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"DOES CSR REPORT ASSURANCE INFLUENCE CORPORATE RESPONSIBILITY REPUTATION?"

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INTRODUCTION

Corporate social responsibility (CSR) is increasingly gaining attention and importance in the business world and in the academic and practitioner business literatures (KPMG, 2016).
Whilst there is no official definition of CSR (Sheehy, 2015), the following one, proposed by PWC in 2010, seems to capture many of its important elements: "corporate social responsibility reflects a company's commitment to operating in a socially, economically and environmentally sustainable manner, while recognizing the interests of its stakeholders" (PwC, 2010, p. 51).
In particular, within the broad CSR field, one specific issue is that of disclosing CSR information by providing yearly a CSR report.
CSR reports are voluntarily published by companies or organizations and they deal with the environmental and social effects of their core business. These reports also offer an overview on firm's values and governance model and explain how their business strategy is linked and integrated with their commitment to a sustainable global economy (Dando & Swift, 2003).
Despite voluntary standardization of CSR reports, the lack of a real global standardization to-date is considered as an impediment to further growth of CSR reports and to their reliance and credibility (Verschoor, 2012).
One of the main issue, indeed, is represented by the fact that CSR reports have been harshly criticized by prior literature for lacking credibility (Dando and Swift, 2003), being pseudo-transparent (Coombs and Holladay, 2013), and being poor in quality (Milne and Gray, 2013). This is also noted by Cho, Michelon, Patten, and Roberts (2015, p. 131), which note that the practice of CSR reporting, "as with all types of voluntary corporate disclosure . . . is subject to concerns regarding the completeness and credibility of the information that is being provided" (also see Bouten, Everaert, Van Liedekerke, De Moor, & Christiaens,2011; Bouten, Everaert, & Roberts, 2012; Merkl-Davies & Brennan, 2007).
Credibility is undermined by misuse of CSR reports from companies; Stakeholders often view CSR communication as strategic in nature and thus not credible (Elving, 2012).
To summarize, CSR reports are accused of lack of completeness, of deepening the credibility gap (Dando and Swift, 2003; MacLean and Rebernak, 2007) and threatening companies' legitimacy in society, greenwashing accuse may lead to a boomerang effect where corporate communication finally reduces corporate legitimacy. (Seele and Gatti 2015).
To solve this numerous researches argue that third-party assurance on CSR reports can increase credibility (see, e.g., Beets & Souther, 1999; Casey & Grenier, 2015; Cohen & Simnett,2015; Holder-Webb, Cohen, Nath, & Wood, 2009; Simnett, Vanstraelen, & Chua, 2009), and KPMG

International (2017, p. 5) reports that such assurance has more than doubled among the G250 in the last 12 years continues to grow with over two thirds (67%) of the Global 250 corporations now including outside assurance on their standalone CSR documents.

However, the frequently voluntary nature of the CSR assurance and the absence of general guidelines around the assurance process question the effectiveness of assurance (Wong & Millington, 2014).

Our study aims to examine the CSR report assurance implementation, taking a look at the main determinants that lead companies in choosing to use external assurance and the assurance impacts, which justify the use of this solution from a company perspective.

Prior literature already investigated about influential factors (Simnett, Vanstraelen & Chua, 2009; Smith et al., 2011), variability of content (Deegan et al., 2006), characteristics of assurance providers (Power, 1997; Gray, 2010; O'Dwyer, 2011) and characteristic of firms that assure aspects (Manetti and Becatti, 2009).

Previous studies have also tried to explore potential financial benefits of CSR assurance testing if it could reduce information asymmetry, decrease analyst forecast errors (Dhaliwal *et al.*, 2011), lower cost of equity capital (Casey and Grenier, 2015), and increases firm value (Kuzey & Uyar, 2017; Matsumura *et al.*, 2014, Cho et al. 2014), all with poor results.

From a different perspective, only few researches tried to understand whether CSR reports assurance indeed provide companies with reputational benefits. (Alon and Vidovic, 2015; Birkey et al., 2016)

Besides being scarce, these studies have mixed and contrasting results, creating the conditions to expand this area of research, which remains insufficiently examined. (Kuruppu and Milne, 2010).

The main purpose of this thesis, hence, is to investigate whether assurance of non-financial information may increase credibility towards stakeholder and hence bring positive effects on corporate responsible reputation.

