WHAT DRIVES CSR DISCLOSURE PRACTICES IN EMERGING COUNTRIES?

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ABSTRACT:

A large increase in the publication of sustainability reports in last years has been produced, which has provoked that some scholars have called its credibility and quality into question. Such as an attempt to overcome this situation, it has been developed a large set of CSR disclosure practices from the GRI application level to the assurance of the CSR reports.
Most studies in the CSR reporting field consider determinant the influence of the company´s country of origin which is theoretically supported by the Institutional Theory. Considering this approach, we are going to consider the companies established in BRICS countries.
Consequently, the aim of this paper is to identify the relevant factors that influence on the CSR reporting practices (their complexity) in the BRICS countries. In particular, we will study the effect on the CSR disclosure practices of some business variables, the industry and some Corporate Governance mechanisms.

Keywords: CSR reporting practices, National Culture, Industry, Emerging countries.

1. INTRODUCTION

The formal communication used by companies to report their socially responsible performance has become in one of the main strategic mechanisms for corporate governance. Due to the large number cases of negligence, corruption and bad praxis uncovered the last ten years and their significant impact from an economic, social or environmental perspective, Corporate Social Responsibility (CSR) is receiving an increasingly attention by academics, professionals and society in general. Many of these practices have been concealed at first instance to public opinion and have been reported later intentional or unintentional way. See for instance the recent video on the climatic effects that the oil company

Shell filmed 26 years ago already warning of the dangers of climate change[1], or the discovery in 2015 in relation to the illegal software used by Volkswagen in diesel engines to compliance certain pollution requirements.

Definitely, the current technological revolution and permanent hyper-connectivity have raised the global awareness about the real companies' impact. Accessibility to information is no longer a problem, and therefore misinformation cannot be used as an excuse of citizenship in order to justify certain passive behaviours. Instead, increased awareness, improved telecommunications and greater accessibility to different sources of information have resulted in an increase in the demands, pressures and expectations of those who are interested on the business activity of a company. Therefore, companies should become aware of the relevance to report their socially responsible performance to stakeholders, because this will improve transparency (Crowther, 2000) and reduce informational asymmetries (Bushman et al., 2004).

Those corporations that publish their financial economic information in accordance with established procedures and regulations and that wish to meet some social or environmental expectations should include information on their commitments and the level of performance achieved in their financial statements. In order to accomplish this task companies have different options (Ihlen et al., 2011). However these possibilities normally can be reduced to: i) integrate social and environmental information along with the economic information in a same document; or ii) develop a specific document for reporting this kind of information. In this regard, although in recent years there is a growing interest in the mechanisms necessary to design a comprehensive report that brings together different types of information (Jensen and Berg, 2012), most corporations have traditionally communicated their socially responsible management through specific reports, such as stated KPMG in a study carried out in 2011.

Due to the large number of companies that in a relatively short period of time were able to assume principles, policies and practices characteristic of a socially responsible attitude and which also gave the necessary public visibility in order to achieve competitive advantages and contribute to value generation (Husted and Allen, 2007), many scholars have emphasized the need of challenge the quality and credibility of these documents (Amral et al., 2014). It is also important to note the high heterogeneity observed in the format and content of the first sustainability reports, with the consequent difficulty for making decisions based on comparisons. This is one of the main reasons because the Global Reporting Initiative (GRI) has been making significant efforts in the preparation of guidelines to facilitate the standardized communication of CSR since 2003. Through its different guides, GRI has provided to managers of a helpful tool to disclosure the socially performance of their companies. Further even, the reports elaborated in accordance of GRI recommendations can be subsequently evaluated and certified through a process of assurance.

Using or not the different guides developed by the GRI, in the last fifteen years, many studies have been carried out on the different determinants that influence the dissemination of sustainable information (Dienes et al., 2016). In general the literature suggests that the cultural environment, closely linked to the country in which the companies are located, has an important influence on the

[1] http://www.lavanguardia.com/natural/20170301/42416518337/shell-video-cambio-climatico.html

CSR reporting practices. This is a strange appreciation when most researchers have normally focused their attention on corporations located in similar cultural environments, using as main argument the difficulty of isolating the real effect of corporate culture in an economic environment characterized by the globalization of markets and the continuous convergence of different contextual variables. For this reason, in order to perform a study on determining factors, it could be advisable to select companies located in regions with some economic similarities.

