1-1-2018

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Received: 26 July 2018 | Revised: 5 October 2018 | Accepted: 25 October 2018

DOI: 10.1002/bse.2251

RESEARCH ARTICLE

WILEY Business Strategy and the Environment

Sustainability reporting and stakeholder engagement in Spain: Different instruments, different quality

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Abstract

The purpose of this paper is to compare the quality of the sustainability information issued following the three most common reporting models: annual report (addressed to shareholders), sustainability report (addressed to stakeholders), and integrated report (addressed to shareholders). To this aim, we create a quality index based on previous literature, analyzing the content of the sustainability information disclosed by Spanish listed companies during the years 2013 to 2015. We find that companies issuing sustainability reports or integrated reports provide higher quality information than companies including their sustainability information within the annual report. We also find that sustainability reports are issued with higher quality than integrated reports. Both findings indicate that companies in Spain are engaged in a dialogue with all stakeholders, not only shareholders. Our results offer insights on the need to improve the framework of the integrated report in order to achieve the objectives of the International Integrated Reporting Council and to get a speed up in the adoption of this new reporting tool.

KEYWORDS

content analysis, integrated report, quality, stakeholder engagement, stand-alone report, sustainability report

1 | INTRODUCTION

Sustainability reporting can be addressed from two points of view. On one hand, from the demand side, it provides information to stakeholders so that they can evaluate the economic, social, and environmental impacts of corporate activities (Luna Sotorrío & Fernández Sánchez, 2010). On the other hand, it enriches companies' accountability about those impacts. From this supply side, sustainability reporting may become a driver to build trust, to improve processes and systems, to progress on the companies' vision and strategy, to reduce compliance costs, and to create competitive advantages (Global Reporting Initiative [GRI], 2013). This behavior is related to a substantive management approach to sustainability, which involves a real change in processes or practices; for example, the improvement in quantity and quality of environmental information in order to respond to stakeholders' demands (Merkl-Davies & Brennan, 2011). Alternatively, reporting may become a symbolic managerial strategy (Bebbington, Larrinaga, & Moneva, 2008; Marquis & Qian, 2014) to enhance the company's image instead of a tool to assess accountability. Symbolic management is associated with narratives aimed at modifying the readers' impression, also referred in prior research as impression management (Brennan, Guillamon-Saorin, & Pierce, 2009). This duality in the purpose of reporting led researchers to build models to measure the quality of the sustainability reporting instruments (Clarkson, Li, Richardson, & Vasvari, 2008; Dilling, 2010; Michelon, Pilonato, & Ricceri, 2015).

Even though there are no generally accepted reporting standards, the GRI framework is broadly used among companies that publish stand-alone reports (King & Bartels, 2015). These sustainability reports (SRs) include social, environmental, and economic information, and they are not disclosed within the annual financial statements. As an alternative, the International Integrated Reporting Council (IIRC) developed the Integrated Reporting framework, which appears to be the latest reporting approach (Willis, Campagnoni, & Gee, 2015). The

integrated report (IR) "aims to give a holistic view of the organization by putting its performance, business model and strategy in the context of its material social and environmental issues" (IRCSA, 2012). Although IIRC highlights the shareholders as main addressers of the IR, this report also offers useful information on the organization's impact to other stakeholders. In fact, the stakeholder engagement is one of the fundamentals of the integrated reporting process (Deloitte, 2014). Alternatively, companies may report on sustainability issues by adding specific information within the mandatory annual report (AR). Sustainability information disclosed within this report might be voluntary or mandatory.

The empirical evaluation of the quality of the reports dealt confronting results in different settings. Michelon, Pilonato, and Ricceri (2015) use a sample of British companies for the period 2005–2007 and report a symbolic rather than a substantive approach to sustainability reporting, meaning that the quality of SRs is lower than the quality of sustainability information issued in the ARs. In favor of the IR, Lai, Melloni, and Stacchezzini (2016) find no evidence of a symbolic approach of integrated reporting in an international setting. Also, Mervelskemper and Streit (2017) analyze how sustainability disclosures can help investors to evaluate environmental, social, and governance (ESG) performance, concluding that higher valuations of ESG performance are correlated to the issuance of an IR or a stand-alone SR. They also find a higher evaluation of ESG performance and corporate government value, when the information is disclosed using an IR rather than a stand-alone SR. In an intermediate position, Maniora (2017) study the effect of integrated reporting on the integration of sustainability issues and the related performance changes. She finds no benefit from switching from SR to IR. In contrast, De Villiers and Sharma (2018) analyze the communication on intellectual capital in reports issued following the GRI and the IRCC frameworks and conclude that the IR is unlikely to provide all the information currently reported in the SR. Finally, using an international sample for the years 2013 and 2014, Pistoni, Songini, and Bavagnoli (2018) conclude that IRs have low quality. Given that there is no definitive conclusion, further research to assess the quality of the existing sustainability reporting tools is needed.

The purpose of this paper is to join the conversation of the abovementioned authors about the quality of the sustainability information, voluntarily or compulsorily disclosed by firms, through different reporting instruments and close the gap. To this aim, we assess the quality of the reports issued following the three most common models: AR (addressed to shareholders), SR (addressed to stakeholders), and IR (addressed to shareholders). In order to achieve this objective, we apply Michelon et al.'s (2015) methodology, used by the authors on a UK sample, to create a quality index based on the content analysis of the sustainability information disclosed by Spanish listed companies during the years 2013 to 2015. Given that the previous literature has concluded on the influence of the variable country on sustainability reporting (Fifka, 2013), we test the UK results in the Spanish setting. Our findings indicate that companies issuing specific sustainability reporting tools, SR or IR, provide information of higher quality than companies including their sustainability information within the AR. We also find that SRs are issued with higher quality than IRs.

