

TITLE: CORPORATE REPUTATION IN THE SPANISH CONTEXT: AN INTERACTION BETWEEN REPORTING TO STAKEHOLDERS AND INDUSTRY

RUNNING HEAD: REPUTATION AND REPORTING TO STAKEHOLDERS

ABSTRACT:

The authors describe the intensity and orientation of the Corporate Social Responsibility (CSR) reporting in four Spanish industries and explore the relationship that exists between both concepts and an independent measurement of reputation for CSR (CSRR). The results demonstrate that the CSR reporting is especially relevant and useful in the finance industry. Finance companies report significantly more CSR information than most industries in Spain and this reporting is more closely linked to their CSRR than the CSR reporting of basic, consumer goods and services industries.

KEY WORDS: Corporate social responsibility, reputation, reporting, industry, stakeholders

ARTICLE TYPE: Research paper

1. INTRODUCTION

Corporate reputation, understood as the “perceptions of how the firm behaves towards its stakeholders and the degree of informative transparency with which the firm develops relations with them” (de la Fuente and de Quevedo, 2003, p.280), is increasingly gaining attention from companies (Brammer and Pavelin, 2004). This tendency is justified by the characteristics of the current competitive markets, just as explained by the corporate marketing perspective (Balmer, 1998; Balmer and Greyser, 2003). The essential idea brought to literature by corporate marketing can be summarised as one that gives a special significance to the institutional level of organizations. It is believed that institutional intangible attributes of organizations are more durable and resistant to competitive pressures than product and service attributes, which tend to be highly standardized in most industries (Illia and Balmer, 2012). Intangible assets may serve companies better in the search for competitive advantages because they are hard to duplicate or imitate by competitors (Surroca et al., 2010). Gómez-Mejía and Balkin (2002) state that, among intangible corporate assets, corporate reputation is the most relevant, a fact which has aroused a growing interest in the research and management of this concept. In current markets, creating, refining, or even repairing corporate reputation with stakeholders is essential to success (Ellen et al., 2006). Castelo and Lima (2006) explain how reputational assets, although not legally protected by property rights, are considered to be path dependent assets characterized by high levels of specificity and social complexity, thus creating a strong resource position barrier.

In their search for new paths to explain reputation, scholars have recently focused their attention on the corporate social responsibility (CSR) reporting to stakeholders (Piechocki, 2004; de los Ríos et al., 2012; Craig and Brennan, 2012). The CSR reporting to stakeholders

is defined as the provision to diverse stakeholders of “financial and non-financial information relating to an organization’s interaction with its physical and social environment, as stated in corporate annual reports or separate social reports” (Hackston and Milne, 1996, p.78). This reporting includes details of the physical environment, energy, human resources, products and community involvement matters. Scholars have considered the CSR reporting to stakeholders as a value-added tool (Cormier and Magnan, 2003) which not only signals a company’s transparency but is also increasingly seen as a means of enhancing corporate reputation (Othman et al., 2011). According to the institutional/legitimacy theory, many scholars consider that the reporting of financial, social and environmental information is part of the dialogue between a company and its stakeholders, it provides information on a company’s activities that help legitimizing its behaviour and it is thus closely related to reputation management (Bebbington et al., 2008; Michelon, 2011; Othman et al., 2011). For example, CSR information disclosed in voluntary CSR and sustainability reports reflects the CSR activities that a company has recently performed. These CSR activities signal that the company is a good corporate citizen, especially if the fact that the CSR reporting to stakeholders is not compulsory for companies is taken into account. In other words, the reporting justifies the continued existence of the company, which contributes to its reputation (Othman et al., 2011). Based on these ideas, it is also considered that CSR and sustainability reports serve to facilitate the projection of a socially accountable image which allows the company to manage reputational risks (Fombrun et al., 2000; Bebbington et al., 2008; Unerman, 2008). Consequently, there has been a fast growth in the number of CSR reports published in recent years, both at the international level and in the Spanish context, where the present research is implemented (Adams et al., 1998; Cormier and Magnan, 2003).

Scholars have also considered that a critical issue in analysing corporate reputation for CSR (CSRR) is the industry level effect (Melo and Garrido, 2012). It has been demonstrated that industries are subject to specific and localized pressures from different stakeholders and that industry acts as a mediating player between reputation and CSR (Brammer and Pavelin, 2006). Thus, it is well-known that the CSR reporting is not homogeneous among industries (Adams et al., 1998; Holder-Webb et al., 2009; Saleh et al., 2010; Gamerschlag et al., 2011). For example, banks “do not produce hazardous chemicals or discharge toxic pollutants into the air, land or water” (Thompson and Cowton, 2004, p.199) and as so they usually disclose little environmental information in their CSR and sustainability reports (Gamerschlag et al., 2011). On the contrary, companies from polluting sectors (such as the automobile, basic resources, chemical, construction or transportation/logistics industries) provide more information on environmental issues. These companies have a long tradition in CSR reporting, as they have been confronted with powerful stakeholders from the environmental movement since the early 1980s (Gamerschlag et al., 2011). Accordingly, they proactively disclose much information on their environmental performance to reduce the possible political costs arising from their despised activities (Meek et al., 1995; Deegan and Gordon, 1996).

Nonetheless, and in spite of all the theoretical support for the relationship between the reporting to stakeholders and CSRR, scholars have recognized that there is still little empirical evidence concerning how the information contained in the CSR reporting influences the processes by which reputation is built or destroyed. New research is specifically needed regarding how communication links to CSRR in different industries (Soppe et al., 2011; Bayoud and Kavanagh, 2012). Based on the previous ideas, the authors of this paper propose that industry effects influence the CSR reporting and its relationship with CSRR, in such a

way that significant differences exist in the amount of CSR reporting provided by companies (intensity of the CSR reporting), the kinds of CSR information reported in CSR and sustainability reports (orientation of the CSR reporting) and the effect of the CSR reporting on CSRR. To test these ideas, the authors resort to the 2013 'MercoEmpresas Responsables' index to evaluate the CSRR of the most reputed companies in Spain. The CSR reporting is measured by means of a content analysis of the 2011 CSR and sustainability reports of these companies. Univariate empirical analyses are performed to identify differences in the intensity and orientation of the CSR reporting across four industries: basic, consumer goods, finance and services industries. Also, multivariate empirical analyses are performed to understand the influence of the global CSR reporting and specific CSR reporting domains (taken as independent variables) on CSRR (the dependent variable in the analyses) in each of the industries. The remainder of the paper is structured as follows. In the second and third sections, a theoretical overview of the relationship between the CSR reporting and CSRR is discussed and three research hypotheses are presented. The authors also describe the method applied to the study; they outline the results of the paper and, finally, the most relevant conclusions, limitations and future lines of research are discussed.