Similarly to our reference papers, our work will be based on empirical analysis, using a different sample of companies, aims to re-analyse the possible relationship between CSR assurance and reputation through the analysis of a different sample, updated data and more accurate proxies for variables.

The remainder of this thesis is organized as follows:

Next chapter will include a background discussion on CSR reports and related assurance, with reference to historical trends, regulations, standards, assurance providers and quality of assurance.

Chapter three will study the theoretical background of CSR report assurance, examining all the different theories that would foresee assurance adoption, while chapter four will focus on company reputation concept and its proxies.

Then we'll perform an extensive literature review on determinant and effects of CSR assurance that will take us towards the development of the hypotheses.

Last sections complete with a description of our exploratory empirical study, results presentation and, finally, discussion and conclusion.

1. CSR REPORT and ASSURANCE

Since our work will focus on CSR report assurance we will start first by understanding what is a CSR report and analysing its evolution in the business environment, highlighting the positive aspects and the advantages that justify its use, as well as the weaknesses and the main criticisms. We'll also see how legislation, trying to regulate it, also helped to institutionalize and legitimize it.

Then we'll consider CSR report assurance, approaching the main standards developed and used for assurance, the different types of assurance providers that have established in the market and the methodologies for measuring and assessing the quality of the assurance.

While financial statements are those documents which, by law, companies must draw up periodically to summarize its financial situation and economic results, CSR reports examines a company's performance not only from an economic point of view but also considers social and environmental impacts.

The sustainability report is a document usually published every year, that is addressed to all stakeholders, that is to say to all those with whom the company comes into contact: not only the shareholders but also the employees, customers, suppliers, authorities, journalists, communities and associations on the territory.

1.1 CSR Reports

In recent years, organisations worldwide have increasingly adopted varying levels of sustainability disclosure, ranging from simple narrative paragraphs within an entity's annual reports to elaborate standalone reports. (Owen and O'Dwyer 2004; Mock et al. 2007). The whole business community is aware of this trend; the rising number of firms issuing CSR reports is in fact documented both by academics (e.g. Cho, Michelon, Patten, & Roberts, 2014; Peters & Romi, 2015; Unerman, Bebbington, & O'Dwyer, 2007) and accounting professionals (KPMG, 2017).

Since the 90s, following the growing CSR wave, sustainability reporting has been steadily more frequent.

As showed in KPMG's International Survey on Environmental Reporting, published about every three years from 1993 till 2017, the rate of sustainability reporting overall the world has increased substantially. For example, in 1993 1993 only 12% of the sample issued a

sustainability report, while the report rate increased to 28% in 2002. In 2017 three quarters (75%) of all observed companies produced sustainability reports (KPMG, 2017). Even better, taking as sample the G250 (world's 250 largest companies by revenue based on the Fortune 500 ranking) we see that the reporting rate has been stable at between 90 and 95 percent in the last four surveys (KPMG, 2017).

In term of greater transparency and in light of an increased attention toward sustainability, this is encouraging, since large global companies are typically leaders in CR reporting and their behaviour often predicts trends that are subsequently adopted more widely. (KPMG 2017).