The remainder of the paper is organized as follows. First, we present the conceptual framework and hypotheses development. It is followed by the methodology and the results. Finally, the discussion and conclusions, main contributions of the paper, its practical implications and avenues for future research are examined.

2 | BACKGROUND AND HYPOTHESES DEVELOPMENT

2.1 | Theoretical background for sustainability reporting

Prior literature has mainly explained sustainability reporting with legitimacy theory or stakeholder theory (Chelli, Richard, & Durocher, 2014; Owen, 2008; Parker, 2005). Recently, a new trend uses a multitheoretical approach to the topic (Chen & Roberts, 2010; Lokuwaduge & Heenetigala, 2017; Soobaroyen & Ntim, 2013), in which there is a clear link between legitimacy and stakeholder theories (Amran, Ooi, Mydin, & Devi, 2015; Soobaroyen & Mahadeo, 2016). Although both theories study organizations as part of a societal structure, legitimacy theory considers society as a whole, whereas stakeholder theory identifies different groups within the society with their own and legitimate interests (Woodward, Edwards, & Birkin, 1996). Omran and El-Galfy (2014, p. 268) state "… it is postulated that the alternative theories, which are of value in studies of corporate disclosure policies, focus upon distinct perspectives of the same issue." Thus, sustainability reporting analysis fits into legitimacy and stakeholder theory (Sharma, 2013).

Legitimacy theory asserts that companies and society have a social contract, representing that the former will behave in such a way that the society will recognize them as socially responsible (O'Donovan, 2002). The disclosure of sustainability information legitimizes the role of the firm within the society (Deegan, 2002): an organization has to show that it meets the societal standards of legitimacy and relevance to be approved (Lopes & Rodrigues, 2007). The disclosure searching for legitimacy can be mandatory o voluntary (Magness, 2006; Shehata, 2014). Using a sample of the top 100 industrial and all mining companies in South Africa for the years 1999 and 2002, De Villiers and van Staden (2006) find that companies manage corporate social responsibility (CSR) reporting, even reducing overall disclosure, to gain legitimacy. At a macro level, legitimacy is defined as a perception or assumption "… that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (Suchman, 1995, p. 574). Thus, institutional pressure is an important driver towards sustainability reporting (Tate, Ellram, & Kirchoff, 2010) which affects, among others, the company's decision on the specific structure used to communicate their sustainability information. Furthermore, values and standards may have different characteristics depending on cultural and environmental issues in the setting in which they are applied. Even societal perceptions and institutional pressure may be determined by those issues and changed over time, affecting the choice of a specific sustainability reporting model (Belal & Owen, 2015).

Under the stakeholder theory, firms are committed to offer transparent information on the impact of their activities to their stakeholders (Dubbink, Graafland, & Van Liedekerke, 2008). The disclosure of ESG information through SR is focused on satisfying stakeholders' information needs, because the firms' survival require support from their stakeholders. To gain the support, firms have to engage and manage all their stakeholders in their sustainability policies. Prado-Lorenzo and Garcia-Sanchez (2010), using an international sample, analyze information on environmental issues and suggest that information on greenhouse gas emissions is used to gain legitimacy to their stakeholders. Managing stakeholders implies the identification of the key actors and the level of response to each of them (Omran & El-Galfy, 2014). In fact, voluntary sustainability disclosure might become a strategic tool to manage stakeholder engagement rather than being a communication instrument among these parties and the company (Shubham, Charan, & Murty, 2018). Hence, stakeholder management is an important driver towards sustainability reporting. As for legitimacy theory, regulation and norms resulting from cultural and environmental issues affect the voluntary information disclosed (Gray, Kouhy, & Lavers, 1995).

A legitimacy gap arises when organizational behavior does not match societal expectations. To close this gap, O'Donovan (2002) suggests that firms have to evaluate and align their social values with those of the society in which they operate. This is the main linking point between legitimacy and stakeholder theory. Firms need to legitimate their role within society, a wide concept that includes a set of agents with different expectations, values, and requirements. When fulfilling their legitimation needs, firms should, at the same time, fulfill stakeholder needs. Hence, sustainability reporting can be explained by legitimacy theory and stakeholder theory, in a certain institutional setting.

2.2 | Instruments to communicate sustainability information

Sustainability information is usually voluntary and reported by companies mainly through IRs, SRs, or within the ARs. Dragu and Tiron-Tudor (2013) identify three stages in the evolution of sustainability disclosure. The first one, named as nonfinancial reporting initiatives, spans the years 2000 to 2006, in which various nonfinancial reporting initiatives were issued. The most well known is GRI. In the second stage, named as sustainability era, from 2007 to 2010, companies increasingly reported on sustainability information in addition to the financial one. The third stage, named integrated reporting revolution, started in 2011. In this period, the IIRC proposed a reporting model based on the following principles: strategic focus and future orientation, connectivity of information, stakeholder relationships, materiality, conciseness, reliability and completeness, and consistency and comparability. It is expected that sustainability reporting will evolve significantly in the future; therefore, we have not seen the end yet (Baron, 2014). Although Dragu and Tiron-Tudor (2013) describe an evolution of reporting, in practice, most of the companies in 2015 still presented SRs, stand-alone reports, indicating that integrated reporting is still in an initial stage of development.