To shed light on the study of determinant factors of CSR communication and taking into account the above recommendation on sample selection, for the research conducted was selected companies located in what Goldman Sachs denoted in 2003 as BRICS countries (Brazil, Russia, India, China and South Africa). These five countries have been recognized in the international economic environment as five of the emerging markets with the greatest potential to influence on global economic and political spheres.

Therefore, the selection of companies from these BRICS countries is motivated by (i) the relevance of these emerging markets in the international economic environment, (ii) the particular way in which these countries have faced the recent financial crisis, (iii) few researchers have developed studies on the socially responsible performance of companies in these countries; and (iv) there is no studies focused on the analysis of what factors are influencing CSR disclosure practices of companies located in such particular economic environment. In this regard, although there are no studies that exclusively focus on determinant factors, some researchers have analysed how companies from these countries manage the CSR communication (Alon et al., 2010). Accordingly, based on CSR reports for the year 2012 of companies established in the different BRICS countries, it has been analysed how some organizational characteristics as well as some variables associated with the corporate governance mechanisms implemented affect two specific variables: The "complexity of the CSR reporting" as proxy of the transparency and the "GRI-level" achieved as proxy of the company efforts in CSR communication.

The following section reviews the main theoretical approaches identified in the literature on CSR reporting. Then, from the identification of the most used determinant factors in previous researches different hypotheses are proposed. In the next section, information about the method and the sample is provided. Finally, the results are presented and some conclusions are drawn.

2. THEORETICAL PERSPECTIVE OF CSR REPORTING

Adams and Whelan (2009) pointed out three possible objectives pursued by organizations and which can be used to a preliminary identification of the main theoretical frameworks suggested in the literature: the maximization of shareholder value, the social legitimacy and the risk management associated with corporate reputation. Each of these objectives respectively answers to three of the key approaches to understand the CSR disclosing activity: Agency theory, Legitimacy theory, and Stakeholder theory. Although the last two approaches have been the most employed in explaining social and environmental reporting practices to date, in the last five or ten years some authors have suggested the Institutional theory as one of the theoretical perspective with more explanatory capacity to understand the reporting practices and decision making processes of corporate governances (Islam and Deegan, 2008).

The Agency Theory (Ross, 1973), probably the most classic of the ones mentioned, has been used by many researchers interested in the analysis of the voluntary disclosure of information, arguing as motivation the reduction of agency costs between principal and agent when informative asymmetries are reduced (Jensen and Meckling, 1976; Rozef, 1982; Naser et al., 2006). Likewise, the commitment to social responsibility and the development of policies and practices expected from a sustainable performance can be interpreted as the agent's reaction to the principal's concern about the negative effect of any irresponsible practice on the long term value creation (Margolis and Walsh, 2003).

Suchman (1995) asserted that legitimacy is the generalized perception or assumption that the actions of an entity are desirable, appropriate or adequate, within a system of norms, values, beliefs and definitions socially designed. In this sense, the legitimacy between company and society requires the fulfilment of a social contract by which the firm would agree to satisfy some social demands in return for some kind of rewards, in the form of competitive advantages, that guarantee its success or its survival (Brown and Deegan, 1998; Deegan, 2002). From this perspective the CSR report is conceived as one of the essential mechanisms available to corporations with which to communicate and guarantee the necessary transparency required by the social contract (Woodward et al., 2001). Accordingly, the most exposed organizations would be subject to greater social pressure and better levels of CSR reporting would be expected in order to minimize risks and convey a socially responsible image and reputation (Miras and Escobar, 2016).

The impact that the CSR management has on corporate image and reputation has typically been studied from the perspective of stakeholders because the positioning of a company can be noticed as the impression produced in all of those whom are interested in its activity. The origin of Stakeholder Theory (Freeman, 1984) is related to the concern expressed by business management theorists when studying the obligations that companies have to face for with their stakeholders, that is, shareholders, employees, suppliers, customers or any other group interested in the company for economic, social or environmental reasons. In line with the above argument, it is inferred that business management must pursue the balance between the interests of different stakeholders as a mechanism to ensure the survival of the company and the achievement of its objectives (Shankman, 1999). Reverte (2009) pointed out that organizational management, based on stakeholder theory, rests on the hypothesis that corporate disclosure is a control mechanism for managing the information needs of different stakeholders (employees, shareholders, investors, consumers, public authorities and non-governmental organizations).