2. CSR REPORTING TO STAKEHOLDERS AND REPUTATION

Although several theories have traditionally linked the CSR reporting to corporate reputationⁱ, the approach most extensively accepted to understand the connection is provided by the institutional/legitimacy theory (Patten, 1992; Deegan, 2002). This theory is frequently used to understand the voluntary adoption of the CSR reporting and CSR reporting standards by companies (Nikolaeva and Bicho, 2011; Michelon, 2011). From this perspective, scholars look at the CSR reporting as a legitimacy and reputation management tool responding to

pressures by stakeholders and driven by corporate identity communications (Rodríguez et al., 2013). Scholars consider that there exists a considerable overlap between legitimacy and reputation in the sense that a company cannot have good reputation without gaining the approval of its stakeholders by means of corporate communications and reporting (King and Whetten, 2008). Thus, achieving legitimacy is essential for companies and is a prerequisite for reputation management. Legitimacy and reputation are even used interchangeably in some accounting as well as in social accounting papers (Deegan, 2002).

Scholars consider that firm legitimation is “a process that translates past performance into an expectation for the future” (de Quevedo et al., 2007, p.60). Thus legitimation transforms CSR, an objective flow variable, into corporate reputation, a perceptual stock variable. Scholars aligning with this stream of research consider that homogeneous CSR investments and communications in successive periods and in changing institutional contexts consolidate reputation because stakeholders translate the company’s past performance into expectations concerning future performance. Along this line, King and Whetten (2008) believe that the link that provides common ground for the treatment of legitimacy and reputation as complementary concepts is the notion of corporate identity, which is commonly reflected in CSR and sustainability reports (Pérez and Rodríguez del Bosque, 2012). This perspective is explained by the ideas of the signalling theory (Toms, 2002), which argues that companies engage in CSR reporting as a way to signal their reputation to stakeholders (Michelon, 2011).

Based on the proposals of this institutional/legitimacy theory, the latest contributions to the academic literature in the CSR reporting field have understood the industry level effect as a determinant of the CSR reporting to stakeholders (Adams et al., 1998; Newson and Deegan, 2002; Ghazali, 2007; Holder-Webb et al., 2009; Gamerschlag et al., 2011). Specifically, the

industry in which the company is primarily identified is believed to influence the intensity (Hackston and Milne, 1996; Reverte, 2009; Gamerschlag et al., 2011) and orientation of the CSR reporting (Newson and Deegan, 2002; Ghazali, 2007; Holder-Webb et al., 2009) because the stakeholder pressures differ significantly from some industries to others (Brammer and Pavelin, 2006). In this paper the authors have already highlighted the differences in the demands of stakeholders for companies to report their environmental impact when they operate in a polluting (chemical) vs. a non-polluting (banking) industry (Gamerschlag et al., 2011). Based on these ideas, the authors propose that the institutional/legitimacy theory also provides the foundations to expect significant differences on the influence of CSR reporting to stakeholders on CSRR in different industries (Watts and Zimmerman, 1978; Patten, 1991). Nonetheless, this idea has not been empirically explored in previous research and this fact contributes to the originality of the present paper.

3. RESEARCH HYPOTHESES

3.1. Industry and the intensity of the CSR reporting to stakeholders

Scholars have demonstrated that industry membership affects the amount of the CSR reporting provided by companies (Gamerschlag et al., 2011). For example, the most significant differences in the amount of CSR information that companies include in their CSR and sustainability reports exist between high- and low-profile industries (Patten, 1991; Hackston and Milne, 1996). As opposed to low-profile industries, high-profile industries are those with consumer visibility, a high level of political risk, or concentrated intense competition (Roberts, 1992). Although classifications are to an extent subjective and ad hoc, most scholars identify petroleum, chemical, and forest and paper as high-profile industries (Reverte, 2009).

These are all basic industries according to the National Classification on Economic Activities available in Spain (INE, 2013). High-profile companies have greater incentive to project positive CSR identities through the CSR reporting to stakeholders (Newson and Deegan, 2002) and as so they report significantly more CSR information than low-profile companies (Hackston and Milne, 1996) because the latter do not suffer from high stakeholder pressures to behave ethically and in accordance to CSR principles (Ghazali, 2007). These ideas are closely related to the institutional/legitimacy theory, which according to Reverte (2009) is the most relevant theory for explaining the CSR reporting practices of Spanish companies.

Contrary to previous classifications in international contexts (Day and Woodward, 2009), in this paper the authors consider that the finance industry can also be considered a high-profile industry in Spain. In this regard, a new stream of research related to the institutional/legitimacy theory examines the role that media coverage plays in increasing the public policy pressures faced by companies (Patten, 2002). The total amount of media coverage raises corporate visibility, inviting further public attention and scrutiny (Greening and Gray, 1994). Similarly, the media play a role in conforming or eroding the legitimacy of companies: the media can influence corporate reputation and in doing so exert pressure for companies to report more intensively on their CSR activities (Cormier and Magnan, 2003). Along this line, the Spanish finance industry has recently attracted great media coverage because of the economic recession that has especially threatened this industry. This circumstance generates new forms of coercive pressures in exchange for continued legitimacy and can take finance companies to increase their intensity of CSR reporting to stakeholders (Ghazali, 2007). Based on these ideas, the first research hypothesis of the paper is proposed:

H1: The intensity of the CSR reporting varies across industries. Companies in basic and finance industries report significantly more CSR information than companies in other industries.

