assurance variables) were provided by a combination of the ASSET4 database, GRI website and reading of the reports. Corporate Governance and other corporate data were collected from ASSET4 and DataStream databases⁵.

Dependent Variables: Assurance, GRI

The “*Assurance*” variable is a dummy variable and reflects whether or not the CSR report has been certified by an external company (accounting, consultancy or engineering firm) (Fernández-Feijoo et al. 2012b, García-Benau et al. 2013, Castelo Branco et al. 2014).

³ The Thomson Reuters ASSET4 Database was already used by Ioannou and Serafeim (2012). This database is frequently used by investors to build their sustainability reports. It provides a collection of indicators (valued from 0 to 100) organised into four pillars: Social Scores, Environmental Scores, Corporate Governance Scores and, finally, Economic Scores.

⁴ Since ASSET4 database is used, the institutions included in our sample are companies listed in the stock markets of all markets. Most of them are private, although we could find some mixed companies included. Finally, data about pure public firms or SMEs are not available, but these data will be most of the times not comparable to those reported by listed firms.

⁵ The DataStream database is one of the largest databases of companies’ financial and non-financial data.

Previous literature has used various different measures for GRI variables. Some studies have been focused on the different GRI application levels⁶ (Fernández-Feijoo et al. 2012b, Rodríguez et al. 2014). In our analysis we have adopted this approach. Therefore the “*GRI Application Level*” is based on a dummy variable where it is controlled if the report has an application level (in other words, whether it get an application level) or not (dummy variable).

Independent and Control Variables

Table 2 presents how each independent and control variables are going to be measured and the specific references in the literature for each of them.

INSERT TABLE 2

Corporate Governance

As discussed before, we have focused our study on the different CG mechanisms levels pointed out by Jain and Jamali (2016): Institutional, Firm⁷ and Group level. Considering previous evidence on the field of CSR reporting, we have selected the specific indicators for each kind of measures (see Table 2).

Corporate Characteristics

Moreover, we have included several control variables related to company characteristics, such as size (as discussed in section 2) and profitability based on previous literature. Additionally, we have introduced four more control variables. On the one hand, the length of the report is another key issue, as the differences between these documents can be very large, particularly in the specific case of the energy industry. Also, it was considered the level of CSR commitment that each company has “*CSR Score*” since previous research does not agree about its effect on CSR disclosure (Michelon et al. 2015).

The establishment of a CSR Committee and its activity was also considered to be a variable of CG that enhances the improvement of sustainability disclosure (Ullmann 1985, Michelon and Parbonetti 2012, Amran et al. 2014, Kend 2015, Martínez-Ferrero and García-Sánchez 2017).

Finally, we have included a “*report*” variable, which indicates whether the company has to prepare a CSR report on a mandatory basis since different patterns were identified (Gray et al. 2001).

Regression and model

Due to the characteristics of the dependent variables (dummy variables), the regressions were tested adopting the following Logit Model.

⁶ In this sense, companies that decide to prepare a CSR report based on GRI guidelines could get an “application level” (each level is labelled as A, B, or C) which reflects to what extent each company’s report follows the guidelines. This level can be self-reported or checked by a third-party or the GRI.

⁷ Between the potential Firm level CG mechanisms highlighted by Jain and Jamali (2016), we have chosen these two variables due to their availability in the database. Alternative and additional variables are not available through the databases and are implying an handle collection of this data with an high risk of subjectivity and a large risk that the information are not available and not comparable within the different countries composing the sample.

$$(1) \text{ CSR Disclosure decision} = \beta_1 + \beta_2 \text{ Group level CG mechanism} + \beta_3 \text{ Firm level CG mechanisms} + \beta_4 \text{ Institutional level mechanism} + \beta_5 \text{ Company Size} + \beta_6 \text{ ROA} + \beta_7 \text{ Length} + \beta_8 \text{ CSR Score} + \beta_9 \text{ Report} + \beta_{10} \text{ CSR Committee} + \varepsilon$$

4. RESULTS AND DISCUSSION

Descriptive Statistics

We report the sample descriptive statistics (Table 3) and the bivariate correlations between all the variables included in the study (Table 4).