Finally, in addition to respond to social pressures and contribute to its social legitimation, CSR reports are also essential to satisfy institutional pressures (Campbell, 2007). Aguilera and Jackson (2003) pointed out the special usefulness of this approach to try to explain the way that corporate governments have to fulfil their functions, among which is the disclosure of CSR. According to institutional theory, in a constant attempt to survive in markets, institutions are in a permanent adaptation of their structures, policies and practices to the normative and cultural context in which they operate (Di Maggio and Powell, 1983). After all, this permanent adaptation to the institutionally established norms, along with the satisfaction of social expectations, is still a mechanism for corporate legitimacy (Suchman, 1995; Du and Vieira, 2012).

2.1. Determinants of CSR reporting

Literature focused on the analysis of explanatory factors that affect to CSR reporting, either through assessments of the quantity of information, the quality, or simply attending to the publish of a report or not, has highlighted among some factors associated with the organizational profile, such as size, profitability and international sales (Belkaoui and Karpik, 1989; Hackston and Milne, 1996; Prencipe, 2004); the sector of activity (Sweeney and Coughlan, 2008); the country (Fortanier et al., 2011). Additionally, literature suggest as determinant of disclosing practices certain corporate governance mechanisms, such as the size of the board of directors, its independence, the presence of a reference shareholder or the existence of a CSR committee (Haniffa and Cooke, 2005; Michelon and Parbonetti, 2012). Regarding corporate governance, since there is evidence that decisions regarding CSR reporting emanate principally from boards of directors, it is necessary to noted that there are also evidences of the significant impact of cultural context on the board structure as well as its activity (Li and Harrison, 2008). For this reason, it is interesting to evaluate whether the factors previously identified in similar studies are also determinants of the CSR reporting activity of companies located in the BRICS environment. To accomplish this task, the following hypotheses are proposed:

H1: The characteristics associated to the company profile are explicative of the divergences in the CSR reporting practices.

H2: The country and the existence of a normative that obliged companies to report about CSR are explicative of the divergences in the CSR reporting practices.

H3: The characteristics associated to the Corporate Governance are explicative of the divergences in the CSR reporting practices.

3. METHODOLOGY

Prior to obtaining the results, it is necessary to make the selection of the companies involved, to determine the variables that are going to be included in the analysis as well as how they are going to be measured. Finally, the model to test the hypotheses is proposed.

3.1. Sample

The sample used is composed of listed companies located in BRICS countries (Brazil, Russia, India, China and South Africa) which data are available in ASSET4 Thomson Reuters database. Therefore, the final sample includes 3,582 companies. Then, the CSR disclosure practices carried out by each one was analysed based on the information of their CSR/sustainability reports, their annual financial statements or their Integrated Reports. Except for few companies, most of these documents were directly downloaded from the Global

Reporting Initiative website[2]. In this way, the reports from 2012[3] were available for the study.

It is needed to specify that the sample size significantly declines when the different Corporate Governance (CG) mechanisms are taken into consideration such as a determinant of the CSR disclosure practices. Therefore, the sample size considered for the study of the effect of these CG mechanisms is 281 firms.

Due to the different sample sizes, as it is pointed out later, it is chosen to test two different models, for each dependent variable considered, one considering the total sample size (3,582) without CG mechanisms; and another based on the sample composed of 281 firms evaluating all the determinant factors.

3.2. Variables

The study of the determinants of the CSR reporting practices of companies from BRICS countries was carried out considering two dependent variables.

First of all, “Complexity of CSR report” is used as a dependent variable to evaluate the level of commitment assumed by each company around the disclosure of their socially and environmentally behaviours. Then, following Moneva et al. (2007), the elaboration of this index is based on the aggregation of four items (dummy variables): (a) the disclosure of CSR information any company written report; (b) the compliance of GRI guidelines; (c) the presentation of “in accordance” level and (d) the presence of an external Assurance. Consistent with Muñoz et al. (2008), every firm is classified depending on the score obtained on the Complexity of CSR Report as Opaque (0 points), Pro-translucid (1 point), Traslucid (2 points), Pro-transparent (3 points) and Transparent (4 points).