3.2. Industry and the orientation of the CSR reporting to stakeholders

The kinds of information included in the CSR reporting are also influenced by industry (Adams et al., 1998). In this regard, the institutional/legitimacy theory supports the idea that companies are rewarded for developing the CSR reporting “isomorphic” with external institutional pressures (Greening and Gray, 1994). The CSR reporting in companies with highly institutional environments is shaped by responses to formal pressures from other organizations (coercive isomorphism), by imitation of structures adopted by others in response to the pressures (mimetic isomorphism), or by conformity to normative standards established by external institutions (normative isomorphism) (DiMaggio and Powell, 1983). Thus, companies facing the same institutional environment provided by their industry will have similar CSR reporting structures, which will significantly differ from the CSR reporting in other industries (Greening and Gray, 1994) because what becomes legitimate in one industry is not legitimate in another one (Beliveau et al., 1994).

For example, it has been demonstrated that companies from industries whose manufacturing process has a negative influence on the environment, such as basic industries, disclose and report considerably more environmental and social information than companies from other industries (Dierkes and Preston, 1977; Reverte, 2009). On the contrary, the tertiary industry is where most job creation occurs and is the home of mass franchising. It is also the most labour intensive. Accordingly, companies in tertiary industries can be expected to exhibit greater

concern with demonstrating their social responsibility to employees since this is likely to enhance corporate image and influence sales (Jones, 1999). Finally, companies in the consumer goods industry are the largest and most capital intensive in the economy, and as so they also tend to interface with the most extensive array of stakeholder groups to whom they have to report their CSR activities (Jones, 1999). Based on these ideas, the second research hypothesis of the paper is proposed:

H2: The orientation of the CSR reporting varies across industries:

H2a: Companies in basic industries report significantly more CSR information to the community (including the environment) than other industries.

H2b: Companies in consumer goods industries report significantly more CSR information to customers, investors, partners, regulators, activists and the media than other industries.

H2c: Companies in finance and services industries report significantly more CSR information to employees than other industries.

3.3. Industry effects in the relationship between the intensity and orientation of the CSR reporting to stakeholders and reputation

Finally, the industry in which companies operate determines the way in which the intensity and orientation of the CSR reporting to stakeholders influence CSRR. First, aligning with the ideas of the visibility approach to the institutional/legitimacy theory, it is believed that in those industries where corporate visibility and media exposure are higher the CSR reporting would be more relevant and companies would report more information (Brammer and Millington, 2005). This reporting would influence CSRR to a larger extent. Along this line,

Craig and Brennan (2002) demonstrate that visibility has a positive influence on the extent to which corporate reputation is associated with the CSR reporting.

Similarly, the political cost theory is based on the premise that companies do have political visibility and an incentive to use accounting methods and the CSR reporting to influence their political visibility and reduce public pressures (Watts and Zimmerman, 1978; Ghazali, 2007). Aligning with this perspective, Patten (1991) argues that industry influences political visibility and this drives the CSR reporting to ward off undue pressure and criticism from social activists. It is believed that because of the industry in which they operate, companies have to deal with either more or less powerful stakeholders and thus face different levels of political and societal costs (Verrecchia, 1983; Gamerschlag et al., 2011). Following this line of argument, companies in certain types of industries may also face different degrees of pressure to report certain types of information because of competitive reasons. In this regard, scholars consider that companies with more extensive reporting in some industries do so to manage their exposure to future regulatory costs that might be detrimental to their corporate reputation (Blacconiere and Patten, 1994; Patten and Nance, 1998). For example, companies in some industries are expected to be subject to significantly less stakeholder pressures regarding their environmental or social performance and as so, it could be expected that the CSR reporting on those issues which are not that relevant for them would not impact CSRR as much as in those industries where environmental or social pressures are higher (Reverte, 2009).

The authors of this paper consider that, if diverse stakeholders have different expectations of companies depending on the industry where they are located, not only the information provided by companies in their CSR reporting to stakeholders may be different but also the

effect of the CSR reporting and its dimensions on CSRR may differ. Based on this idea, the third research hypothesis of the paper is proposed:

H3: The interaction between the industry and the CSR reporting influences significantly the relationship between the (a) intensity and (b) orientation of the CSR reporting and CSRR.

4. METHOD

The sample in the study is compounded of companies included in the ‘MercoEmpresas Responsables’ index. This index is constructed in a similar way to other international and reputed CSR rankings (e.g., RepTrak model), so the results in this study can be easily compared to previous findings in literature (Othman et al., 2011). Merco ranks Spanish companies according to their global reputation after they are evaluated by more than 1,500 senior business executives, financial analysts, NGOs, unions, consumer associations and opinion leaders. The questionnaire includes three items related to CSR and corporate ethics, which are used to build the ‘MercoEmpresas Responsables’ index. These items are: (1) Ethical Corporate Behaviour; (2) Community Commitment and (3) Social and Environmental Responsibility. In 2013, Merco has ranked the best 100 Spanish companies based on their CSR performance. However, for the purpose of this study 16 companies are deleted because they do not regularly publish CSR or sustainability reports. Similar to Melo and Garrido (2012), companies are assigned to one of the following industries: 1) basic, 2) consumer goods, 3) finance or 4) services industryⁱⁱ. The profile of the industries analysed in this study is presented in Table 1.

Insert Table 1 here.

