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The impact of community expectations on corporate community involvement disclosures in the UK

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ABSTRACT

Despite increase mistrust between corporations and societies in the aftermath of the global corporate misbehaviours, the literature examining the impact of community concerns on corporate communications is undeveloped. Our paper is timely; it contributes to the literature on corporate social responsibility (CSR) by considering the impacts of community expectations on Corporate Community Involvement Disclosures (CCID) using a ten-year panel study. We advance CSR communication research by providing a fresh theoretical perspective – media-agenda-setting theory – to the broad CSR debate and the CCID subset of this debate. Our findings support the media-agenda theoretical expectation and provide important practice and policy recommendations for improving interactions between corporations and their communities.

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1. Introduction

An extensive literature on the interactions between the corporation and its external environment points to the importance of achieving congruence between them, and to the roles of effective communication in finding a fit between corporate action and corporate community approval (Brown and Deegan, 1998; Deegan and Gordon, 1996; Islam and Deegan, 2010; Suchman, 1995). Understanding the link between community expectations and corporate community involvement disclosures (CCIDs) is important for many stakeholders in the corporate environment. This is because clarity on this link could enhance the interactions between the firm and its community and facilitates firms' access to societal resources due to enhanced legitimacy. Despite the acknowledgements in the literature of the importance of communication, the literature examining the impact of community expectations on corporate communications is very undeveloped (Deegan, Rankin, & Tobin, 2002; Islam and Deegan, 2010;). In an attempt to address this gap, this study departs from the bulk of the literature in this space by adopting the lens of the media agenda-setting theory to investigate the impact of community expectations on CCID.

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Using the media agenda-setting theory in providing explanations for the role of community expectations in corporate voluntary disclosures helps us to integrate two important research areas that are currently considered separately – Social communication and corporate voluntary disclosures. In particular, we used the literature on social communication and media agenda-setting to enrich the literature on corporate voluntary disclosure, especially voluntary CCIDs. This is an important, yet overlooked aspect of the corporate disclosure literature. Moreover, the recent global corporate governance (CG) and financial crises provide a suitable opportunity to test whether corporate communications might indeed be insensitive to community expectations. This is because the consequences of the crises may be perceived to have inadvertently created a gap between corporate social performance as reported in the annual reports of companies and community expectations. This implies a situation whereby corporate behaviour has fallen below societal expectations of what is acceptable. According to Suchman (1995), this is an example of a disconnection between the firm and its community, which could challenge firms' continued legitimacy in the society. Suchman (1995) also argues that firms need to address this gap through a number of means including improving communication with its conferring publics. Yekini, Adelopo, Androkopolous, and Yekini (2015) further argue that the 'firm needs to strengthen its societal acceptance through effective interaction with the society in which it operates' (p.251). Consequently, the main objective of this study is to examine whether and how community expectations influence CCIDs.

We achieved this through a carefully constructed panel data of UK listed companies over a 10-year period from 2003 to 2012. The scope of the study covers both the CG and financial crises, allowing us to generate a deeper understanding of the effects of these events on corporate disclosure practices. Our study investigates whether the ensuing communications were a direct response to aggravated community expectations or if corporate disclosures in the annual reports are insensitive to such expectations. We undertook the study in the UK FTSE 350 Index, with a sample of 80 firms representing all industries on the exchange. We examined them over a ten-year period, thus having 800 firm-year observations. We collected data on CCID from the annual reports of the sampled companies as well as from articles on community issues published in print and electronic media from over 40,000 legal, news and business sources across the globe. These allowed us to provide additional international evidence on the determinants of corporate voluntary disclosure where principles rather than rules motivate compliance with disclosure requirements.

This study directly contributes to the literature on corporate voluntary disclosures, especially CCIDs. Whilst previous studies (Bebbington, Larrinaga-González, & Moneva-Abadía, 2008; Campbell et al., 2006; Hasseldine, Salama, & Toms, 2005; Toms, 2002; Yekini and Jallow, 2012) have examined different determinants of corporate disclosure, we extend the literature by considering the impacts of community expectations on corporate voluntary disclosures. This is an important question in the context of the increased mistrust between corporations and societies in the aftermath of the recent global corporate misbehaviours. We also make methodological contributions to the literature on voluntary corporate social disclosure. Previous studies concentrate on either a cross sectional analysis (Adams et al., 1998; Deegan, Rankin, & Voght, 2000) or a trend analysis of selected cases (Campbell, 2000) or the use of limited number of years (Watson, Shrivess, & Marston, 2002). In contrast, our study uses panel data analysis, which combines both the cross sectional and the time series elements in a data, therefore allowing a more robust analysis (Jizi, Salama, Dixon, & Stratling, 2014). Furthermore, nonparametric statistical analysis dominates the vast majority of extant studies in this area. Nonparametric techniques are generally less efficient than parametric analysis, even with normally distributed data (Bryman and Bell, 2007). We analysed the nexus between CCID and community expectation using advanced parametric techniques (i.e. panel data regression models). Vickers (2005) produces evidence that parametric techniques give more efficient results than their nonparametric equivalents.

We structured the rest of the paper as follows: the next section provides a review of relevant literature as well as the media agenda-setting theory, which helps to formulate our hypothesis. Section three describes the methodology adopted in the study. We discussed the findings in section four, while section five concludes the study, with some recommendations for future research.

2. Previous studies, theory and hypothesis

2.1. CSR and CSR disclosure

The extant literature has addressed several aspects of the CSR debate, including its historical development (Patten, 2013), motivation (Amaeshi, Adegbite, & Rajwani, 2016) and types (Halme and Laurila, 2009) in varieties of capitalism. However, the boundary around the meaning and scope of what could be defined as CSR is severely blurred and it is increasingly difficult to agree on a generally acceptable definition of CSR. Despite the contentions, a number of descriptions and explanations serve as the basis for further discussions, and provide grounds for operationalising the concept in an empirical analysis. According to Halme and Laurila (2009), corporate responsibility is the 'policies and activities that go beyond mandatory obligations such as economic responsibility (being profitable) and legal responsibility (obeying the legislation and adhering to regulations)' (p.237). McWilliams and Siegel (2001) defined CSR as 'actions that appear to further some social good, beyond the interests of the firm and that which is required by law' (p.117). These definitions highlight the altruistic dimension of CSR and show that CSR refers to what organisations do willingly beyond the primary objective of maximising profits and the requirements of law and regulations, for the benefits of their stakeholders.

Companies often disclose the extent of their CSR activities and as such, a significant number of studies have addressed the probity (Bachmann and Inghenoff, 2016; Morsing, Schultz, & Nielsen, 2008), medium and methods (Brown, Guidry, &

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