Secondly, another variable “GRI level” was designed based on Rodríguez-Ariza et al. (2014) to assess the scope of the CSR disclosure carried out by firms according to the GRI standards. Thereby, focused on the CSR report, we proceeded to evaluate with “0” those companies which did not get any GRI application level, “1” to those which get a “C” application level, “2” for firms which get a “B” application level, and finally “3” for organizations which get an “A” level.

The information and the references about independent and control variables considered are presented in Table 1.

[INSERT TABLE 1]

3.3. Regression models proposed

Considering the proposed objectives of the research, we have used ordinal regressions models instead of other more complex statistical models due to the (1) reduced number of hypotheses and (2) the lack of abstract variables that require more than one measure to be evaluated.

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[2] http://database.globalreporting.org/search/

[3] It was the last financial year with the information availability for the complete sample.

4. RESULTS

From Tables 2 and 3, we could see that a half of the 3,582 companies selected are from Indian, one third of them are Chinese and the others are from Brazil, South Africa and Russia.

[INSERT TABLE 2]

The descriptive analysis of the complete sample presents an overview of the firms analyzed, and there are significant differences in the characteristics of the companies between countries. Then, it should be pointed out the bigger dimension and total international sales amount of Russian companies.

In relation with Board of Director´s Size, the Board does not present any important differences between countries and the mean size is around 11 people, except for Brazilian firms which Boards are smaller (around 9 people).

South African firms are characterized by shown the best level of performance and the bigger percentage of independent members on their Boards (around 95% of the directors are independent). This characteristic is probably related to the fact that the higher percentage of companies with a CSR Committee is presented by organizations located in South Africa.

On the opposite side Brazilian and Chinese companies would be. They show lower percentages of independent members of their Boards (less than 25%). This result disagrees with the Corporate Governance recommendations made by the Code of Governance in 2009 which suggest that most directors should be independent. In addition, the higher number of companies in which there is a Reference Shareholder is also report for companies located in Brazil and China.

Regarding with the mean scores of each dependent variable, firstly, it is important to highlight the lack of engagement with the disclosure of CSR shown by a high percentage of the companies analysed (88.3%). Furthermore, only 3.5% of the firms included in the sample are classified such as Pro-Transparent or Transparent. South Africa and Brazil are the countries which present a higher number of companies classified at least such as Pro-Transparent, as well as the CSR report of their organization get better GRI application level.

On the other hand, it is surprising that a 95.2% of the 3,582 firms analyzed do not present their CSR information following the GRI standards despite the international recognition given by academia and professionals. So, it can be seen that in countries like China and India, there is practically no firm which follow this kind of recommendations. Even in Russia, located in Europe where companies publish their report following the GRI guidelines, a 15% of the companies studied present their CSR information in accordance with GRI standards.

[INSERT TABLE 3]

The results from the statistical tests of the four regressions carried out are presented in Tables 4 and 5.

[INSERT TABLE 4]

The analysis of the results related to the Complexity of CSR report show that the explanatory power varies between 39% (when CG mechanisms are not included) and 47% (when all the determinants are considered). This observed difference shows the higher predictive capacity of the organizational variables. Notwithstanding, company size is the best predictive variable in both models that also present a strong relation with the level of complexity of the CSR report.

Likewise, it should be pointed out that in both models the importance of controlling by country. When the CG mechanisms are introduced in the analysis (Model 2), profitability and also industry have a significant effect on the complexity of the CSR Report.

Paying attention in Model 2, it is noticeable the negative relationship between the fact that it is mandatory or not to present the CSR report and its level of complexity. Additionally, against it was expected, the existence of a CSR Committee is the unique CG mechanism that have an influence on the complexity of the CSR report.

[INSERT TABLE 5]

From the study of the GRI level, we need to point out the loss of predictive power in both models (29% and 41.5%). Moreover, most coefficients of the variables present slight decreases which reflect the less strong relationship between the predictive variables and the scope of the CSR report evaluated through the level of GRI adoption. There is only one variable whose coefficient increases its value, the “mandatory reporting”. As well as for the Complexity of CSR report, when the sample composed of 281 companies is considered, it can be seen that there is an inverse relationship between the legal requirement and the GRI application level got. That means, it there is legal requirements, the reports will get a worse GRI application level.

