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Coercive, normative and mimetic isomorphism as determinants of the voluntary assurance of sustainability reports

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ABSTRACT

This study offers an opportunity to understand how country- and industry-specific effects may affect the decision to assure sustainability reports by identifying institutional pressures. Based on neo-institutional theory, the aim of this research is to highlight whether assurance derives from the coercive, normative and mimetic forces related to legal and cultural strength and the industry pressure for assurance, respectively. The panel data analysis of an international sample of 696 companies for the period 2007–2014 shows that voluntary assurance acts as a legitimization tool implemented by companies in response to normative, coercive and mimetic pressures; that is, companies operating in countries that have a greater legal system and cultural development, especially in industries that are greatly concerned about sustainability, are more likely to issue an assurance statement. Moreover, through a two-stage logit model, we respond to the question of which is the relevant institutional factor that causes voluntary assurance to be adopted. Specifically, we evidence that the normative factor is the one that exerts the greatest explanatory power in the assurance demand, followed by coercive pressure.

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1. Introduction

According to the AA1000AS standard, “sustainability performance refers to an organization’s total performance, which might include its policies, decisions, and actions that create social, environmental and/or economic, including financial outcomes” (Accountability, Institute of Social and Ethical, 2003, p. 31). In response (i) on one hand to the demand from investors, who pay more attention to social and environmental issues in their decision making (Dhaliwal, Radhakrishnan, Tsang, & Yang, 2012), and (ii) on the other hand to the demand from employees, customers, suppliers and other stakeholders, who show greater concern for socially responsible performance, there is an increasing trend to report such performance via the voluntary disclosure (Clarkson, Li, Richardson, & Vasvari, 2008) of a sustainability report that assesses the three main components of environmental protection, economic growth and social equity (Morimoto, Ash, & Hope, 2005).

However, despite the upturn in the number of these reports, which has not been accompanied by an increased level of public trust (Hodge, Subramaniam, & Stewart, 2009), the voices of concern about the lack of credibility, transparency and consistency

of sustainability reporting and the need for an assurance process that ensures such quality aspects are numerous (Adams and Evans, 2004; Gray, 2010; Simnett, Vanstraelen, & Chua, 2009). These concerns have led to calls for the adoption of independent assurance of sustainability reports, which is defined by the GRI (2006) as “activities designed to result in published conclusions on the quality of the report and the information contained within it”.

Similarly to auditing for financial information and as a result of stakeholders’ pressure to enhance the credibility of sustainability information, assurance is perceived as the key element in the external scrutiny of the social and/or environmental information issued. Regarding this point, assurance may: (i) provide credibility and transparency of such information (Adams & Evans, 2004; Deegan, Cooper, & Shelly, 2006; O’Dwyer & Owen, 2005; Simnett et al., 2009; Weber, 2014); (ii) act as a mechanism for increasing the trust of stakeholders not only in the information quality but also in the corporate sustainability commitment (Hodge et al., 2009; Simnett et al., 2009); (iii) act as a monitoring tool of managers (Wong & Millington, 2014), since sustainability reporting can address agency relationships; and finally (iv) decrease information asymmetry and uncertainty (Moroney, Windsor, & Aw, 2012). In sum, within a context in which sustainability information is certainly questionable or hardly credible, companies can voluntarily initiate a process of verification of this information. This check will benefit a variety of agents. The company will

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legitimize the credibility of the information reported by building an effective dialogue with the different stakeholders. To them, meanwhile, external checking guarantees the reliability of the information while reducing the potential information asymmetry existing between managers, shareholders and stakeholders.

Relative to the assurance demand, the stakeholder theory defends the need for organizations to interact with a broad set of stakeholders to ensure their long-term survival through the so-called “social contract” between firm and society (Deegan et al., 2006). The “social contract” is the central premise of legitimacy theory (Deegan, 2002). Considering the more refined concept of Deephouse and Carter (2005), “a central element of legitimacy involves meeting and adhering to the expectations of a social system’s norms, values, rules and meanings”. Thus, according to legitimacy theory, the management may adopt an assurance process to legitimize its sustainability reporting with its key audiences and society in general (O’Dwyer, Owen, & Unerman, 2011).