When companies decide to disclose sustainability information following the integrated reporting model, the motivation may be voluntary or regulated (e.g., South Africa applies the "report or explain" principle). Pozzoli and Gesuele (2016) posit that the IR intends to provide a better understanding of the organizations' need to create value combining financial and nonfinancial information. Similarly, Eccles and Krzus (2010) state that the IR is the combination of financial and narrative information (from the AR) and nonfinancial and narrative information (from the SR). These authors posit the urgent need of integrated reporting because "it will make more apparent, to both the company and its many stakeholders, the relationship between financial and nonfinancial performance and the extent to which financial performance for shareholders imposes externalities on other stakeholders" (p. 23). Adams (2015) confides on the potential of the IR to generate a deep shift in corporate thinking. This shift might lead to a substantive management approach to sustainability.

The original intention of IR was that the integration of information would provide a better tool for decision-making. However, Flower (2015) concludes that integrated reporting has little impact in practice because the IR has abandoned sustainability accounting, its lack of force, and also because the concept of value was changed from value for society (IIRC, 2011) to value for investors (IIRC, 2013b). In this line, Thomson (2015) characterizes integrated reporting as a well-intentioned initiative but with an unclear capacity to produce organizational changes. This might be the reason for the slow generalization of its adoption. The last KPMG survey indicates that 90% of the largest 250 global companies disclose on sustainability but only 10% of the companies present IR (King & Bartels, 2015). De Villiers, Hsiao, and Maroun (2017) examine the development of integrated reporting and present directions for future research. They propose a conceptual model of influences around integrated reporting. Among others, the model identifies determinants of integrated reporting, and possible consequences arising from it. However, these interrelationships are not unidirectional and for example users may influence integrated thinking feeding back a virtuous circle.

Another tool used by companies to communicate their economic, social and environmental impacts is by the SR, as a stand-alone report. Most of the SRs follow the guidelines of the GRI (Brown, de Jong, & Levy, 2009; Manetti & Becatti, 2009; Nikolaeva & Bicho, 2011). The GRI is an international non-for-profit organization that provides reporting guidelines for the disclosure of sustainability information. The last set of standards, G4, was released in 2013, and can be adapted for companies in different industries all over the world. The G4 standards define principles for quality of the reports and require companies to adhere to them, consistently. Those principles are balance, comparability, accuracy, timeliness, clarity, and reliability. By setting these requirements, the GRI is guaranteeing a level of reporting that may not be achieved by companies that do not follow those guidelines. The GRI guidelines are not solely an aid in the design of the SRs, but they can help in internal and external communication with the firm's stakeholders, being considered a tool to gain legitimacy (Hedberg & Von Malmborg, 2003). Previous research has found that companies following GRI have higher levels of commitment to sustainability (Fortanier, Kolk, & Pinkse, 2011). Mahoney, Thorne, Cecil, and LaGore (2013) find that firms that present stand-alone reports have

stronger CSR scores than their counterparts that do not issue them. Clarkson, Li, Richardson, and Vasvari (2008) constructed a quality index based on the GRI to better capture firm disclosure related to commitment to protect the environment. They find a positive association between environmental performance and levels of disclosure.

A third alternative for communication of sustainability information is by including it into the companies' AR. This type of disclosure is sometimes mandatory (e.g., environmental issues within the European Union) and other times, voluntary. Within this group, it seems that companies that release only required information do not feel the demand to legitimize their activity within the society or satisfy stakeholders' needs.

2.3 | Hypotheses development

Sustainability reporting is a tool to communicate sustainability behavior. It also reflects cultural differences from the three sides of what can be named the reporting triangle: the organization or addressee that discloses sustainability information (Bozzolan, Fabrizi, Mallin, & Michelon, 2015), the stakeholders or addressers of the information disclosed (De Villiers & Marques, 2016), and the report or communication structure used (Romero & Fernandez-Feijoo, 2013). As it is aforementioned, there is not a generally accepted opinion about the quality of the existing sustainability reporting tools.

On one hand, previous literature has signaled that sustainability reporting may be used as a strategic tool to manage other issues rather than sustainability, showing a symbolic approach to sustainability. For instance, companies may use sustainability reporting to manage reputation risk (Bebbington et al., 2008). Marquis and Qian (2014) suggest that sustainability commitment has to go beyond the reports, and that the actual behavior and activities of firms has to be examined, not only what it is communicated. Michelon et al. (2015) find that the quality of SRs is lower than the quality of sustainability information issued in the ARs. The authors use a sample of British companies for the period 2005–2007 and conclude on a symbolic approach to sustainability reporting. If we assume that impression management is applied on corporate financial reporting (Brennan et al., 2009; Merkl-Davies & Brennan, 2011), sustainability reporting is not going to be an exception.

