Sustainability assurance in Spanish non-listed companies

Elies Seguí-Mas\textsuperscript{a}, Helena María Bollas-Araya\textsuperscript{b}

\textsuperscript{a}CEGEA – Universitat Politècnica de València, esegui@cegea.upv.es, and \textsuperscript{b}Faculty of Business Administration and Management– Universitat Politècnica de València, hebolar@ade.upv.es.

Abstract

In the last decades, sustainability reporting has experienced a noteworthy proliferation in the international arena. However, there is a lack of accountability and transparency, which have promoted that companies adopt assurance on sustainability reports to gain credibility. Spain is a worldwide leader in sustainability reporting but there is few contributions on Spanish non-listed companies about the determinants that influence the assurance adoption. In this line, we analyse what factors are associated with the adoption of assurance and the choice of assuror. The findings indicate that assurance and assuror are significantly associated with company size and industry.

Keywords: sustainability, assurance, assuror, Spain, non-listed companies.

Introduction

Due to accountability pressures and the demand for transparency of corporate behaviour (Kolk, 2008), sustainability reporting has proliferated in response to stakeholders’ concerns about environmental and social issues, governance and responsibility (Kolk and Perego, 2010; Simnett, 2012). Thus, the number of enterprises that publish a sustainability report has increased considerably over the last few years (CSR Network, 2003; Kolk, 2004; O’Dwyer and Owen, 2005; Simnett, 2012).

In order to ensure the homogeneity and quality of these reports, standards for reporting were developed. The most commonly used standard is the \textit{GRI Sustainability Reporting Guidelines} from the Global Reporting Initiative (GRI). According to KPMG (2013), it has achieved widespread adoption with 82% of Fortune Global 250 firms.

Nevertheless, researchers have criticised sustainability reporting because of lack of accountability and transparency, which have created a need for credible reported information in this area, known as the so-called ‘credibility gap’. In this line, voluntary assurance enhances the credibility of such reporting (Adams and Evans, 2004).

The 2013 KPMG Survey of Corporate Responsibility Reporting (KPMG, 2013) noted that 59% of Fortune Global 250 companies use assurance as a strategy to verify and assess their corporate responsibility information. CorporateRegister (2013) pointed out that the annual growth rate in the assured reports between 2000 and 2012 was 20%. This shows that assurance represents the next stage of development of sustainability reporting (ACCA, 2004).

The aim of this paper is to develop an exploratory analysis about sustainability assurance among Spanish non-listed companies. We study what determinants are associated with the decision to adopt assurance and to choose assuror.

Literature review

Despite sustainability reporting has increased because of stakeholders’ demand for accountability and credible information, it is subject to concerns as regards to the completeness and credibility of the
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Provided information (Adams and Evans, 2004; Adams, 2004). In accordance with Simnett (2012), provision of external assurance on the content and structure of sustainability reports improves the relevance, reliability and comparability of reports and, therefore, enhances their overall credibility.

Previous studies have investigated factors that influence the adoption of assurance. Using a sample of 2,113 companies (from 31 countries) that produced sustainability reports between 2002–2004, Simnett et al. (2009) found that large companies and companies located in stakeholder-oriented countries and stronger legal environments are more likely to adopt assurance. Their results also showed that the adoption of assurance is higher among companies engaging in more highly visible industrial activity and those with a larger ‘social footprint’. Kolk and Perego (2010) analysed the behaviour of G250 firms for the years 1999, 2002 and 2005 and found that the likelihood of adopting assurance is greater for firms domiciled in countries that are stakeholder-oriented and have weaker enforcement mechanisms. Zorio et al. (2013) focused on the companies listed on the Spanish capital market between 2005 and 2010, and underlined inclusion in the IBEX-35, size and industry as determinants of adoption of assurance. In the case of IBEX-35 companies, the decision to adopt assurance depends on company size, is positively associated with ROA, and negatively associated with ROE and leverage (Sierra et al., 2013). Using a sample of Portuguese firms between 2008 and 2011, Castelo et al. (2014) indicated that size, leverage, profitability, listing status and industrial affiliation are determinants of assurance.