[INSERT TABLE 3]

From the descriptive statistics shown in Table 3, we can observe that 53% of the energy companies' reports analysed have been assured, 65% obtained a GRI application level.

The average size of the BoD is around eleven Directors, of which 56.04% are independent and 13.1% are women. In the BoDs, there are 36.24% of insiders directors, although the variability is really high. Most energy companies (86%) have established a CSR Committee, while only 29% of them have a Reference Shareholder. The majority of the companies belong to a Rule-Based country (78%) while only 22% of them are referable to Relation-Based country. The average length of a report is 102 pages, even though high variability should be considered for this variable since the number of pages ranges between 6 and 383. Additionally, we found that for 14% of the companies the preparation of CSR reports is mandatory. Preparation of the CSR report has mandatory requirements in 6 out of the 33 countries included in our sample⁸.

INSERT TABLE 4

From Table 4, it can be argued that these CSR disclosure practices are significantly related to the Firm level and Group level CG mechanisms. Specifically, the board size (Assurance and GRI Application Level), independent Directors (Assurance), the executive presence on the BoD (Assurance) and the existence of a Reference Shareholder (GRI Application Level) present a strong statistical correlation. These results support the idea that BoDs are responsible for making these CSR disclosure decisions (Adams 2002, Haniffa and Cooke 2005, Michelon and Parbonetti 2012).

If we consider our institutional level CG mechanism (Rule vs Relation Based Societies), it shows a statistically significant correlation with getting a GRI application level.

In addition, it emerges a positive correlation between both CSR reporting practices and the CSR score, that is, it is more probable that companies which are more engaged with CSR are those which decide to follow GRI guidelines getting an application level and to assure the report. These findings will support

⁸ There have been considered "mandatory" those countries that their listed companies have to publish a CSR report or Integrated report in 2012: Brazil, Denmark, Finland, France, South Africa and Malaysia. Other regulations have not been included.

the opposite view to the argument that these practices are implemented not only for green-washing their image or due to external pressures (Deegan 2002; DiMaggio and Powell 1983).

Furthermore, the length of the report is positively correlated to the adoption of the two CSR disclosure practices we are discussing. So that, the more pages the report has, the higher is probability of having engaged in Assurance and GRI. Notwithstanding, this result should be carefully considered due to the high variability of this variable.

Another result that should be pointed out is the relationship between *Rule vs. Relation* and *Report*. As it can be seen in Table 4, there is a negative significant correlation between these two variables, that is, the majority Rule-Based societies do not have any obligation of publishing a CSR report. Also most companies in Relation-Based societies do not have to report about their CSR activities although it is necessary to mention that the percentage of companies that have to publish a CSR report is higher than in Rule-Based countries. The implications of this evidence are clear. Companies from Relation-Based societies need an external stimulus to be engaged with this kind of CSR disclosure practices. On the other hand, most companies in Rule-Based environments do it without any regulation.

Moreover, the higher the percentage of independent Directors will be, the greater is the probability that there are more women on the board, and that there is a lower number of executives Directors on the BoD and that the company does not have a Reference Shareholder. Due to the nature of the analysis, we have carried out the models considering only one measure of each level of CG mechanisms to analyse of all kind of mechanisms affect to the CSR disclosure decisions. For this purpose, it has been the measure of each kind of CG level that has shown lower correlation with the one selected from the other groups, that is: Board Size, Executives and Rule vs. Relation.

Once it has been identified the group of measures that affect each CSR disclosure decision, the analysis was repeated only with measures from the same group in other to obtain a better understanding of the problem. A collinearity analysis was carried out between all the BoDs variables of each group to check if they could be introduce at same time on the analysis and it shows that these variables are not collinear.

Multivariate tests

In this section, we present the results on the main objective of our study. Table 5 shows the results of the regressions to determine what level of CG measures are explaining taking certain CSR disclosure decisions (Assurance and GRI Application Level).