The growth of multinational companies in the global marketplace, the importance in the economic and social sphere of emerging countries and the need for managers, shareholders and other stakeholders to know and understand the regulations, laws, norms and social and cultural aspects of different countries have fostered the application of institutional theory in multiple business and management studies. According to them, firms are economic units that operate within contexts formed by a nexus of institutions that affect their behaviour and impose expectations on them (Campbell, 2007; Campbell et al., 1991; Roe, 1991). This institutional environment defines “the rules of the game in a society or, more formally, the humanly devised constraints that shape human interaction” (North, 1990). Thus, organizations operating in countries with similar institutional structures will adopt homogeneous forms of behaviour (La Porta, López de Silanes, Shleifer, & Vishny, 1998; Claessens & Fan, 2002; Campbell, 2007). DiMaggio & Powell (1983) name this process “isomorphism” and argue that it enhances companies’ stability and survival, facilitating political power and institutional legitimacy. Consequently, in the research area of this study, institutional theory proposes that any company can modify its behaviour towards sustainability practices, disclosure and subsequent assurance according to the social environment in which it develops (Meyer & Rowan, 1977). It is expected that the ensuring of legitimacy via sustainability assurance may be strongly influenced by institutional factors (Boiral & Gendron, 2011; Kolk & Perego, 2010; Simnett et al., 2009).

Nowadays, however, this approach is reinforced by neo-institutional theory, which extends beyond this general notion and offers a powerful framework for describing isomorphism in the organization field by incorporating previously ignored elements, such as cultural values. According to this theory, legitimacy can be defined as “the degree of cultural support for an organization” (Meyer & Scott, 1983) by which companies can gain and enhance support and recognition from their powerful institutional stakeholders (Fan & Wang, 2010). Companies can gain or ensure legitimacy as a result of three institutional pressures related to coercive (such as the law), normative (such as moral compliance) and mimetic (such as adopting a widely accepted behaviour in the same industry) isomorphic forces (Kolk & Perego, 2010). Following the neo-institutional approach, ensuring social legitimacy may represent one of the major reasons for an organization to adopt an assurance process (DiMaggio & Powell, 1983; Kolk & Perego, 2010), attending to both external and internal pressures.

Notwithstanding, while neo-institutional ideas are well rehearsed in the literature, an often-forgotten aspect is the criticism linked to them. In a recent work, Suddaby (2014) accuses them of

losing their internal coherence as well as disregarding their ultimate goal, namely “understanding how and why organizations attend, and attach meaning, to some elements of their institutional environments and not others” (Suddaby, 2010). This theory could lack attention to the process (Suddaby, 2010), individuals and practices related to the change (Lawrence, Suddaby, & Leca, 2009); consequently, the development of a logic of those factors that generate dynamism could be extremely poor. Moreover, research adopting the neo-institutional approach usually covers extremely short deadlines, whereby the causal thread is reduced to a series of relatively discrete and measurable variables (Suddaby & Greenwood, 2005). In this respect, the use of quantitative methods focuses on measuring the structures and forms of organization rather than analysing the significance of the change. Kostova, Roth, and Dacin (2008) discuss the approach of neo-institutional theory in the field of multinational companies, arguing that they have their own intraorganizational field that acts as the institutional environment for its subsidiaries and that they can exercise agency to make strategic decisions on organizational practices (Dacin, Goodstein, & Scott, 2002) without addressing institutional pressures.

However, despite this controversy, neo-institutional theory is extensively accepted in the literature (Gürtürk & Hahn, 2015; Ntim & Soobaroyen, 2013; Smith, Haniffa, & Fairbrass, 2011). The current study also seeks to extend and apply neo-institutional theory, since it allows us to explain similarities in the assurance demand across organizations resulting from isomorphic forces. In practice, it is necessary to assume certain homogeneity among organizations and propose a conception that is more dynamic and closer to the real economy, in which the interdisciplinary approach allows us to consider legal, political, cultural and socioeconomic arguments and so on. We adopt the neo-institutional approach, proposing that compliance with institutional rules creates structural similarities between organizations and, therefore, isomorphism in sustainability assurance across organizations resulting from coercive, normative and mimetic factors.

Then, assuming that assurance may be influenced by external pressures in the search for legitimacy, this study offers an opportunity to understand how this process may arise from decisions: (i) to comply with the rules and norms imposed by external forces – coercive isomorphism; (ii) to act in a professionally correct manner – normative isomorphism; and (iii) to resemble model companies – mimetic isomorphism. The specific research questions that we propose in this research are the following. Could coercive, normative and mimetic pressures influence the assurance of sustainability reports? Which is the relevant institutional force that causes voluntary assurance of sustainability information to be adopted?

In the following, we break down each of the institutional isomorphic forces to justify their possible influence on the issue of assured sustainability information.

1.1. Coercive isomorphism

DiMaggio and Powell (1983) define “coercive isomorphism” as resulting from both formal and informal pressures exerted on organizations by other organizations upon which they are dependent, such as the legal regulatory system within which organizations function, while Peng (2002) defines it as a result of the informal rules of the game.

In relation to this isomorphism, several studies highlight the importance of the legal environment in the disclosure and auditing of information (Francis, Khurana, Martin, & Pereira, 2011; García-Sánchez, Cuadrado-Ballesteros, & Frias-Aceituno, 2015; Zhou, Simnett, & Green, 2013). Accordingly, in the assurance research sphere, one would expect that the weakness or strength of the legal

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