To measure the CSR reporting to stakeholders, a content analysis of 2011 CSR and sustainability reports is applied (Gamerschlag et al., 2011; de los Ríos et al., 2012). Fombrun et al.'s (2000) categorization of stakeholders is used to define eight dimensions of the CSR reporting of the companies in the 'MercoEmpresas Responsables' index: (1) employees, (2) customers, (3) investors, (4) community, (5) regulators, (6) partners, (7) activists and (8) media. The items in each dimension are taken from previous papers which have attempted to measure CSR activities in different industries (Clarkson, 1995; Maignan and Ferrell, 2004; Brammer and Pavelin, 2004, 2006; Bird et al., 2007; Turker, 2009; Mishra and Suar, 2010; Alon et al., 2010; Soppe et al., 2011; Michelon, 2011; Melo and Garrido, 2012; de los Ríos et al., 2012; Michelon et al., 2013). Each item is evaluated depending on whether the company works on it (1) or not (0). The item valuation responds to the sentence "This company informs about significant initiatives implemented (or results achieved) in this CSR domain". The final score of a company in a CSR reporting dimension is the weighted average of the evaluations it gets in each of the items forming the dimension. The authors also calculate the global CSR reporting score of each company. This variable represents the addition of scores that each company gets in all their CSR reporting dimensionsⁱⁱⁱ. Each report is reviewed by two judges independently and the inter-judged agreement coefficient, calculated according to Perrault and Leigh (1989)^{iv}, reports a 99.6% level of accordance in the evaluation, which is noticeable above the minimum recommended value of 90%. Additional information regarding the CSR reporting to stakeholders and the items that comprise each dimension is shown in the appendix.

To test the hypotheses H1 and H2, first several univariate analyses are performed which allow the authors to determine the intensity and orientation of the CSR reporting in each industry. Also several F-statistics (ANOVA) are calculated to analyse if significant differences exist among industries concerning both the intensity and orientation of their CSR reporting. To test the hypothesis H3, a multivariate analysis is performed. Two regression analyses are implemented where CSRR is the dependent variable. The estimations are made by applying ordinary least squares (OLS) through the robust estimator. This estimator uses the White correction in order to control the problems of heterocedasticity that usually appear in these types of cross-section analyses. The first model (1) includes a global CSR reporting measure as the independent factor that helps explaining CSRR scores. Nevertheless and as it has been discussed in the theoretical section, the effect that the CSR reporting can have on CSRR scores varies according to industry. Thus, the authors are faced with some differentiated situations that need to be considered. As a result, the sample is divided into four groups, according to each industry in the analyses (Basic industries, Consumer goods, Finance and Services). This fact is shown in model 1).

$$CSRR_i = \beta_0 + (\beta_1 + \beta_2 \text{ Consumer goods} + \beta_3 \text{ Finance} + \beta_4 \text{ Services}) \text{ CSR reporting}_i + \beta_5 \text{ Age}_i + \beta_6 \text{ Size}_i + \beta_7 \text{ ROA}_i + \beta_8 \text{ Risk}_i + \varepsilon_{it} \quad (1)$$

To carry out the empirical test, the CSR reporting variable is included in the model specification together with three interaction variables (controlling for the four industries of the sample). The incorporation of these variables into the model enables the authors to obtain evidence of the hypothesis H3, as the four groups of companies are thus clearly differentiated. In order to test the hypothesis, the coefficients of the model and the interaction variables must be interpreted. For those companies that are in the Basic industries sector, the null hypothesis

$H_0: \beta_1=0$ needs to be tested. If this null hypothesis is rejected, then the coefficient β_1 is statistically different from zero, and it measures the sensitivity of a company's CSRR to the CSR reporting for companies that belong to this industry. In order to correctly interpret the interaction variables, it is necessary to perform a linear restriction test. So, the authors test the null hypothesis $H_0: \beta_1+\beta_2=0$ for the Consumer goods industry, $H_0: \beta_1+\beta_3=0$ for the Finance industry and $H_0: \beta_1+\beta_4=0$ for the Services industry. If these null hypotheses are rejected, the sums of coefficients are statistically different from zero, and they capture the estimation of the sensitivity of CSRR to the CSR reporting for each industry.

The second model (2) includes all the dimensions of the CSR reporting to stakeholders as independent variables, interacting with the industry dummy variables. In order to correctly interpret the interaction variables, it is necessary to perform linear restriction tests, as it has been commented in the interpretation of model (1).

$$\begin{aligned}
CSRR_i = & \beta_0 + (\beta_1 + \beta_2 \textit{Consumer goods} + \beta_3 \textit{Finance} + \beta_4 \textit{Services})\textit{Employees}_i + \\
& (\beta_5 + \beta_6 \textit{Consumer goods} + \beta_7 \textit{Finance} + \beta_8 \textit{Services})\textit{Customers}_i + \\
& (\beta_9 + \beta_{10} \textit{Consumer goods} + \beta_{11} \textit{Finance} + \beta_{12} \textit{Services})\textit{Investors}_i + \\
& (\beta_{13} + \beta_{14} \textit{Consumer goods} + \beta_{15} \textit{Finance} + \beta_{16} \textit{Services})\textit{Partners}_i + \\
& (\beta_{17} + \beta_{18} \textit{Consumer goods} + \beta_{19} \textit{Finance} + \beta_{20} \textit{Services})\textit{Community}_i + \quad (2) \\
& (\beta_{21} + \beta_{22} \textit{Consumer goods} + \beta_{23} \textit{Finance} + \beta_{24} \textit{Services})\textit{Regulators}_i + \\
& (\beta_{25} + \beta_{26} \textit{Consumer goods} + \beta_{27} \textit{Finance} + \beta_{28} \textit{Services})\textit{Activists}_i + \\
& (\beta_{29} + \beta_{30} \textit{Consumer goods} + \beta_{31} \textit{Finance} + \beta_{32} \textit{Services})\textit{Media}_i + \\
& \beta_{33} \textit{Age}_i + \beta_{34} \textit{Size}_i + \beta_{35} \textit{ROA}_i + \beta_{36} \textit{Risk}_i + \varepsilon_{it}
\end{aligned}$$

As it is shown in equations (1) and (2), control variables are also included in the analyses to reduce bias in the results. First, the authors control for company age. Companies are divided in two categories depending on this variable: 1) 'young' if they are 10 years old or younger and 2) 'consolidated' if they are older than 10. Corporate size, measured as the log of the number of employees, is also controlled (Waddock and Graves, 1997; Gamerschlag et al., 2011). Size is a relevant variable because it may be related to the urgency and salience of stakeholder relations (Hillman and Keim, 2001) and scholars have suggested that it is a variable that affects both corporate reputation and the CSR reporting to stakeholders (Gamerschlag et al., 2011). Basically, larger firms are expected to receive more publicity and to have greater name recognition (Turban and Greening, 1997). The third control variable is financial performance, measured by the ratio of pre-tax profits to total assets (ROA) (Turban and Greening, 1997; Hillman and Keim, 2001; Brammer and Millington, 2005; Melo and Garrido, 2012). Strong financial performance generally signals an effective corporate strategy and resource allocations, and as so helps a firm establish a good reputation, particularly among groups of financial stakeholders such as creditors, investors, and external analysts (Fombrun and Shanley, 1990; Brammer and Pavelin, 2006). It has also been investigated under the light of CSR and several authors have found a recursive relationship between CSR and financial performance (Waddock and Graves, 1997; Hillman and Keim, 2001). Finally, the debt ratio of companies is used to control for corporate risk.