INSERT TABLE 5

From Table 5, we have pointed out that GC mechanism and the control variable proposed explains better the probability of getting a GRI application level than the one from the Assurance according to the goodness of fit coefficients being considered both such as good levels according to Kend (2015). In addition, the introduction of different level of CG measures helps to explain better these two CSR disclosure decisions.

Specifically, it seems that firm and institutional level CG mechanisms have an impact on the Assurance decision. On the one hand, if company belong to a country based on Rules, they have less probability of getting an Assurance. In Rule-Based environments, regulation is transparent and efficient, and, consequently, the information reported by companies is more credible (Lattemann et al. 2009), so that it is less needed to get an Assurance to enhance the reliability of the information. In this sense, companies from Rule-Based societies will not understand this practice as a way to legitimate themselves and also will be less pressured by their stakeholders and environments to carry it out. Nevertheless, companies of Relation-Based societies will be more pressured by their stakeholders to implement the Assurance of the CSR report as a way of legitimizing themselves by giving signals to the market of their CSR commitment.

On the other hand, the effect that the two decisions considered for the firm level CG measures differs on their sign. While the higher percentage of executives on the board implies the less probability of getting an Assurance, the existence of a Reference Shareholder has a positive influence on having an assured CSR report.

These results shed more light on the debate on the CSR reporting (Margolis and Walsh 2003 vs. Hahn and Künnen 2013), since if the company has a concentrated ownership and less insiders on the BoD, it would be more inclined to get an Assurance. In this case, the BoD will be acting such as a mechanism of control of the CSR activity carried out by managers (monitoring role – Hillman and Dalziel 2003) as it is argue by Agency Theory (Jensen and Meckling 1976), and demonstrate that shareholders long-term perspective of the company (Graves and Waddock 1994) is also linked with its legitimation and its capacity to be able to compete in the markets. This evidence disagree with the results of Ruhnke and Gabriel (2013) who argue that more disperse ownership will ask more for these kind of practices in order to reduce the information assymetries. Managers do not want that their CSR management will be controlled and verified by shareholders, so that they will be less in favour of the Assurance report.

Also company size and CSR commitment have a negative impact on the possibility of getting an Assurance of the CSR report. That is, the bigger will be the company as well as the higher the CSR commitment is, there is less probability that its report will be assured. Nevertheless, when all the CG variables are introduced in the analysis, the CSR commitment stops having a negative effect on the Assurance.

Moreover, the length of the report affect negatively to the Assurance. This fact has a special significance considering that the sample used in focused on Utilities companies, one sector with the consideration of doing “green-washing” to improve their image. The longer a CSR report is, the greater the probability of not getting an Assurance will be. These results are consistent with Boiral (2013) arguments.

If it is associated having an assured report with more credible information (Simmett et al. 2009, Cheng et al. 2015), and the fact of providing more reliable information with preparing the CSR report for signalling purposes (Mahoney et al. 2013), there is a higher probability of assurance will be considered such as signalling practice in companies with a concentrated ownership and whose BoD have a smaller percentage of managers, as well as for those located to Relation-Based countries.

Making reference to getting a GRI application level, this decision seems to be explained by group CG measures, and particularly by the Board Size. The other two levels of CG mechanisms introduced in the analysis show any statistically significant effect on GRI adoption.

Therefore, it is necessary to highlight that Board Size is affecting, in a negative way, by the decision of getting a GRI application level. Considering the Board Size one of the measures that points out the efficiency of the BoD, this results confirm that larger BoD are less effective for this particular decision making process (Jensen 1993, De Andrés et al. 2005). This evidence disagrees with the findings of Rodríguez-Ariza et al. (2014).

Considering that GRI aims to enable comparison and harmonization of CSR information (Adams 2002, Boiral 2013) which implies that reports that follow GRI guidelines provide decision useful information (Tschopp and Nastanski 2014), according to our results it depends mainly on the efficiency of the BoD.