On the other hand, there is a literature stream, mostly released before the effects of the IR could be measured, that links the SRs with better commitment to sustainability (Al-Tuwaijri, Christensen, & Hughes, 2004; Berthelot, Cormier, & Magnan, 2003; Brammer & Pavelin, 2008; Clarkson et al., 2008; Gray & Herremans, 2012; Mahoney, 2012; Mahoney et al., 2013), and with better quality of disclosure (Dhaliwal, Radhakrishnan, Tsang, & Yang, 2012). Gray and Herremans (2012) describe how social accountability is evolving to embrace environmental, social, and sustainability reporting. They state that the stand-alone reports present a picture of what an organization wants to convey about its responsibility. Mahoney (2012) examined whether companies issuing SR are more socially responsible than those who do not. They find that firms that issue some stand-alone reports have higher environmental and social strengths scores compared with firms that never issue stand-alone SR. Al-Tuwaijri et al. (2004) find that good environmental performance is associated with more extensive disclosures. Dhaliwal et al. (2012) find that the issuance of stand-alone reports is associated with lower analyst forecast error, playing a key role in complementing financial information. Mahoney et al. (2013) compare CSR performance scores of U.S. firms that issue CSR reports with those who do not. After controlling for size, leverage, profitability, and industry, they find that the former have higher performance scores than the latter, indicating a signaling rather than a green-washing effect. Mervelskemper and Streit (2017) find that investors' assessment of the firms' ESG performance is higher in companies issuing IR or SR than in companies presenting sustainability information within the AR.

Based on the discussed theories and previous research involving SRs, the reports issued following IIRC and GRI standards might provide insights for reporting that extend what is mandatory. Therefore, it is expected that companies following those standards will report with higher quality of disclosure than companies many times providing nonvoluntary disclosures within the financial statements. That leads to our first hypothesis:

> **H1**. *The disclosure of sustainability information using a SR or an IR is associated with higher reporting quality.*

Following our rational and assuming H1 is supported, our study aims to understand the quality of the sustainability disclosures when reported using a SR or an IR. The need of transparency towards stakeholders (Dubbink et al., 2008; Kaptein & Van Tulder, 2003; van Riel, 2000) is a driver leading to a better quality of reports, and the SR is specifically addressed to stakeholders. Although the IR had that purpose in the initial drafts, it evolved as a tool addressed to shareholders, and it has moved away from sustainability accounting (Flower, 2015). On the other hand, IR supporters trust this model arguing that it reflects a balanced position of financial and sustainability performance, demonstrating greater transparency on corporate commitment towards sustainability (Adams, 2013). They argue that SR cannot be considered as a blank check of the corporate engagement in sustainability (Pérez-López, Moreno-Romero, & Barkemeyer, 2015), and it might be used as a reputational instrument (Gray, 2010). Flower (2015) and De Villiers and Sharma (2018) highlight that an important weakness of the IR is that it is addressed to a financial audience, leaving stakeholders' interests as secondary. Furthermore, De Villiers et al. (2017) point that users may influence the preparers of the report; hence, the disclosures may be directed exclusively to stockholders. Research on the quality of the IR is scarce, because it is a novel reporting instrument. Du Toit, van Zyl, and Schutte (2017) find a reduction in the amount of social, environmental, and ethical disclosures in the IRs over time, which affects their quality. Maniora (2017) uses an international sample, with company-year observations from 2002 to 2011 and highlights that IR offers lower quality than stand-alone reports but higher than ESG disclosures into the ARs. Similarly, using a Malawi sample, Lipunga (2015) find some progress towards IR, but they conclude that much more effort is needed to promote the IR. In terms of triggering market valuation of ESG performance, Mervelskemper and Streit (2017), conclude that the valuation that investors make of ESG performance (as a whole) and also with

respect to corporate governance is stronger when the company presents an IR rather than an SR. However, they do not find this association when they analyze social or environmental performance. Clayton, Rogerson, and Rampedi (2015) analyze IR development in South Africa and the transition from SR to IR. They apply content analysis as the research methodology and conclude that the success on IR implementation depends more on the companies' attitude than on the reporting model itself. Stent and Dowler (2015) assess ARs of four companies, recognized as best practice reporting entities, in New Zealand for the year 2011, to check their reporting practices. They conclude that there is a lack of integration and that the deficiencies may be critical to sustainability and financial stability. These mixed results highlight the need of more research on this empirical topic (Velte & Stawinoga, 2017).

Hence, given that the SR focuses on the inter relationship between the organization and different groups of stakeholders, for example, customers, employees, suppliers, shareholders, community, and the environment (Freeman, 1984), the discussed theories suggest that the SR should be more informative than the IR. In summary, sustainability reporting is a strategic tool to enhance the relationship between stakeholders (Nielsen & Thomsen, 2007) and among the existing reports, the SR is more appealing to close the information gap between firms' managers and addressers. Based on these concepts, the second hypothesis is stated as follows:

> **H2**. *The disclosure of sustainability information using a SR is associated with higher reporting quality than the use of an IR.*

3 | METHODOLOGY

In order to achieve the goals of this paper, we followed the methodology of Michelon et al. (2015), based on the framework for the analysis of risk communication developed by Beretta and Bozzolan (2004). This methodology uses content analysis. "Qualitative content analysis is a research method for the subjective interpretation of the content of text data through the systematic classification process of coding and identifying themes or patterns" (Hsieh & Shannon, 2005, p. 1278).