Growth in global CR reporting rates since 1993

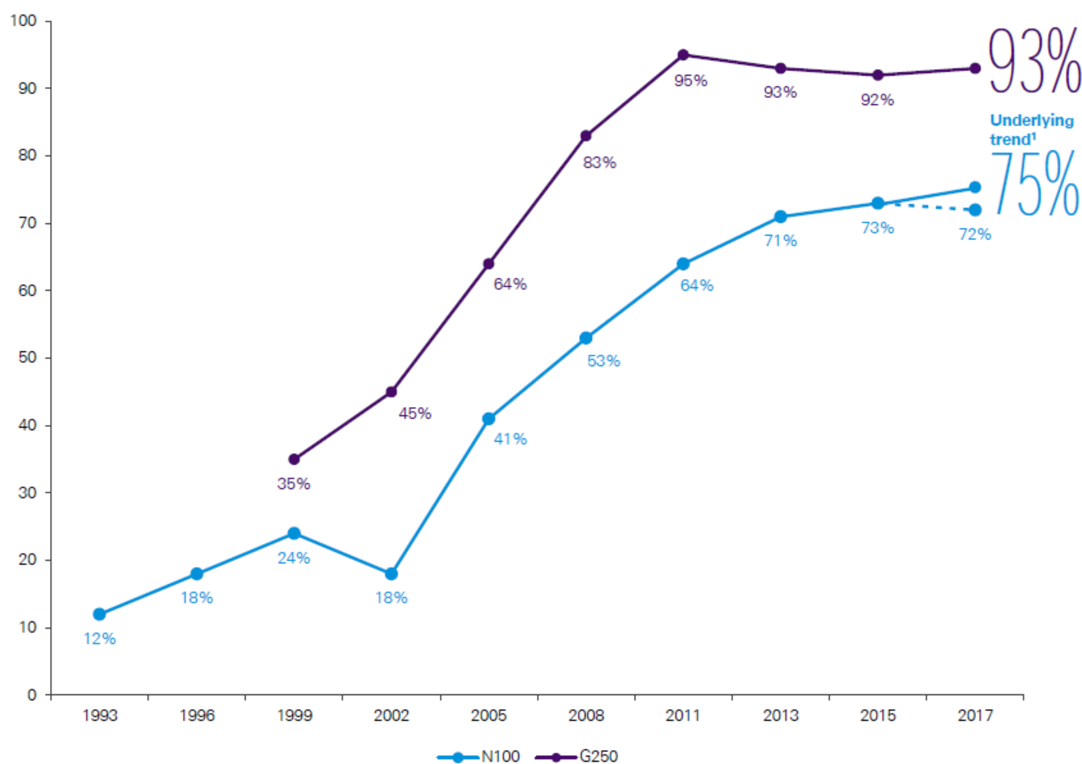

Figure 1

Base: 4.900 N100 companies and 250 G250 companies
Source: KPMG Survey of Corporate Responsibility Reporting 2017

As Figure 1 shows in the past few years CSR have gained importance.

These is also reflected by the fact that also legislation started to address it and to have a role in the regulation of CSR reports.

The trend toward regulation of non-financial disclosure has reached Europe, exemplified by the directive of the European Commission mandating that large companies report on CSR issues (EU, 2014)

Large European companies, indeed, are now required by law to disclose certain information about how they operate and manage social and environmental challenges.
The scope of this measure is to give a support tool to investors, consumers, policy makers and other stakeholders in order to evaluate and compare the non-financial performance of large companies.
At the same time, the decree aims to encourage these companies to approach business in a more responsible way, moving towards long-term sustainability strategies.
Specifically, Directive 2014/95/EU directive, which amends the accounting directive 2013/34/EU, lays down the rules on disclosure of non-financial and diversity information by large companies.
Starting in 2018, companies subject to this regulation must therefore include in their annual report non-financial statements.
These new European non-financial reporting rules only apply to large public-interest companies with more than 500 employees. This covers approximately 6,000 large companies and groups across the EU, including:

- listed companies
- banks
- insurance companies
- other companies designated by national authorities as public-interest entities

Directive 2014/95/EU, states that large companies need to publish reports on the policies they implement in relation to the following subjects:

- environmental protection
- social responsibility and treatment of employees
- respect for human rights
- anti-corruption and bribery
- diversity on company boards (in terms of age, gender, educational and professional background)

Even if all of these aspects must be treated, Directive 2014/95/EU gives companies significant flexibility to disclose relevant information in the way they consider most useful, they can use international, European or national guidelines to produce their statements, such as:

- the UN Global Compact
- the OECD guidelines for multinational enterprises
- ISO 26000

At this purpose, European commission published in June 2017 its own guidelines to help companies disclose environmental and social information. These principles however are not

mandatory and companies may decide to use international, European or national guidelines according to their own characteristics or business environment.

CSR performances, whether positive or negative, today find in sustainability reports their natural communicating platform. (www.globalreporting.org)

CSR reporting is an efficient process to measure, understand and communicate a company economic, environmental, social and governance performance, and it is helpful to set goals, and realize change more effectively. This instrument can help the company itself to understand which are the main improvement areas in order to focus on those the efforts.

These are some of the reasons why EU, as described above, is trying to regulate this subject and improve its effectiveness.