Regarding to the effect of CG mechanisms on the CSR disclosure decisions examined, we could affirm that each CSR disclosure decision is determined by different groups of CG measures, which implies that they depend on different factors.

According to the results, we could deduced that assurance decision is determined by the institutional environment in which each firm is based (higher probability in Relation-Based societies) and also by the concentration of their ownership (more concentration, higher probability of Assurance) and the presence of managers on the BoD (more managers, less probability of Assurance). On the other hand, getting a GRI application level is explained by group CG mechanism, in particular, by efficiency of the board linked with BoD size (bigger size, less probability of getting a GRI level).

5. CONCLUSIONS

At the beginning of our study, the aim of this paper was to point out the need “to examine what kind of CG mechanisms are driving getting an Assurance or a GRI application level, like CSR disclosure decisions linked with credibility and usefulness of the information disclosed, in the particular context of utilities companies”.

From our findings, we could conclude that energy companies based on Relation-Based countries need the Assurance report to increase the credibility of the CSR report and to legitimate themselves to their stakeholders. In addition, those companies with a concentrated ownership and the fewer insiders there are on the BoD are those which present a higher percentage of Assurance report. Reference Shareholders would like to legitimate companies and at the same time, monitoring the managers' activities. Additionally, the usefulness of the CSR information (linked to getting a GRI application level) provided by this kind of firms will be higher as the greater the efficiency of the BoD will be.

The enhancement of the credibility and the usefulness of the information reported is essential for companies involved in this sector, since they need to legitimate themselves due to the high environmental impact of their activities. Otherwise their CSR commitments could be not perceived by stakeholders, and all the effort will be not worthy.

Finally, we have to mention that not all the previous studies support the association between “Assurance and credibility” and “GRI and usefulness”, but we have decided to focus on this approach to support our research.

The tendency to regulate non-financial information is growing worldwide. This fact could affect the credibility and usefulness of the report since many companies must to inform about their CSR activities. Therefore, the credibility of the report will be more questioned.

One of the limitation of our paper is the fact that we have consider that we have made no distinction between the different GRI application level or assurance provider. It has been done to ensure the robustness of the results due to the decrease in sample size. Future research on the field should consider this, since it could help to differ between greater and lower level of harmonization of the CSR information. Furthermore, other variables such as the scope and the level of the assurance report have not been included in the studied despite their interest due to the lack of many data. When this information was clearly stated on the reports, this more depth analysis could be done.

It could be also interesting to test this aim in other industries with a good socially or environmentally reputation in order to see how much the results differ from the obtained in this piece of research.

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Table 1: Articles with Assurance or GRI decision and their drivers

| Article | CSR Disclosure decision | Variables with significant influence |
|--|--------------------------------|--|
| Chen and Bouvais (2009) | Assurance | Countries |
| Kolk and Perego (2010) | Assurance | Country and Industry |
| Niskolaeva and Bicho (2011) | GRI | Size and Industry |
| Fernandez-Feijoo et al. (2012) | Assurance | Board Gender Diversity (at least 3 women) and Female Chair, Country |
| Legendre and Coderre (2013) | GRI | Size, Profitability and Industry |
| Ruhnke and Gabriel (2013) | Assurance | Dispersion Ownership, CSR Committee and Control by country |
| Castelo-Branco et al. (2014) | Assurance | Size, Profitability, Industry and Listed Companies. |
| Rodríguez-Ariza et al. (2014) | GRI | Board Diversity (Foreign and Women), Board Activity, Board Size, Company Size and Industry |
| Cho et al. (2014) | Assurance | Industry, Extensiveness of CSR disclosure |
| De Beelde and Tuybens (2015) | Assurance | Size and Country |
| Kend (2015) | Assurance | Country, Profitability and Meetings of the Audit Committee |
| Martínez-Ferrero et al. (2015) | GRI | Size and Profitability |
| Michelon, Pilonato and Ricceri (2015) | GRI and Assurance | Quantity of information – Sustainability information – disclosure variables |
| Peters and Romi (2015) | Assurance | Sustainability- oriented CG mechanisms |
| Sethi et al. (2015) | Assurance | Size and Country |
| Martínez-Ferrero and García-Sánchez (2017) | Assurance | Board Size, Board Independence and CSR Committee |