To build the sample, we downloaded the reports of the companies and separated the linguistic sentences using "RapidMiner." We then identified the target concept-phrases (Table 1). Although these phrases are based on the GRI framework, they are comprehensive and general enough to include most of the terms related to sustainability reporting. For each concept-phrase, we counted the number

TABLE 1 Sustainability concepts

English	Spanish	English	Spanish
Material	Material	Discrimination	Discriminación
Energy	Energía	Freedom of association	Libertad de asociación
Water	Agua	Collective bargaining	Negociación colectiva
Biodiversity	Biodiversidad	Child labor	Trabajo infantil
Emission	Emisiones	Forced labor	Trabajo forzoso
Effluent	Vertidos	Compulsory labor	Trabajo obligatorio
Waste	Residuos	Security	Seguridad
Climate	Clima	Indigenous rights	Población indígena
Compliance	Conformidad	Human rights	Derechos humanos
Transport	Transporte	Public policy	Política pública
Environment	Medioambiente	Corruption	Corrupción
Environmental initiatives	Iniciativas medioambientales	Anti-competitive behavior	Competencia desleal
Environmental assessment	Evaluación ambiental	Compliance	Cumplimiento Regulatorio
Employment	Empleo	Society	Sociedad
Labor	Trabajadores	Impact society	Impacto social
Labor relations	Relaciones con los trabajadores	Local communities	Comunidades locales
Labor management	Gestión de personal	Customer health	Salud de los clientes
Employee	Personal	Customer safety	Seguridad de los clientes
Employee health	Salud en el trabajo	Labeling	Etiquetado
Employee safety	Seguridad en el trabajo	Marketing Communication	Comunicaciones de Mercadotecnia
Training	Formación	Customer	Cliente
Education	Educación	Customer privacy	Privacidad de los clientes
Diversity	Diversidad	Customer compliance	Cumplimiento con los clientes
Equal opportunity	Igualdad de oportunidades	Market share	Participación en el Mercado
Equal remuneration	Igualdad de retribución	Market presence	Presencia en el mercado
Labor practices	Prácticas laborales	Economic impact	Impacto económico
Employee grievance	Reclamaciones laborales	Procurement practices	Política de compras

Note. List of the target concept-phrases, in English and Spanish, used for the content analysis.

of sentences in which it was included. These values were used as elements to calculate the quality index as explained in the following sections.

3.1 | Sample

Data were hand collected from companies listed in the Madrid Stock Exchange for the years 2013 to 2015. As we already mentioned, we selected Spain because it is a country highly committed to sustainability reporting (KPMG, 2013). We included in the sample data of those companies that report on sustainability by means of an IR, a SR or as part of the AR. This initial sample (Sample 1) includes 236 observations from 91 companies, and it is used to test H1.

To test the second hypothesis, we selected the observations in which a SR or an IR were issued from the original sample. Sample 2 includes 175 observations from 68 companies.

3.2 | Variables

3.2.1 | Quality of information disclosed

Different tools have been used to measure quality of reporting. One of them is the analysis of specific elements of a report (Beretta & Bozzolan, 2004; Cohen, Krishnamorthy, & Wright, 2004; Hirst, Hopkins, & Wahlen, 2004). The advantage of this method is that it is focused and measures specific elements that represent such quality (Van Beest, Braam, & Boelens, 2009). Beretta and Bozzolan (2004) point out that there are two aspects with regards to the quantity of information that have to be balanced: the absolute number of items disclosed and its weight in the overall information being provided. These two aspects are considered when building the quality index developed by Michelon et al. (2015). The index includes the following constructs:

1. *Relative quantity* refers to the volume of the items disclosed. Given that this amount was found to be influenced by size and industry (Ahmed & Courtis, 1999; Cooke, 1992; Robb, Single, & Zarzeski, 2001), following Beretta and Bozzolan (2004), we measure it as the standardized residuals of the regression used as proxy for the disclosure quantity. This model is $\widehat{D}_i = \beta_0 + \sum_{j=1}^{k} \beta_J IND_J + \beta_{k+1}$ LNSize. The standardized residuals are calculated as the difference between $D_i - \widehat{D}_i$. The difference (RQT_i) is the relative quality index for company i, D_i is the observed disclosure for company i, and $\widehat{D}_i$ is the estimated disclosure for company i.
2. *Density* reflects the writing strategy and the number of phrases related to sustainability concepts. It is calculated as the ratio between the number of sentences in which a sustainability concept-phrase is included, and the total number of sentences in the report. Its value varies between 0 and 1, with values closer to 1 indicating more disclosure.
3. *Accuracy* reflects the type of disclosure. It is calculated by assigning three times more value to monetary sentences and two times more value to the quantitative sentences than the qualitative ones. Then, the average, considering the number of sentences in which a sustainability concept-phrase is included, and the total number of sentences in the report are calculated. Its value ranges from 0 to 3, representing higher values more accurate information.

Regarding the fourth component that Michelon et al. (2015) developed, managerial orientation, we followed the procedure described by the authors, to determine the companies' approach to sustainability. Data were initially analyzed separately by two researchers and after several rounds of discussions, the researchers reached no consensus. We believe that this lack of agreement is due to the rhetorical and sometimes ambiguous characteristics of the Spanish language, which may lead to misinterpretation (Fernández Leborans, 2001; Gómez-Veiga, Carriedo López, Rucián Gallego, & Vila Cháves, 2010; Moreno Cabrera, 1982). Therefore, to avoid subjectivity, we chose to calculate a more accurate quality index, although without one of the components.

In order to get a weighted value, we calculated one index per category for each of these constructs, and averaged them.

Given that the three variables have different scale, before calculating the *Quality index* variable, they have to be standardized. For this purpose, we apply Beretta and Bozzolan's (2004) procedure to *Relative quantity* and *Accuracy*, resulting on variables that range from 0 to 1.

$$IND_i^s = \frac{IND_i - \min_i(IND_i)}{\max_i(IND_i) - \min_i(IND_i)},$$

where IND_i^s is the standardized index for observation i, and IND_i is the value of observation i. After this standardization process, we calculate the *Quality index* for each observation as the arithmetic media of the three variables already standardized.