Finally, the existence of a CSR Committee continues showing a positive relationship with the GRI application level get by the CSR report of each company.

5. CONCLUSION

The analysis of the determinant factors of CSR reporting from companies listed in emerging countries such as Brazil, Russia, India, China and South Africa pointed out the need of being able to extrapolate conclusions when the research is focused on firms from specific cultural or economic environments. To support this idea, it can be seen that only one variable “company size” from all the variables used as explicative factors really helps to explain the level of reporting whatever the case was.

In this sense, it has been checked that even when the companies are from countries with certain economic similarities and potentialities (BRICS), the country effect has also an influence on the level of CSR reporting.

The relationship between company size and the CSR report is one of the more frequent findings in this kind of research. Nevertheless, it is one of the few determinant factors which analysis could be carried out considering most of the theoretical arguments argue in this piece of research. From the perspective of Legitimacy and Stakeholder´s Theories, the CSR report carried out by companies will be better when the company will be bigger because the pressures and the expectations would be higher.

On the other hand, the incidence that country has shown as a control variable contributes to reassert the reasoning that argue that normative and cultural peculiarities of each environment require different analyses and answers. The divergences identified in the CSR disclosure could be as a response adapted to the cultural and normative environments, even among countries that a priori shared certain economic features.

Before moving to the particular findings of the statistical tests, it is necessary to notice the significant decrease on the sample size when the corporate governance mechanisms associated to the disclosure of financial and non-financial issues were included.

This significant decline on the sample size make evident that a high percentage of firms which disclose about CSR in these emerging markets do not have any commitment with the transparency of certain Corporate Governance data (size and Independence of Board of Directors, the presence of a Reference Shareholder or the existence of a CSR Committee). Therefore, this lack of interest in transparency has also its reflection on the CSR disclosure since 88.3% of the 3582 listed companies analysed do not publish in 2012 any information at this regard.

From the statistical tests, the first deduction which should be noted is that the explicative factors studied result to be determinant or not regardless the measure used for CSR reporting (linked to the complexity of the CSR report or the scope of the CSR report according to GRI adoption level). However, the determinants used are able to predict a higher percentage of the variance experienced by the variable that reflects the complexity of the report proposed by Moneva et al. (2007). It could be due to the scarce interest of companies in BRICS countries to follow GRI standards.

This result allows suggesting that future research in the area should consider the suitability of using measures of CSR disclosure not based exclusively on the level of adoption of GRI standards. It is particularly relevant in those research focused on companies located on countries where such standard is not the main option to report about CSR. In case of those companies more engaged with the publication of information, that is, those which report about their Corporate Governance mechanisms, a positive relationship between the performance and the CSR disclosure was shown. Furthermore, as it was expected, the existence of a CSR Committee is closely linked with the CSR reporting practices.

This last argument remarks again the need of establishing the appropriate legal mechanisms to ensure minimum commitments in transparency. In this sense, it has seen that for those companies which should show more commitment to the CSR reporting due to they are more engaged in transparency, the existence of legal imperatives of reporting about CSR issues has a negative relationship with the CSR disclosure practices analyzed.

It provides evidence that those normative and cultural contexts in which disclose about CSR is really an option for companies, firms that decide to report about these issues will do it with responsibility and they try to implement the best practices. It will help that the disclosure stops being a simple strategic legitimization tool to become a tool with which contribute to the creation of value.

In these cases, the CSR report would not be carried out in order to be the effect of a cause (socially irresponsible firm behaviours) but the cause that will have an effect in the future (higher satisfaction of different stakeholders and better image and reputation of the companies which implies an improvement on their competitiveness).

