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Impact of the Institutional Macro Context on the Voluntary Disclosure of CSR Information

Isabel-Maria Garcia-Sanchez, Beatriz Cuadrado-Ballesteros, Jose-Valeriano Frias-Aceituno

This study examines the influence of the institutional environment on the voluntary corporate social responsibility information disclosed. We use an index based on Global Reporting Initiative guidelines and categorize countries according to their socio-economic conditions and cultural, legal and corporate systems. The sample is composed of 1598 international companies from twenty countries for the years 2004–2010. By controlling for companies' activities, size, profitability and growth opportunities, we observe that normative and regulative institutional structures have an important impact on corporate transparency. Concretely, firms located in coercive societies, characterized by higher long-term orientation, higher cultural values of collectivist, feminist and uncertainty avoidance and a lower power distance index, are more sensitive to publishing corporate social responsibility reports. Moreover, our analysis suggests the characteristics of the country's system, such as its civil law legal environment, strong law enforcement and ownership concentration, are key elements in the disclosure of relevant and comparable information for stakeholders' decision-making processes.

Introduction

The past two decades have witnessed a dramatic increase in firms issuing corporate social responsibility (CSR) reports in order to hold themselves accountable to stakeholders — and to society at large — regarding their business' use of natural resources and the social and environmental impacts of their activities. Throughout that time, a great number of studies have focused on analyzing how factors such as size, profitability and the activities of companies influence firms' voluntary disclosure practices. In general, these papers have analyzed corporate information practices in specific countries (e.g., Deegan and Gordon, 1996; Gray et al., 2001; Trotman and Bradley, 1981), but few studies have examined the impact on firms' transparency levels by the environment in which they operate (Riahi-Belkaoui and AlNajjar, 2006; Khanna et al., 2004). Nevertheless, the institutional setting leads to different organizational actions and strategies in order to obtain legitimacy (Scott, 2008).

Among previous studies of the effect different institutional factors have on corporate disclosure, Holland and Foo (2003) found that the legal and regulatory frameworks of the UK and the U.S. that regulate environmental activities influence environmental performance and determine the types of disclosures made by firms. Van der Laan Smith et al. (2005) observed that firms from Norway and Denmark — countries characterized by stakeholder orientation (namely, that place higher attention on the rights of interest groups compared with shareholders) and a stronger emphasis on social issues — have higher levels of CSR disclosure (measured by sentence count, word count and page number) in the areas of the environment, human resources, product safety and shareholder rights than firms from the U.S., a country with shareholder orientation. Xiao et al. (2005) found that companies from the UK and Hong Kong differ in the amount, topic, and location of CSR disclosure, and that this is associated with the pressures and demands different stages of social and economic development present in these countries. Specifically, Xiao et al. (2005) observed that several differences exist for three industries — banking, property and utility — as well as for the topics of health and safety, human resources and the environment, although not for the topics of energy, community and fairness.

Chen and Bouvain (2009) tested whether membership in the UN Global Compact makes a difference to CSR reporting, and showed that businesses from the U.S., the UK, Australia and Germany vary significantly in the extent to which they promote CSR and the issues they choose to emphasize in their reports. Latteman et al. (2009) observed that Indian firms communicate more CSR than Chinese companies, due to the Indian environment being a rule-based context in which laws, enforcement

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mechanisms and courts are stronger and more independent of political influence. As a consequence, this generates higher levels of public trust in government, rules and orders, that prevent people from using private means in order to obtain unethical benefits, in turn generating a positive framework for transparency. By contrast, the Chinese relation-based governance environment supposes the existence and use of personal connections or private forces to protect themselves and settle disputes — which may even involve illegal acts, such as bribery — all of which reduce transparency.

Previous empirical evidence presents several limitations, such as the reduced number of countries analyzed, which limits the generalization of the results. In addition, these studies have only focused on one of the institutional factors that could determine CSR without considering the other forces (Perez-Batres et al., 2012a), thus generating a more or less stakeholder-oriented environment that influences the importance of CSR issues in business operations (Williams and Zinkin, 2008). In addition, previous studies have measured the volume of information published without taking its relevance into account, which determines the usefulness and comparability of the information disclosed to stakeholders. In general, a CSR statement is relevant when the information allows a decision to be taken, because it permits the evaluation of firms' past and present social and environmental performances.