3.2.2 | Hypothesized variables

For the first hypothesis, which refers to the positive effect of the issuance of a SR or IR over reporting in the financial statements, we use the following variable:

SR and *IR* versus *AR* represents the communication tool companies use to disclose sustainability information. It adopts a value of 1 if they release IR or SR, 0 if part of the AR.

For the second hypothesis about the higher quality of SRs as compared with IRs, the hypothesized variable is *Type of report* (1 if SR and 0 if IR).

3.2.3 | Control variables

Similar to previous literature, we use size, industry, existence of Assurance Statement, and report following the GRI guidelines as control variables.

ESI is a dichotomic variable that adopts a value of 1 when the observation corresponds to an environmentally sensitive industry (ESI), and 0 otherwise. Companies in industries with high environmental impacts are expected to disclose more sustainability information in order to legitimize their activities (Holder-Webb, Cohen, Nath, & Wood, 2009). Based on the Madrid Stock Exchange classification, we identify as ESI the

following industries: pharmaceutical, chemical, mining, metals, papers, transportation, petroleum, and utilities.

GRI represents the use of the GRI guidelines. It has a value of 1 when the IR or the SR follows these guidelines and 0 otherwise. The GRI guidelines establish informative contents on which indicators on the sustainability information are constructed. Therefore, it is expected that companies following the GRI guidelines will present higher levels of quality of information disclosed than in otherwise (Fortanier et al., 2011; Hąbek, 2017).

Assurance statement indicates if the report has been assured by a third party (value 1) or not (value 0), offering an opinion on whether the information has been compiled according to a specific standard/guideline. Previous research associates the assurance of SRs with the desire of companies to legitimize their behavior (O'Dwyer, Owen, & Unerman, 2011; Perego & Kolk, 2012). Assurance has also been related to institutional (Jensen & Berg, 2012) and stakeholder theories (Bepari & Mollik, 2016; Wong & Millington, 2014). Given this purpose of seeking acceptance and recognition from their stakeholders, it is expected that when sustainability information is externally assured it will provide higher quality disclosures that when it is not (Hąbek, 2017).

We define *Size* as the natural logarithm of assets. We include this variable to control the effect on quality disclosures of the firm size (Lee, 2017), considering the greater availability of resources that helps companies to better disclose on sustainability.

Table 2 presents the definition of the variables.

TABLE 2 Variables

Variable	Content	Value
Quality of information disclosed		
Relative quantity	Relative volume of the items disclosed	Continuous value
Density	Proportion of sustainability concepts	Between 0 and 1
Accuracy	Type of disclosure (monetary, quantitative or qualitative)	Between 1 and 3
Variable	**Content**	**Value**
Hypothesized variables		
Type of report	Communication tool used	H1: 1 if IR or SR, 0 if part of AR H2: 1 if SR, 0 if IR
Variable	**Content**	**Value**
Control variables		
Assurance statement	If the report has been assured by a third party	1 if third party assured; 0 if not
GRI	The use of the GRI guidelines	1 if GRI guidelines; 0 if not
Size	Log of total assets	Continuous value
ESI	Environmental sensitive industries	1 if pharmaceutical, chemical, mining, metals, papers, transportation, petroleum, utilities 0 others

Note. Summary of the variables used to calculate the quality index and to test the hypotheses (dependent, independent, and control variables). AR: annual report; ESI: environmentally sensitive industry; GRI: Global Reporting Initiative; IR: integrated report; SR: sustainability report.

3.2.4 | Model

We test our hypotheses by running two multivariate analyses. The first one, with Sample 1 data, is used to test H1. The model is as follows:

Quality index = f (SR and IR vs. AR, GRI, Assurance, Size, ESI).

The second analysis, with Sample 2 data, is used to test H2. The model is as follows:

Quality index = f (Type of report, GRI, Assurance, Size, ESI).

In both models, Year was initially included as fixed effect. Given that in both models, it was not statically significant, we rerun our models without considering this variable.

4 | RESULTS

Table 3 summarizes the distribution of Sample 1, which includes all the observations (n = 236) of the 91 companies; 26% of the observations release the sustainability information within the AR, 57% have no assurance statement, and 64% follow the GRI reporting model. The number of reports increased along the period, independently of their type. On the contrary, the proportion of assured reports decreased along the period, as well as those following GRI guidelines. These changes may be the result of the deep economic crisis in Spain. Regarding industry, 32% of the observations correspond with companies that belong to an ESI.

Sample 2 (Table 4) contains observations that have SR or IR. Although worldwide the growth of the IR is slow, with the exception of South Africa where it is mandatory, Spain is at the global top in the adoption of the IR model (KPMG, 2015). In our sample, 38% of the observations use IR as disclosing tool, 42% have no assurance statement, and 85% follow the GRI reporting model. The high proportion of reports following the GRI guidelines, which can be adopted in SR and IR, indicates the extended adoption of the GRI's standards.

To test H1, we run a multivariate analysis with data from Sample 1. Table 5 presents the results. The quality index is positively associated with the existence of a specific report, either SR or IR. This result is statistically significant ($p < 0.001$) and supports our first hypothesis. Consistent with previous studies, the existence of an assurance statement and the adoption of GRI guidelines is associated with higher quality of disclosure on sustainability. Size is also significantly but negatively associated with the quality index ($p < 0.001$), indicating better index for smaller companies. Even though all the firms in our sample are large companies, there are companies within the set that are larger than others. Thus, this result might be explained by larger companies having other mechanisms of legitimization. There is no difference for companies belonging to an ESI.