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Table 1: Independent and control variables analyzed

Kind of Variables	Factors		Measures	References
Independent	Organizational Characteristics	Size	Total Assets	Amran et al. (2014)
		Performance	ROA	Rodríguez-Ariza et al. (2014)
		International Sales	Total International Sales	Chapple and Moon (2005)
	Regulation	Kind of report	0 (Voluntary) 1 (Mandatory)	KPMG (2013)
	Corporate Governance mechanisms	Board Size	Number of Directors	Li and Harrison (2008)
		Independent Directors	% of independent	Miras and Escobar (2016)
		CSR Committee	0 (Absence) 1 (Existence)	Michelon and Parbonetti (2012)
		Reference Shareholder*	0 (Absence) 1 (Existence)	Amran et al. (2014)
Control	Country		BRICS	Alon et al. (2010)
	Industry		ASSET 4	Miras and Escobar (2016)

*If the company is owned by a reference shareholder who has the majority of the voting rights, veto power or golden share.

Table 2: Descriptive analysis (mean values) of the sample focused on the Quantitative information

	Complete Sample N=3582	Brazil N= 178	China N=1128	India N=2068	Russia N=88	South Africa N=120
Total Assets (millions)	79.550	28.703	53.010	73.913	684.468	56.955
ROA	5.001	4.731	4.905	4.828	5.748	8.743
International Sales (millions)	7.084	1.823	2.681	5.705	106.714	6.981
Board Size *	11.15	9.72	11.09	11.52	11.08	11.78
Independent Directors *	31.61	22.47	24.90	44.76	37.46	95.66

Estimated data based on the information from ASSET4

* The scores of the variables related to the Board of Directors were obtained considering a total sample of 281 companies.

Table 3: Descriptive Analysis of the sample focused on the Qualitative information

	Complete Sample N=3582	Brazil N= 178	China N=1128	India N=2068	Russia N=88	South Africa N=120
Complexity of the CSR reporting						
Opaque	88.3%	48.9%	93.3%	94.2%	76.1%	5.8%
Pro-Traslucid	6.8%	14%	6.1%	3.5%	8%	58.3%
Traslucid	1.4%	11.8%	0.4%	0.2%	4.5%	13.3%
Pro-Transparent	1.5%	8.4%	0%	0.6%	10.2%	13.3%
Transparent	2.1%	16.9%	0.3%	1.5%	1.1%	9.2%
GRI- level						
A	2.2%	14 %	0.1%	0%	5.6 %	5.8%
B	2.5%	12.4%	0.2%	0.1%	8%	15%
C	0.1%	10.7%	0.1%	2.1%	2.3%	14.2%
Non-GRI	95.2%	62.9%	99.6%	97.8%	84.1%	65%
Reference Shareholder	37.62%	53.44%	42.55%	39.5%	72%	14.13%
CSR Committee	61.39%	74.04%	29.79%	46.91%	36%	89.13%

Estimated data based on the information from ASSET4.

* The scores of the variables related to the Board of Directors were obtained considering a total sample of 281 companies.

Table 4: Determinants of the complexity of the CSR report

	Model 1		Model 2	
	Coefficient estimation	T-Student	Coefficient estimation	T-student
Company Size	0.103	13.06***	0.269	3.87***
Profitability	0.001	0.74	0.039	3.77 ***
International Sales	1.19e-09	2.77***	4.08e-10	0.099†
Mandatory	0.179	1.23	-0.989	-3.76***
Board size			0.040	1.47
Independent Directors			0.002	0.56
CSR Committee			0.747	4.00***
Reference Shareholder			0.026	0.16
Country	Controlled ***		Controlled***	
Industry	Controlled		Controlled***	
N	3582		281	
R^2	0.3901		0.4715	

Significance test *** < 0.005, **<0.01,*<0.05, †<0.1
All the regressions have been controlled by the industry and country.

Table 5: Determinants of the GRI level given to the CSR report

	Model 1		Model 2	
	Coefficient estimation	T-Student	Coefficient estimation	T-student
Company Size	0.053	8.12***	0.206	2.76**
Profitability	0.001	0.91	0.034	3.31 ***
International Sales	1.06e-09	3.29***	4.65e-10	1.99*
Mandatory	-0.190	-1.29	-1.156	-3.97***
Board size			0.034	1.29
Independent directors			0.003	0.78
CSR Committee			0.464	2.41**
Reference Shareholder			-0.043	-0.28
Country	Controlled ***		Controlled***	
Industry	Controlled		Controlled***	
N	3582		281	
R^2	0.2907		0.4150	

Significance test *** < 0.005, **<0.01,*<0.05, †<0.1
All the regressions have been controlled by the industry and country.