Also, CSR reporting is a complex topic that is interpreted differently, the content and structure of the disclosed sustainability information vary substantially. There is confusion in the terminology and a need of a unified perception of corporate sustainability reporting. However, as a consequence of the confusion in the terminology of sustainability and CSR, there are obstacles with defining corporate sustainability reporting and what a sustainability report is (Milne and Gray, 2007). It has many names among researchers. CSR reporting is also known as corporate social reporting, environmental reporting, triple bottom line (TBL) reporting, sustainability reporting, social accounting and social/environmental reporting (SER), to mention some of them (Gray et al, 2014; Deegan, Cooper and Shelly, 2006; Beelde and Tuybens, 2015; Higgins and Walker, 2012; globalreporting.org).

Even though difficult to define precisely it is commonly agreed that CSR report should have the following characteristics (Vartiak, 2015):

- reliability
- completeness
- pragmatism
- suitable form.

CSR reporting means informing about sustainability performance. It helps to engage stakeholders and to safeguard company's reputation, its main benefits are (Enablon, 2015):

- increased informational credibility and reliability,
- rapid availability of information,
- personalized communication with stakeholders,
- enhanced CSR monitoring and management,
- identifying and sharing best practices.

However, with unregulated and unaudited report entities has been given the freedom of choosing how and what information to disclose. This also enables companies to use the CSR reports in order to emphasize and shape the readers impression rather than to serve as a true information source.

When a CSR report enhances positive social and environmental information, which could contribute to misleading and biased report, the phenomenon greenwashing may emerge.

In this way companies may look as strong corporate citizens even when they are not (Cecil, et al., 2013).

Evidence of this credibility gap is documented by AccountAbility, (2003, p. 3). which demonstrated that stakeholders rarely use sustainability information, which is "the key test of credible and useful communication".

Stakeholders and users of CSR are looking for true and fair information about companies' achievements (Gray, 2000), however, as described above, research has shown that there is room for a demand of adding extra credibility.

CSR reports readers do not have any guarantee that report is complete, that all material issues are included (Adams and Evans, 2004), also they cannot trust the correctness of the disclosed data and the honesty of the reporting company.

This because is not so uncommon that companies use persuasive rhetorical strategies to increase their acceptability and credibility, to appear reasonable and reinforce good impression (Higgins and Walker, 2012).

Therefore it may happen that companies with poor sustainability performance, in order to give a positive impression in social and environmental issue to stakeholders may strive and invest a lot in social disclosure, exaggerating the hypothetical results and masking the critical issues in order to give a good impression to the external company and improve its reputation (Higgins and Walker, 2012).

This make sustainable reporting and sustainable strategy disconnected from sustainable performance (Cho, Guildry, Hageman and Patten, 2012). As evidence of this, some studies show that in sensitive industries, such as oil and gas, chemicals and mining, the companies' sustainability reports are relatively high rated while the evidence of enhancements of their sustainability performance are inadequate (Milne and Gray, 2007).

In response to the discussed lack of consistency, completeness and credibility suggested by some studies (Adams and Evans 2004; Frost et al. 2005a, 2005b), an increasing number of organisations around the world are beginning to provide sustainability reports accompanied by assurance statements (Deegan et al. 2006b; Owen and O'Dwyer 2004).

1.2 External Assurance on CSR Reports

Following the trend in CSR reporting, external assurance of these reports by independent third parties has been rising (Owen & O'Dwyer, 2004). The output of the assurance process, the assurance statement, adds to the credibility of the CSR report and improves the stakeholder confidence in the reporting company (Carey et al., 2000),

As a consequence, voluntary external assurance of these documents has also grown (O'Dwyer, 2011; O'Dwyer & Owen, 2005; Simnett, Nugent, & Huggins, 2009) with KPMG (2017) reporting 67% of the world's largest 250 companies seeking external assurance.