5. FINDINGS

5.1. Univariate empirical analyses

Tables 2 and 3 present the basic univariate statistics for the CSRR and intensity of the CSR reporting to stakeholders.. First, it is observed that no significant differences exist in the CSRR of the basic, consumer goods, finance and services industries ($F=0.88$, $p>0.1$) although significant differences do exist in the intensity of their CSR reporting to stakeholders ($F=5.48$, $p<0.01$). Specifically, companies in the finance (Mean=0.53) and basic industries (Mean=0.48) report significantly more CSR information to stakeholders than companies in the consumer goods (Mean=0.38) and services industries (Mean=0.39). Nonetheless, no significant differences are observed between the intensity of reporting of companies in the consumer goods and services industries ($dif.=|0.09|$, $p>0.1$) and finance and basic industries ($dif.=|0.43|$, $p>0.1$). Because it was expected that companies in basic and finance industries would report significantly more CSR information to stakeholders than any other kind of companies, the hypothesis H1 is supported.

Insert Table 2 here.

Insert Table 3 here.

Figure 1 presents the statistics for the orientation of the CSR reporting to stakeholders in each industry. The results show that in all the industries companies report the largest amount of information to activists ($0.20<Mean<0.23$), employees ($0.18<Mean<0.20$) and the community ($0.16<Mean<0.19$). In this regard, most companies in all the industries implement volunteer

activities, coordinate CSR activities with nongovernmental and community organizations, participate in environmental protection activities and take care of employees' concerns such as diversity, training, development, equal opportunities or health issues. On the contrary, the lowest amount of information is provided to investors ($0.01 < \text{Mean} < 0.08$) and partners such as providers and distributors ($0.04 < \text{Mean} < 0.09$). These types of information refer to economic features already included in financial reports or information on activities implemented by companies to ensure that providers and distributors align with their CSR principles and objectives.

Insert Figure 1 here.

When comparing the dimensions of the CSR reporting to stakeholders among industries (Table 4), it is first observed that no significant differences exist in the amount of CSR information reported to the community ($F=1.68$, $p>0.1$), and as so the hypothesis H2a is not supported. Furthermore, no significant differences exist among industries in the CSR reporting to customers ($F=1.28$, $p>0.1$), partners ($F=0.48$, $p>0.1$) and activists ($F=2.05$, $p>0.1$). Significant differences are observed in the CSR reporting to investors ($F=0.71$, $p>0.01$), regulators ($F=3.07$, $p<0.05$) and the media ($F=3.55$, $p<0.05$). However, the findings are contrary to the expectations of the authors. Companies in the consumer goods industry always report less information in these dimensions than companies in the basic and finance industries. Based on these results, the hypothesis H2b is not supported. Finally, significant differences are observed among industries in their CSR reporting to employees ($F=4.00$, $p>0.01$). Specifically, finance companies report significantly more information to employees than companies in the basic ($\text{dif.} = |0.12|$, $p<0.1$), consumer goods ($\text{dif.} = |0.16|$, $p<0.1$) and services industries ($\text{dif.} = |0.22|$, $p<0.01$). The authors expected that, along with the finance

industry, companies in services industries would also report significantly more information to their employees than the rest of industries. Nonetheless, it is observed that services companies report the lowest amount of information to their employees (Mean=0.57), and as so the hypothesis H2c is supported only partially.

Insert Table 4 here.

5.2. Multivariate empirical analyses

Tables 5 and 6 show the results of the two regressions implemented to test hypothesis H3. First, it is observed that the intensity of the CSR reporting to stakeholders positively influences CSRR in the finance industry ($\beta=0.07$, $p<0.05$). However, the intensity of the CSR reporting to stakeholders does not significantly affect CSRR in the basic ($\beta=0.05$, $p>0.1$), consumer goods ($\beta=0.02$, $p>0.1$) or services ($\beta=0.02$, $p>0.1$) industries. When analysing the role of the dimensions of the CSR reporting to stakeholders on CSRR, the results show that in basic industries only the CSR reporting to partners positively influences CSRR ($\beta=0.83$, $p<0.05$). In consumer goods industries only the CSR reporting to customers is relevant to CSRR and it affects it negatively ($\beta=-0.43$, $p<0.1$). In services industries, CSRR is positively influenced by the CSR reporting to employees ($\beta=0.94$, $p<0.1$) but negatively affected by the CSR reporting to regulators ($\beta=-0.82$, $p<0.01$). Finally, up to four kinds of reporting to stakeholders influence CSRR in the finance industry. In this industry, CSRR is positively affected by the CSR reporting to investors ($\beta=0.58$, $p<0.01$) and activists ($\beta=0.58$, $p<0.01$) although it is negatively influenced by the CSR reporting to customers ($\beta=-1.04$, $p<0.05$) and the media ($\beta=-0.78$, $p<0.1$). Based on all these results, the hypothesis H3 is accepted because

the influence of the (a) intensity and (b) orientation of the CSR reporting to stakeholders on CSRR varies across industries.

Regarding the control variables in the study, it is observed that the CSRR scores significantly vary according to corporate size in the specifications I ($\beta=0.05$, $p<0.05$) and II ($\beta=0.07$, $p<0.01$). CSRR is also significantly influenced by corporate risk in the specification I ($\beta=.0.39$, $p<0.05$). Corporate age and financial performance are insignificant when explaining how the CSRR is built in different industries.