To test H2, we run a multivariate analysis with data from Sample 2. Table 6 presents the results. As hypothesized, there is a significant positive relationship between the quality index and the issuance of SR, not IR. Thus, H2 is supported, meaning that the presence of a SR instead of an IR is associated with a higher quality of disclosure. Regarding the control variables, the relationship between them and the quality index is also significant and in the same direction as in the previous test.

TABLE 3 Descriptive Sample 1 (n = 236)

	Type of report IR or SR_vs_AR			Assurance			GRI		
Year	AR	IR or SR	Total	0	1	Total	0	1	Total
2013	17	52	69	37	32	69	23	46	69
2014	19	57	76	44	32	76	28	48	76
2015	25	66	91	54	37	91	34	57	91
Total	61	175	236	135	101	236	87	149	236
Percentage	26	74	100	57	43	100	37	63	100

Note. Distribution of Sample 1 (H1). AR: annual report; GRI: Global Reporting Initiative; IR: integrated report; SR: sustainability report.

TABLE 4 Descriptive Sample 2 (n = 175)

	Type of report			Assurance			GRI		
Year	IR	SR	Total	0	1	Total	0	1	Total
2013	14	38	52	20	32	52	7	45	52
2014	22	35	57	25	32	57	9	48	57
2015	30	36	66	29	37	66	10	56	66
Total	66	109	175	74	101	175	26	149	175
Percentage	38	62	100	42	58	100	15	85	100

Note. Distribution of Sample 2 (H2). GRI: Global Reporting Initiative; IR: integrated report; SR: sustainability report.

TABLE 5 SR and IR versus AR

	Unstandardized coefficients		Standardized coefficients		
Model	*B*	Std. error	*B*	*t*	Sig.
Constant	0.394	0.034		11.474	0.000
SR and IR vs_AR	0.048	0.015	0.240	3.249	**0.001**
ESI	−0.007	0.009	−0.037	−0.782	0.435
GRI	0.053	0.015	0.288	3.485	**0.001**
Assurance	0.071	0.011	0.402	6.451	**0.000**
Size	−0.023	0.005	−0.241	−4.281	**0.000**

Note. R^2 = 0.506 (adjusted R^2 = 0.495). Test results for H1. Bold fonts highlight the significance of the corresponding variable. AR: annual report; ESI: environmentally sensitive industry; GRI: Global Reporting Initiative; IR: integrated report; SR: sustainability report.

TABLE 6 SR versus IR

	Unstandardized coefficients		Standardized coefficients		
Model	*B*	Std. error	*B*	*t*	Sig.
Constant	0.407	0.044		9.237	0.000
Type of report	0.022	0.011	0.142	2.098	**0.037**
ESI	0.002	0.011	0.013	0.197	0.844
GRI	0.056	0.016	0.262	3.470	**0.001**
Assurance	0.074	0.012	0.477	6.075	**0.000**
Size	−0.021	0.007	−0.242	−3.061	**0.003**

Note. R^2 = 0.274 (adjusted R^2 = 0.252). Test results for H2. Bold fonts highlight the significance of the corresponding variable. ESI: environmentally sensitive industry; GRI: Global Reporting Initiative; IR: integrated report; SR: sustainability report.

5 | DISCUSSION

Our results support our first hypothesis, the disclosure of sustainability information using a SR or an IR is associated with higher reporting quality. Sustainability reporting is an instrument that companies may use to legitimize their role within the society. On the other hand, ARs are mainly focused on financial issues, rather than commitment to sustainability matters. Companies in Spain provide higher quality of reports when they issue SR or IR rather than sustainability information within the AR. Under the assumption that higher quality is associated to substantive approach to sustainability (Michelon et al., 2015), we find no evidence of Spanish companies holding a symbolic managerial strategy, as reported by these authors in the United Kingdom. This is in line with Mervelskemper and Streit (2017) and Maniora (2017). Our results differ from Michelon et al. (2015) who compare stand-alone SR with sustainability information disclosed within the AR. As it is aforementioned, Michelon et al. (2015) use a sample of British companies for the period 2005–2007. The United Kingdom is a country with high levels of social and environmental mandatory reporting requirements. It is also a shareholder-oriented country. Given that these cultural facts are not considered when using a single-country sample, differences between the results of their and our study may be produced by differences in country characteristics as previous literature has reported (Fifka, 2013). Additionally, Michelon et al.'s (2015) use data from the previous decade. The evolution of sustainability reporting trends might also explain our conflicting results. In fact, both institutional and stakeholder theories support this argument. Companies' legitimation needs have significantly changed in recent years, as well as the stakeholder pressure in their demand of information about the activity impacts of companies. Both country-orientation and sampling period should be further

researched. For instance, Lai et al. (2016) find no evidence of a symbolic approach when using IR as reporting instrument using an international sample for the period 2009–2011.