Accordingly, our study contributes to the literature by adopting a multi-region approach, considering twenty countries from Europe, North America and Japan, rather than a single country or a two-region approach, such as that used by Perez-Batres et al. (2011) and Xiao et al. (2005). We are therefore able to differentiate among institutional systems typical of each country. The analysis of higher country diversity offers additional evidence on the determinants of relevant CSR disclosure information. As a result, the identification of these country-level mechanisms could usefully inform the decisions made by policymakers with respect to improving social responsibility.

In this regard, this study uses a similar analysis to those applied in several corporate finance papers that examine how different macro contexts influence management decision-making (Aguilera et al., 2007). Based on institutional theory, it aims to determine the effect of two institutional pressures on CSR disclosures in the main internationally listed companies: (i) normative forces (cultural systems), and (ii) coercive or regulative forces (legal and ownership characteristics). We consider these two forces because, according to Campbell (2006), they are the most important and robust for determining the socially responsible behavior of companies. Furthermore, while appreciating the difficulties inherent in any overly strict categorization of countries based on institutional factors, we nevertheless partially adopt the attempts of previous studies that relate socio-economic development (Gray, 1988; Hofstede, 1983) to legal and corporate systems (La Porta et al., 1998), in order to systematically identify the similarities in the institutional frameworks of our sample countries, with a view to analyzing the effects of institutional factors on CSR disclosure.

In addition, our analysis is based on panel data information that reinforces knowledgeable evidence through the integration of individual firm characteristics in the cross-country sample, correcting the bias results associated with the period of time used in previous cross-sectional analyses, such as those by Latteman et al. (2009) and Perez-Batres et al. (2011), among others. Finally, we use an indicator of the relevance, usefulness and comparability of information disclosures in relation to CSR practices. Specifically, we take Global Reporting Initiative (GRI) guidelines into account, in order to represent the quality of CSR disclosures.

The remainder of the paper is structured as follows. In the next section, we present a brief overview of CSR reporting. We then describe the institutional features considered in the analysis, and review the theoretical arguments underlying our central hypotheses. Next, we describe the data and estimation methods used, and report the empirical results obtained. The paper concludes with a discussion and summary of our main findings.

CSR reports

CSR reports can be conceptualized as documents intended to inform all stakeholders of the economic, social and environmental impacts of corporate performance during a given period of time. These disclosures represent the management's communication with its stakeholder groups on issues that go beyond those of company profits (Gray et al., 1995), providing information on how profits are being generated in addition to traditional financial statements (Williams et al., 1999). In this respect, the term “CSR reports” refers to a broad and diverse array of disclosures, including labor practices and relations, supplier and customer interactions, community activities, charitable contributions and the effect of the company's products on consumer health and safety (Williams, 1999).

In recent decades, the volume and depth of CSR disclosures have increased significantly (Gray et al., 1995), accompanied by a rise in the amount of accounting research in this field (Van der Laan Smith et al., 2005). This has been aimed at examining the extension, content and relevance of these reports, as well as the factors that influence their parameters in different countries (Clarkson et al., 2008; Hackston and Milne, 1996; Haniffa and Cooke, 2005; Hassan and Ibrahim, 2012; Luna Sotorrío and Fernández-Sánchez, 2010; Manetti, 2011; Mio, 2010; da Silva Monteiro and Aibar-Guzmán, 2010). The GRI is one of the leading authorities on CSR reports, providing a widely accepted framework and specific guidelines on how to prepare them (Dilling, 2010; Hess, 2008; Lopez et al., 2007; Perez-Batres et al., 2012b; White, 2006).

In general, the industry in which the company develops its activity, firm size and the profitably of the firm are the key factors that incentivize companies to disclose more CSR information. This helps them manage their relationships with powerful stakeholders (Artiach et al., 2010; Gamerschlag et al., 2011), as companies have more to gain from appearing to be responsible in disclosing CSR information (Gamper-Rabindran, 2006; Mani and Wheeler, 1999; Perez-Batres et al., 2012a), thus avoiding the risk of interest groups taking action against them (Prado-Lorenzo and García-Sánchez, 2010).