Insert Table 5 here.

Insert Table 6 here.

6. DISCUSSION

Most of the results of this paper are somehow consistent with previous findings in the academic literature, demonstrating that the CSR reporting of companies in Spain is in accordance with the international CSR reporting trends (KPMG, 2011). For example, companies in all the industries mostly communicate about human resources, community and environmental issues (Hackston and Milne, 1996; Newson and Deegan, 2002; Ghazali, 2007; Holder-Webb et al., 2009; Saleh et al., 2010). It is also demonstrated that companies in basic industries report significantly more CSR information to stakeholders than companies in most of the other industries because of the strong social pressures derived from their visibility, political risk and intense competition (Gamerschlag et al., 2011). Both basic and finance industries report more information in almost all the CSR reporting dimensions considered in

this paper (only equated by finance companies). On the contrary, companies in consumer goods and services industries report significantly less CSR information because of their lower environmental and social impact (Adams et al., 1998; Gamerschlag et al., 2011). Finally, finance companies, which are very labour intensive, report significantly more CSR information to employees than companies in the rest of industries (Melo and Garrido, 2012).

Nonetheless, some distinctive features are also observed regarding the kinds of information reported to specific stakeholders by Spanish companies in different industries. For example, it is observed that, contrary to the results of previous research, basic industries do not significantly report more environmental and community information than other industries (Reverte, 2009). The authors justify this result by resorting to the increasing pressures suffered by almost all kinds of companies to incorporate social and environmental considerations in their business activities. For example, retailers are actually frequently criticized by various stakeholders because of their increasing economic weight and the importance of the externalities generated by their activities on society and the environment (Mejri and de Wolf, 2012). Also the lending decisions of finance companies have an impact on the natural environment (Day and Woodward, 2009) and this fact justifies the large amount of information reported to the community in this industry. Furthermore, although consumer goods industries were expected to report significantly more than other industries in most of the CSR reporting dimensions (because of the large number of stakeholders that they have to satisfy), it has been demonstrated that this hypothesis does not hold true in the Spanish context. Once again, this result can be justified by taking a look at the rising pressures that stakeholders put on companies to embrace a holistic planning of their CSR initiatives.

The results which contradict the expectations of the authors are mostly justified by the CSR reporting of finance companies. In this regard, the results of the paper demonstrate that the CSR reporting to stakeholders is an especially relevant management tool in the Spanish finance industry. Contrary to previous findings in other countries (e.g., Day and Woodward, 2009), not only finance companies report significantly more CSR information than most industries in the country but also this reporting is more closely linked to their CSRR than the CSR reporting of basic, consumer goods and services industries. These results are in accordance with the institutional/legitimacy and political cost theories. In this regard, although scholars have not traditionally considered the finance industry as a high-profile sector, recent events in Spain demonstrate that finance companies have most of the characteristics identified in high-profile industries across countries (Roberts, 1992). For example, the finance industry is currently facing a serious trust crisis closely related to the economic recession in Spain. Scholars consider that crises create a form of institutional pressure which reflects societal ills, poses threats to organizational and governmental legitimacy and generates institutional pressures from stakeholders (Greening and Gray, 1994). Thus, the crisis has taken the finance industry to be highly visible and political costs have significantly risen in this context. These circumstances generate demands for accountability that translate into new forms of coercive pressure in exchange for continued legitimacy (Ghazali, 2007). In summary, then, crises may indicate higher institutional pressures and clearly influence stakeholders' perceptions of corporate reputation. This fact takes finance companies to report significantly more than any other industry in the country, this CSR reporting being highly relevant to maintain their reputation.

Finally, it is noticeable that the intensity of the CSR reporting to stakeholders does not significantly influence CSRR in three of the four industries analysed in this paper (basic

industries, consumer goods and services industries). In some of these industries there are some effects of specific CSR reporting dimensions such as employees, customers, regulators and partners but these results are surely far from the expectations of managers in these industries. In the case of consumer goods and services industries, the results might be closely related to the low intensity of their CSR reporting. Regarding basic industries, the authors believe that companies are not correctly focusing their CSR reporting. For example, the results of the study by Holder-Webb et al. (2009) demonstrate that, in the context of regaining legitimacy, the only significant area of focus for the basic industries is in the category of environmental issues. However, this is not the case in Spain, where the CSR reporting to the community (including environmental information) is not the largest. Companies report significantly more information towards other stakeholders such as employees. At the same time, no significant differences exist in the CSR reporting to the community between the basic and the rest of industries.

7. CONCLUSIONS, LIMITATIONS AND FUTURE LINES OF RESEARCH

In this paper the authors describe the CSR reporting practices of companies in Spain and establish the relationship that exists between this CSR reporting to stakeholders and their reputation for CSR. The results demonstrate that the CSR reporting is especially relevant and useful in the finance industry, which has recently been accused of being the main culprit in the current economic recession (de los Ríos et al., 2012; Rodríguez et al., 2013). Even when it is true that the finance industry does not have a significantly better reputation than other industries in Spain, the results of the paper suggest that if finance companies did not report as much and varied CSR information as they do, their reputation would be noticeably lower than it is. The economic crisis has seriously affected this industry and the fact that the CSR

reporting to stakeholders is positively influencing their reputation implies that less communication would have detrimental effects in their positioning and image. These results are highly interesting for managers in the finance industry because they justify the usefulness and adequacy of the CSR reporting that is being implemented in this context. Some implications are also relevant for the rest of industries in Spain because interesting insights are provided regarding how companies can improve their CSR reporting and its impact on corporate reputations.