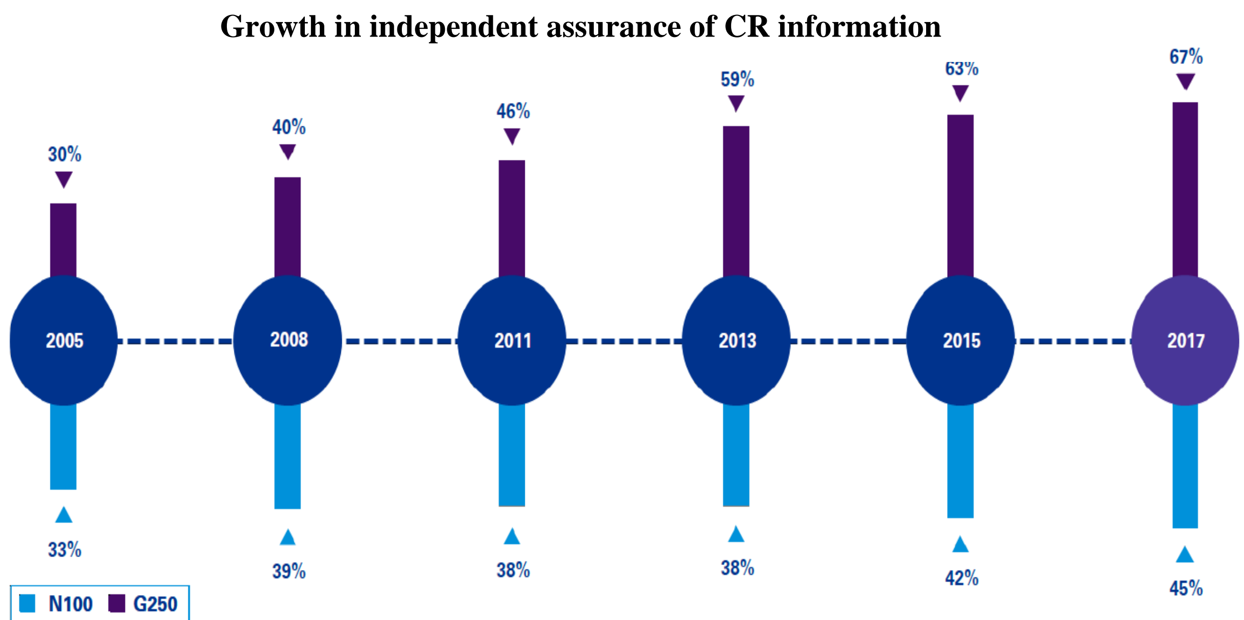

Figure 2

Base: 3.543 N100 companies that report on CR, 233 G250 companies that report on CR
Source: KPMG Survey of Corporate Responsibility Reporting 2017

An assurance engagement is defined by the International Auditing and Assurance Standards Board (IAASB 2004a, p. 150) as one:

". . . in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria."

Although CSR assurance is still far to be used systematically, following the practice of financial statement assurance, a trend in having CSR reports assured has been noticed. (Deegan, Cooper, Shelly, 2006; KPMG 2017).

However, due to the nature of the data, assurance engagements on non-financial information, like CSR reports, cannot guarantee the same level of reliability as on the financial counterpart (Park, 2004).

Still, the use of external, independent reviews of sustainability management processes and final disclosures is intended to increase the robustness, accuracy and trustworthiness of disclosed information (GRI, 2013a). The verification of CSR reports is not uniformly labelled, the terms used to describe this process vary and include ‘audit’, ‘verification’ ‘external assurance’ and ‘Certification’ which are used interchangeably (GRI, 2013a).

1.3 Assurance Standards

As for audit standards related to financial statements, some standard-setting agencies have also developed rules and procedures in order to properly perform an audit for sustainability reports At the beginning of the twenty-first century, sustainability reporting, still under development, was at its beginning and companies were trying to understand what performance indicators needed to be included in the reports.

The lack of a common approach and the uncertainty led to a great variety of content that different companies included in their sustainability reports (Gray, 2002).

Due to this diversity, the assurance approaches were exposed to a lot of variability and ambiguity. As a result, assurance reports differed a lot in format (Deegan et al., 2006).

These resulted in an increasing demand for appropriate guidelines on sustainability performance reporting and on sustainability assurance (Wallage, 2000) because companies increasingly published sustainability.

Regarding sustainability reporting, several guidelines were established, the GRI guidelines from the Global Reporting Initiative being the most frequently used.

The majority of N100 (74 percent) and G250 companies (89 percent) are using some kind of guidance or framework for their reporting. The GRI framework is the most commonly used, with 63 percent of N100 reports and 75 percent of G250 reports applying it. Meanwhile, 13 percent of N100 and 12 percent of G250 companies are using stock exchange guidelines (KPMG 2017).

The Global Reporting Initiative (GRI) has published guidelines and standards for sustainability reporting. Since 2000 four generations of the GRI “guidelines” have been published, with latest version G4 issued in 2013. The GRI issued its first set of “standards” in 2016 (GRI, 2016), which were fully enrolled in July 2018 and are therefore not yet widely adopted.