We also find that SRs have higher levels of quality than IRs, supporting our second hypothesis. This result indicates that companies in Spain are engaged in a dialogue with all stakeholders by providing more quality and quantity information through SRs. We state our hypothesis on the fact that by being oriented to stakeholders, the SRs would be more descriptive and would provide higher quality disclosure. Our results support this hypothesis and are in line with those of De Villiers and Sharma (2018), Pistoni et al. (2018), and Maniora (2017). SRs issued in Spain have higher quality than IRs, which is consistent with the argument provided by stakeholder theory. If companies are really engaged on the stakeholder's dialogue, the SR becomes a strategic tool to manage this engagement. Even though IRs also offer useful information on the organization's impact to other stakeholders, by being oriented to shareholders, it may be perceived by the former as a diversion. Although Eccles and Krzus (2010) expect that IRs would make more apparent the relationship between financial and nonfinancial performance, Flower (2015) suggests that the change from value for society (IIRC, 2011) to value for investors (IIRC, 2013a), might explain the orientation of the IR. Our results are not aligned to those of Mervelskemper and Streit (2017). They find that the IR is a better tool than the stand-alone ESG reporting in terms of triggering enhancements in market ESG performance. This difference in results may be explained by the use of a different research approach, given that they include scores of the corporative government and their findings cannot be extended to environmental and social performances.

Our results are in line with those of Fonseca (2010) and Fernandez-Feijoo, Romero, and Ruiz (2012), showing that quality of the reports is also enhanced by the adoption of GRI guidelines, and by including an assurance statement. Our results also indicate that size has a significant and negative relationship with the quality of the reports. Previous research found a positive relationship regarding this variable and argue that big firms have more resources and higher pressure to elaborate a high quality SR (Fifka, 2013). Being all firms in our sample large and quoted, our variable size may be understood as referred to large and very large firms. Thus, results might indicate that the largest firms have other mechanisms of legitimization in terms of commitment to sustainability, and not only the disclosure of the SRs. Finally, we find no relationship between the quality of the reports and the membership to an environmental sensitive industry, confirming the existence of different sources of stakeholder pressure, such as capital market dependence, social exposure, and employee pressure (Fernandez-Feijoo, Romero, & Ruiz, 2014).

6 | CONCLUSIONS

This paper aims to empirically test if the quality of the reports is affected by the type of instrument used for disclosure in the Spanish setting. We hypothesized the information about sustainability included in the AR would be less descriptive and informative than that submitted in the SR or IR. We base our assumptions on legitimacy and stakeholder theories. SRs are a communication tool that organizations use to communicate their sustainable development to their stakeholders. Compared with other reporting practices (e.g., financial reports), it is still in its childhood, but in few decades, it has become an essential part of corporate reporting practices (Tschopp & Huefner, 2015). This paper compares the quality of the sustainability information issued following the three most common reporting models: AR (addressed to shareholders), SR (addressed to stakeholders), and IR (addressed to shareholders). We apply Michelon et al. (2015) methodology, based on that of Beretta and Bozzolan (2004), to build a quality index by means of assessment of the sustainability information disclosed by Spanish listed companies during the years 2013 to 2015. Our results allow us to hierarchically list the reporting models based on the quality level they offer, from the lowest one, the AR, to the highest one, the SR. In a middle position, it seems that the IR has not overcome a fictitious entrance barrier to the sustainability reporting environment.

The IR limitations may have several causes. We agree with Flower's (2015) statement that the change of the IR approach from stakeholder to shareholder orientation has been a key element in the failure to disclose high-quality sustainability information. Given that the main addressers of the IR are the shareholders, other stakeholders might perceive it as a financial report. In addition, as IR aims to communicate the value created by the firm, the information disclosed in it might be noted as a blurred image of the company's behavior. The analysis presented in this paper shows that firms in Spain are engaged in a dialogue with all stakeholders, not only shareholders.

The contribution of this paper to the literature on sustainability reporting is threefold. First, we have highlighted the need to improve the framework of the IR in order to achieve the objectives of the IIRC and get a speed up in the adoption of the IR. Given that the IR framework is relatively new, it is necessary to improve the knowledge on its development and practical implications. Our results also offer insights about the open debate about the real cause of the not achieved objectives of sustainability reporting practices: the reporting models or the application firms do of it. Standard-setting institutions and policymakers should consider this possible duality on the origin of the poor implementation of sustainability reporting when establishing reporting norms.

Finally, we also contribute to the literature that focuses on culture effect on sustainability reporting by signaling different conclusions when the research setting is different. For instance, research results in the United Kingdom, a shareholder-oriented country, might differ from those in Spain, a stakeholder-oriented country.

There are several limitations on this paper. First, the sample size is small, limited to the availability of data. We collected data from the Spanish listed companies for 3 years. The extension of the sample to previous years might have affected the sample characteristics because of the time of adoption of IR. Second, it is limited to one country. Given our results, we believe that the better quality of disclosure of the SRs and IRs versus ARs might also be related to country characteristics. It is then necessary to compare companies in stakeholder versus shareholder-oriented countries to evaluate the differences in quality of the reports.

Future research could test empirically the core value that IR theoretically offers. Another possible research venue would be to study the legitimation tools firms use, besides the reporting instruments. It might also be interesting to analyze if the effect of sustainability reporting regulation compensates differences among reporting

instruments. As sustainability reporting practices are an instrument that companies use to legitimate their role in society, research is also needed in order to assess this tool. This paper is a first and novel approach in this direction.

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How to cite this article: Romero S, Ruiz S, Fernandez-Feijoo B. Sustainability reporting and stakeholder engagement in Spain: Different instruments, different quality. *Bus Strat Env*. 2019;28:221–232. https://doi.org/10.1002/bse.2251