Anyhow, this study is not without limitations. First, scholars have recently confirmed that there is a problem of endogeneity in the relationship between the CSR reporting and reputation, which has not been tested in this paper. The relationship is bidirectional in such a way that not only the CSR reporting influences how the society perceives corporate reputation but also this perception determines the initiatives undertaken and communicated by companies in the CSR domain (Michelon 2011). This limitation could have been addressed in this paper by introducing some Granger causality tests (Hiemstra et al. 1994) at the level of the independent variables of the equations (1) and (2) on the one hand and CSRR on the other. Nonetheless, the Granger test requires that the authors regressed the dependent variable (CSRR in this paper) on its own lagged values and on lagged values of the independent variables (CSR reporting). In the case of the present research, the authors could not apply these tests because, for the dependent and independent variables, they only had information for one specific year (the 2013 MercoEmpresas Responsables index of CSRR and the 2011 evaluation of CSR reporting). Based on these ideas, it is proposed that future scholars devote attention to the direction of the relationship between the CSR reporting and reputation in order to develop models that could further the academic knowledge about the CSR-reputation link. Furthermore, the authors choose a categorization of the CSR reporting which only

considers general CSR items. The purpose is to have a measurement tool that could be applied to the analysis of diverse industries. Nevertheless, the authors consider that future scholars who are interested in deepening in the study of a single industry might need to develop specific issues to add to this categorization in order to grasp the whole meaning of the CSR reporting in each industry. For example, microfinance is especially relevant in the banking industry and new items could be considered by those scholars interested in evaluating the CSR reporting. Finally, the quality of the information provided is also relevant (Piechocki 2004; de los Ríos et al. 2012). Future lines of research should provide more sophisticated ways of evaluating the CSR reporting to stakeholders by also taking into account the quality of the CSR reporting.

8. NOTES

- i Scholars have traditionally linked the CSR reporting to stakeholders and reputation based on five streams of research: the institutional/legitimacy theory (Patten 1992; Deegan 2002), signalling theory (Spence 1974), impression management theory (Hoogheemstra 2000), reputation risk management theory (Bebbington et al. 2008) and agency theory (Fama 1980).
- ii **Basic industries:** chemicals, building and construction materials, forestry, paper and steel companies.
Consumer goods: automobile and parts, clothing and footwear, textiles, households and appliances, furnishing and floor coverings, beverage companies, food processor and farming, health maintenance organizations, hospital management, medical equipment, household products, personal products, pharmaceuticals, biotechnology and tobacco.
Finance: banking services, insurance.
Services: retailers, leisure and entertainment, media and photography, support services, transport, food and drug retailers, telecom fixed line, telecom wireless.
- iii For the purpose of simplifying the interpretation of the results, all the indices which are discussed in the findings section are converted to a 0-1 scale.
- iv $I_r = \{[(F_0/N) - (1/k)] [k/(k-1)]\}^{.05}$ where N = the total number of judgments made by each judge; F_0 = the number of judgments on which the judges agree; and k = number of different ways in which each judge can code an observation.

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10. APPENDIX

Insert Table 7 here.

TABLE 1. Sample profile

Industries	Sample	Mean	S.D.	Min.	Max.
<u>Basic industries</u>					
Age	21	53.90	31.46	5	111
Size (number of employees)	21	30,566	41,138	378	164,923
Financial performance (ROA)	21	3.26	3.49	-2.53	11.69
Risk (Debt ratio)	21	75.70	11.74	55.77	94.15
<u>Consumer goods</u>					
Age	26	44.12	24.60	20	103
Size (number of employees)	26	5,963	19,412	64	100,138
Financial performance (ROA)	26	11.68	12.72	0.58	49.37
Risk (Debt ratio)	26	67.04	17.20	34.63	96.11
<u>Finance</u>					
Age	13	49.69	39.26	9	131
Size (number of employees)	13	22,886	51,542	107	190,604
Financial performance (ROA)	13	1.13	1.24	0.12	3.77
Risk (Debt ratio)	13	86.99	15.85	37.36	99.73
<u>Services</u>					
Age	24	34.54	24.37	3	102
Size (number of employees)	24	30,352	59,449	131	286,144
Financial performance (ROA)	24	4.49	7.77	- 13.26	22.58
Risk (Debt ratio)	24	69.23	17.57	29.03	97.28

TABLE 2. CSRR scores

Industries	Mean	S.D.	Min.	Max.	F-statistic
Basic industries	0.46	0.16	0.30	0.91	0.88
Consumer goods	0.40	0.15	0.30	1.00	
Finance	0.48	0.15	0.31	0.82	
Services	0.44	0.15	0.30	0.98	

TABLE 3. Intensity of the CSR reporting to stakeholders

Industries	Mean	S.D.	Min.	Max.	F- statistic	(1)	(2)	(3)	(4)
Basic industries	0.48	0.18	0.19	0.77	5.48***	-	0.78*	-0.43	0.68*
Consumer goods	0.38	0.11	0.11	0.60		-	-	1.20***	-0.09
Finance	0.53	0.09	0.33	0.67		-	-	-	1.11**
Services	0.39	0.12	0.15	0.61		-	-	-	-

*, **, *** denote significance at the 90%, 95% and 99% level of confidence, respectively