Table 2: Measurement of independent and control variables

| MEASUREMENT AND REFERENCES | | | |
|-----------------------------------|--|-----------------------|--|
| Independent variables | Institutional level CG mechanisms | Rule vs Relation | Based on the Governance Index Environment (GEI – Li, 2009). Each society is classified into Rule-Based or Relation-Based environments (Li et al. 2004). To do that, they considered five relevant aspects of each environment: the political rights, the rule of law, free press, the quality of accounting standards, and the level of general trust. |
| | Firm level CG mechanisms | Executives | Percentage of executives on the BoD (Galbreath, 2016). |
| | | Reference Shareholder | If the company is owned by a reference shareholder who has the majority of the voting rights, veto power or golden share. Dummy variable. Indicator variable is one if there is a reference shareholder; zero, otherwise (Miras et al. 2014) |
| | Group level CG mechanisms | Board Size | Number of BoD members (De Andrés et al. 2005; García-Sánchez, 2011). Since the previous evidence argues that not always larger boards are better, the squared value is introduced in the analysis |
| | | Independent Directors | Percentage of independent directors (Karamanou and Vafeas, 2005) |
| | | Board Diversity | Percentage of female representation on the Board (Prado-Lorenzo and García-Sánchez, 2010) |
| Control Variables | Size | | This was measured by the logarithm of Total Assets (Said et al. 2009; Amran et al. 2014) |
| | ROA | | ROA (Michelon and Parbonetti, 2012; Rodríguez-Ariza et al. 2014) |
| | Length | | Number of pages (Boiral, 2013) |
| | CSR Score | | CSR Score is obtained such a mean value of the Social and Environmental Score from Thomson Reuters Asset 4 Database (Ioannou and Serafeim, 2012) |
| | Report | | When reporting is voluntary, the indicator variable is 0, otherwise 1 ⁹ |
| | CSR Committee | | Existence of a CSR Committee - dummy variable. The indicator variable is 1 if there is a CSR Committee; otherwise zero (Michelon and Parbonetti, 2012; Amran et al. 2014) |

⁹ Countries identified such a “mandatory CSR reporters” are those in which listed companies have to report in 2012. It is based on KPMG (2013, 2013b; 2015).

Table 3: Descriptive statistics

| | N | Minimum | Maximum | Mean | Standard Deviation |
|---------------------------|----------|----------------|----------------|-------------|---------------------------|
| Assurance | 176 | 0 | 1 | 0.53 | 0.50 |
| GRI Level | 176 | 0 | 1 | 0.64 | 0.48 |
| Board_size | 176 | 5 | 22 | 11.38 | 3.36 |
| Independent Directors (%) | 176 | 1.3 | 94.80 | 56.04 | 29.90 |
| Board Diversity (%) | 176 | 0 | 50 | 13.10 | 11.93 |
| Executives (%) | 169 | 13.78 | 99.93 | 36.24 | 20.06 |
| Reference Shareholder | 176 | 0 | 1 | 0.29 | 0.45 |
| Rules vs Relation | 176 | 0 | 1 | 0.78 | 0.42 |
| Size (millions) | 173 | 0.34 | 41000 | 1232.14 | 5180.46 |
| ROA | 176 | -29.40 | 25.06 | 4.74 | 5.67 |
| Length | 171 | 6 | 386 | 102.19 | 73.90 |
| Report | 176 | 0 | 1 | 0.14 | 0.34 |
| CSR Committee | 176 | 0 | 1 | 0.86 | 0.35 |