Similarly, factors of choice of assuror have been analysed. The findings showed that the likelihood of choosing a large accounting firm as an assurance provider is greater for larger firms (Simnett et al., 2009; Kolk and Perego, 2010). Simnett et al. (2009) also found that companies domiciled in stakeholder-oriented countries are more likely to choose assurance from the auditing profession. In contrast, Kolk and Perego (2010) affirmed that the likelihood of choosing a large accounting firm as an assurance provider increases for the companies located in shareholder-oriented countries. Perego (2009) sustained that among the firms listed for the 2005 ACCA Sustainability Reporting Awards, those domiciled in weaker legal systems are more likely to choose a large accounting firm as assuror. According to Sierra et al. (2013), certain industries (such as oil and energy, basic materials, and financial services) significantly tend to hire auditors as assurance providers. Zorio et al. (2013) found evidence that inclusion in a stock exchange and industry are clearly significant towards the decision to hire the assuror.

In this line, our study analyses the determinants associated with the decision to adopt voluntarily assurance on sustainability reports and with the choice of assuror in a Spanish context.

Methodology

In order to investigate practices of sustainability assurance among Spanish non-listed companies, we used the GRI’s Sustainability Disclosure Database to look for those that disclosed a GRI-based sustainability report between 2012 and 2014. In accordance with GRI (2013), we selected only those companies whose reports followed guidelines G3, G3.1 or G4, and we exclude ‘no-GRI’ and ‘GRI-referenced’ reports. Then, we checked whether these companies adopted external assurance. Thus, we found 298 sustainability reporters and 116 assurance adopters.

Afterwards, we employed cross tabulations and Pearson’s chi-square test to analyse whether adoption of assurance and choice of assuror are significantly associated with the industry where the company operates and company size.
Results

Our findings show that the percentage of assurance adopters was higher for large companies (56.6%) than for SMEs (16.7%). Therefore, there is a significant association between company size and adoption of assurance (chi-square = 49.387, p = 0.000), with large companies more likely to adopt assurance on sustainability reports.

We also found a significant association between the adoption of assurance and industry (chi-square = 7.294, p = 0.007). It is revealed that 46% of companies that operate in sensitive industries assure their sustainability reports compared to 30.7% of companies from no-sensitive industries.

Among SMEs, 86.4% prefer a non-accountant as assurance provider while 13.6% opt by an accountant. These difference is lower in the case of large companies with 53.2% choosing a non-accounting provider and 46.8% an accounting provider. Thus, we found a significant association between company size and choice of assuror (chi-square = 8.140, p = 0.004), with large companies more likely to choose an accountant to carry out the assurance process.

However, although 41.9% of companies from sensitive industries choose accountants compared to 38.1% of those from no-sensitive industries, the choice of assuror is not significantly associated with industry (chi-square = 0.160, p = 0.689).

Conclusions

This research has studied whether the adoption of assurance and choice of assuror are associated with the factors industry and company size in a Spanish context.

Concerning the adoption of assurance, the company size is a factor associated with this decision, which is in line with Simnett et al. (2009), Sierra et al. (2013), Zorio et al. (2013) and Castelo et al. (2014). Industry is also a clear determinant of adoption, in accordance with Simnett et al. (2009), Zorio et al. (2013) and Castelo et al. (2014).

Regarding the choice of assuror, it is influenced by the company size, as affirmed Simnett et al. (2009) and Kolk and Perego (2010). However, industry is not associated with assuror, in contrast of Sierra et al. (2013) and Zorio et al. (2013).

In comparison with results of Sierra et al. (2013) and Zorio et al. (2013), who focus on Spanish listed companies, our findings evidence that listed and non-listed companies follow almost the same behaviour concerning the adoption of assurance and choice of assuror. Nonetheless, it should be noted that reports are continually being added to the GRI Database, so the results are dynamic and constantly evolving (GRI North America, 2014).

References