(1) Basic industries; (2) consumer goods; (3) finance; (4) services

TABLE 4. Orientation of the CSR reporting to stakeholders

Industries	Mean	S.D.	F-statistic	(1)	(2)	(3)	(4)
<u>Employees:</u>							
Basic industries	0.67	0.24		-	0.04	-0.12*	0.10
Consumer goods	0.63	0.16	4.00***	-	-	-0.16*	0.06
Finance	0.78	0.12		-	-	-	0.22***
Services	0.57	0.19		-	-	-	-
<u>Customers:</u>							
Basic industries	0.42	0.22		-	-	-	-
Consumer goods	0.38	0.20	1.28	-	-	-	-
Finance	0.52	0.17		-	-	-	-
Services	0.41	0.23		-	-	-	-
<u>Investors:</u>							
Basic industries	0.29	0.22		-	0.20**	-0.04	0.22***
Consumer goods	0.08	0.23	7.17***	-	-	-0.24***	0.02
Finance	0.32	0.28		-	-	-	0.26***
Services	0.07	0.15		-	-	-	-
<u>Partners:</u>							
Basic industries	0.30	0.24		-	-	-	-
Consumer goods	0.26	0.19	0.48	-	-	-	-
Finance	0.26	0.19		-	-	-	-
Services	0.23	0.15		-	-	-	-
<u>Community:</u>							
Basic industries	0.63	0.20		-	-	-	-
Consumer goods	0.58	0.14	1.68	-	-	-	-
Finance	0.67	0.10		-	-	-	-
Services	0.58	0.20		-	-	-	-
<u>Regulators:</u>							
Basic industries	0.39	0.30	3.07**	-	0.12	-0.09	0.15
Consumer goods	0.27	0.27		-	-	0.21	-0.03
Finance	0.48	0.22		-	-	-	0.24*
Services	0.24	0.26		-	-	-	-
<u>Activists:</u>							
Basic industries	0.67	0.33		-	-	-	-
Consumer goods	0.73	0.32	2.05	-	-	-	-
Finance	0.92	0.19		-	-	-	-
Services	0.73	0.29		-	-	-	-
<u>Media:</u>							
Basic industries	0.48	0.43		-	0.32**	0.17	0.14
Consumer goods	0.15	0.24	3.55**	-	-	-0.15	-0.18
Finance	0.31	0.25		-	-	-	-0.03
Services	0.33	0.38		-	-	-	-

*, **, *** denote significance at the 90%, 95% and 99% level of confidence, respectively
(1) Basic industries; (2) consumer goods; (3) finance; (4) services

TABLE 5. Regression results: Specification I

Variables	Coefficients
CSR reporting:	
† Basic industries	0.05
† Consumer goods	0.02
† Finance	0.07**
† Services	0.02
Age	-0.13
Size	0.05**
ROA	0.45
Risk	-0.39**
Constant	8.01***
R ²	0.28
Wald's test	3.60***

*, **, *** denote significance at the 90%, 95% and 99% level of confidence, respectively

† indicates linear restriction tests for interactions between CSR reporting and each industrial dummy

TABLE 6. Regression results: Specification II

Variables	Coefficients	Variables	Coefficients
Employees:		Regulators:	
†† Basic industries	-0.08	†† Basic industries	0.39
†† Consumer goods	0.13	†† Consumer goods	-0.06
†† Finance	0.66	†† Finance	0.09
†† Services	0.94*	†† Services	-0.82***
Customers:		Activists:	
†† Basic industries	0.14	†† Basic industries	0.01
†† Consumer goods	-0.43*	†† Consumer goods	0.17
†† Finance	-1.04**	†† Finance	0.58***
†† Services	-0.20	†† Services	-0.08
Investors:		Media:	
†† Basic industries	-0.03	†† Basic industries	-0.19
†† Consumer goods	0.37	†† Consumer goods	0.11
†† Finance	0.58***	†† Finance	-0.78*
†† Services	0.42	†† Services	-0.16
Partners:		Age	0.12
†† Basic industries	0.83**	Size	0.07***
†† Consumer goods	-0.23	ROA	0.31
†† Finance	0.52	Risk	-0.14
†† Services	-0.16	Constant	7.77***
Community:		R ²	0.66
†† Basic industries	-0.42	Wald's test	6.49***
†† Consumer goods	0.05		
†† Finance	-0.68		
†† Services	-0.20		

*, **, *** denote significance at the 90%, 95% and 99% level of confidence, respectively

†† indicates linear restriction tests for interactions between CSR reporting dimensions and each industrial dummy

TABLE 7. CSR reporting items and dimensions

CSR reporting	Items
Employees	<ol style="list-style-type: none"> 1. Training and development 2. Health and safety 3. Equal opportunities 4. Diversity 5. Reconciliation of work and family life 6. Social benefits (good retirement benefits, profit sharing, and participation in the property of the company, among others) 7. Freedom of association, collective bargaining and complaint procedures 8. Formal representation in decision-making 9. Employee relations, communication and dialogue mechanisms 10. Regular evaluation of employee satisfaction 11. Policy of remuneration, compensation and rewards 12. Job creation and stability
Customers	<ol style="list-style-type: none"> 1. Competitive prices and payment conditions 2. High product quality 3. High innovation and accessibility 4. Product health and safety 5. Development of products to meet the special needs of the disadvantaged 6. Confidentiality 7. Standards and voluntary codes for advertising and marketing practices 8. Transparency in advertising and marketing practices 9. Customer relations, communication and dialogue mechanisms 10. Regular evaluation of customer satisfaction 11. CSR initiatives in collaboration with customers
Investors	<ol style="list-style-type: none"> 1. Shareholder rights 2. Formal representation in decision-making 3. Investor relations, communication and dialogue mechanisms 4. Regulatory mechanisms for prohibiting insider trading 5. Rules to strengthen auditor independence 6. Provision of all required information to credit rating agencies
Partners	<ol style="list-style-type: none"> 1. Policy to ensure ethical and friendly procurement at partner facilities 2. Policy on restrictions on the use of child labour, sweat shop and violation of human rights at partner facilities 3. Inspection of partners facilities for health, safety and environmental aspects 4. Policy for social accountability or sustainable reporting by partners 6. Equal opportunities when establishing alliances 7. Policy to pay and receive competitive market prices timely to/from partners 8. CSR initiatives in collaboration with partners
Community	<ol style="list-style-type: none"> 1. Environmental policy, systems and performance 2. Social and charitable contribution 3. Educational and cultural contribution 4. Economic development programs 5. Human rights 6. Contribution to future generations 7. Having a foundation 8. Consultation with community leaders to know about emerging issues
Regulators	<ol style="list-style-type: none"> 1. Payment of taxes on a regular and continuing basis 2. Compliance with local laws and regulations 3. Bribery and whistle-blowing programs 4. Description of policies to political lobbying and contributions
Activists	<ol style="list-style-type: none"> 1. Employment volunteer activities and donation programs 2. Partnerships with nongovernmental and community organizations, government agencies and other industry groups dedicated to CSR causes

Media	1. Regular publication of financial and non-financial information 2. Management of relationships with the media
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FIGURE 1. Orientation of the CSR reporting to stakeholders