Table 4: Bivariate correlations

| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) | (13) | (14) |
|---------------------------|--------|---------|--------|---------|---------|--------|--------|---------|---------|-------|-------|-------|------|------|
| (1) Assurance | 1 | | | | | | | | | | | | | |
| (2) GRI Level | 0.37** | 1 | | | | | | | | | | | | |
| (3) Board_size | 0.20** | 0.21** | 1 | | | | | | | | | | | |
| (4) Independent Directors | -0.16* | -0.06 | -0.10 | 1 | | | | | | | | | | |
| (5) Board_Diversity | -0.14 | -0.05 | 0.07 | 0.29** | 1 | | | | | | | | | |
| (6) Executives | 0.17* | -0.04 | 0.01 | -0.37** | -0.34** | 1 | | | | | | | | |
| (7) Reference_Shareholder | 0.10 | 0.22** | -0.00 | -0.26** | -0.23** | 0.17* | 1 | | | | | | | |
| (8) Rules vs Relation | -0.04 | -0.23** | -0.16* | 0.37** | 0.27** | -0.08 | -0.08 | 1 | | | | | | |
| (9) Size | 0.19* | 0.09 | -0.06 | -0.14 | -0.18* | 0.27** | -0.08 | -0.23** | 1 | | | | | |
| (10) ROA | 0.01 | 0.18* | -0.02 | -0.02 | -0.15* | -0.00 | 0.11 | -0.17* | 0.14 | 1 | | | | |
| (11) Length | 0.40** | 0.49** | 0.20** | -0.19* | -0.12 | -0.13 | 0.21** | -0.26** | 0.04 | 0.15* | 1 | | | |
| (12) CSR Score | 0.34** | 0.29** | 0.25** | 0.00 | -0.05 | -0.05 | 0.03 | -0.02 | 0.09 | 0.00 | 0.34 | 1 | | |
| (13) Report | -0.10 | 0.01 | 0.04 | -0.31** | 0.03 | -0.09 | 0.19** | -0.27** | -0.25** | -0.02 | 0.11 | 0.12 | 1 | |
| (14) CSR Commitee | -0.06 | 0.06 | -0.02 | 0.21** | 0.04 | -0.18* | 0.18* | 0.02 | -0.16* | 0.09 | -0.02 | -0.00 | 0.11 | 1 |

Significance test ** < 0.01 * < 0.05

Table 5: Disclosure decisions Regression models

| Independent Variables | Dependent Variables | | | | | |
|------------------------|---------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | Assurance | | | GRI Level | | |
| Constant | 7.4951*** | 9.3351*** | 7.7702*** | 4.6024* | 4.4559* | 6.5651** |
| Group level CG | | | | | | |
| Board Size | | -0.0302 | | | -0.1324† | -0.1481† |
| Independent Directors | | | | | | -0.0125 |
| Board Diversity | | | | | | 0.0039 |
| Firms level CG | | | | | | |
| Executives | | -0.0226* | -0.0241* | | 0.0054 | |
| Reference Shareholder | | | 0.9449* | | | |
| Institutional level CG | | | | | | |
| Rules vs Relation | | -1.0289† | | | 0.5129 | |
| Size | -0.2320* | -0.2064* | -0.1927* | -0.0628 | -0.0211 | -0.0621 |
| ROA | 0.0244 | 0.0201 | 0.0.195 | -0.0405 | -0.0427 | -0.0444 |
| Length | -0.0164*** | -0.0194*** | -0.0165*** | -0.0298*** | -0.0301*** | -0.0332*** |
| CSR Score | -0.0283** | -0.0264 | -0.0324*** | -0.0148 | -0.0139 | -0.0097 |
| Report | 0.4278 | 0.0074 | 0.3950 | -0.0861 | 0.1910 | -0.3959 |
| CSR Committe | -0.0707 | 0.2385 | -0.1149 | -0.3985 | -0.2073 | -0.0817 |
| R square | 0.2436 | 0.2762 | 0.2810 | 0.3046 | 0.3252 | 0.3309 |
| Log pseudolikelihood | -84.0114 | -80.3975 | -79.8604 | -73.5647 | -77.3876 | -70.7783 |
| LR | 54.12*** | 61.35*** | 62.42*** | 64.44*** | 68.79*** | 70.01*** |

*** < 0.005, **<0.01, *<0.05, †<0.1