Use of GRI Guidelines vs GRI Standards

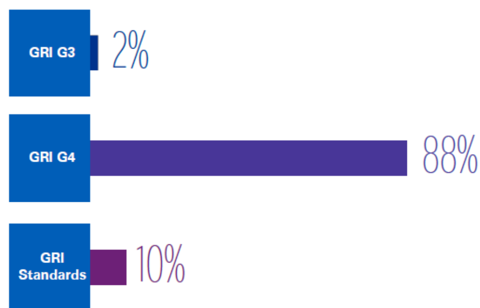

Figure 3

Base: 2.230 N100 companies that apply the GRI Framework
Source: KPMG Survey of Corporate Responsibility Reporting 2017

In accordance to the processor of this version, the G4 guidelines published in 2013, disclosures are partitioned into three categories, namely Social, Environmental and Economical (GRI, 2013b). The GRI argues that reports containing information on these categories collectively embody a thorough CSR report.

Although the GRI has put a lot of effort in constructing comprehensive guidelines, the guidelines are still not generally accepted and of voluntary nature (Hodge *et al.,* 2009).

While these guidelines significantly improved sustainability reporting, they did not address assurance.

Assurance statements, like CSR reports, are in essence not mandatory globally. Companies voluntarily decide whether or not to assure the report and by who.

However, many scholars, and the GRI itself as well, recently advocated the external assurance of CSR reports (Adams & Evans, 2004; GRI, 2013a).

External assurance statements improve the external credibility and, by examining the internal control process, the internal credibility of the CSR information.

The need for credibility of such reporting to both internal and external audiences has, hence, accelerated the development of relevant assurance frameworks (FEE, 2004, 2006; Iansen-Rogers and Oelschlaegel, 2005; ICAEW, 2004; UNEP Finance Initiative, 2004; Zadek and Raynard, 2004).

In addition to the Sustainability Reporting Guidelines by GRI previously mentioned (which should be intended to guide the reporting companies, but are frequently used by assurance providers) a number of professional organisations provide direct and indirect guidance on the assurance process (O'Dwyer & Owen, 2007).

Not considering GRI, two international standards stand out in the assurance market, they are commonly used by assurance practitioners to provide sustainability assurance.

Firstly, in 2003, AccountAbility, a global non-profit organization, launched the *AA1000 Assurance Standard* (AA1000AS) a standard which is specifically focused on sustainability reporting.
Secondly, the International Auditing and Assurance Standards Board (IAASB), an organization for the accounting profession issued the *International Standard on Assurance Engagements* (ISAE 3000) (IAASB, 2011).
This does not focus precisely on sustainability reporting, but is intended for audits other than historical financial information (IAASB, 2013).
Both standards are voluntary and the overarching themes of these are much aligned, but several differences remain present in the approaches that they take:
The ISAE3000 focuses mainly on the verification of the assurance process itself, it describes procedures to check for material misstatements in the scope of the document and ensures a more technical explanation, concentrating on the performance information that the client provides.
The AA1000AS on the other hand is predominantly focused on companies' stakeholders, ensuring the accuracy of the information and accordingly the relevance of the report to the intended users of the report. It describes procedures to check whether the sustainably report holds all aspects of a company's sustainability performance that are relevant for all stakeholders.

Frameworks and standards, applicable on assurance statements

Organization	Framework or standard	Target
Global Reportin Initiative (GRI)	Sustainability reporting guidelines	All assurance providers
Institute of Social and Ethical Accountabiity (ISEA)	AA1000AS Assurance Standard (AA1000AS)	All assurance providers
International Auditing and Assurance standards Board (IAASB)	International Standard on Assurance Engagements (ISAE) 3000 Other Than Audits or Reviews of Historical Financial Information (ISAE3000)	Accountant assurance providers

Table 1

Off course, the initial standards were not perfect, the assurance practice in this field was relatively new and improvements were necessary to improve the effectiveness and reliability of sustainability assurance (Manetti and Becatti, 2009). Both standards received updates, the latest of ISAE3000 dating from 2013 and of AA1000AS from 2008.

Although the differences in their approaches result in different levels of assurance quality (slightly in favour of AA1000AS), both standards have shown to improve the quality of assurance significantly (Gürtürk and Hahn, 2015).
In the beginning of the twenty-first century, several authors questioned the reliability and consistency of sustainability assurance. When both standards were established, those authors praised the ability of ISAE3000 and AA1000AS to cope with the issues inherent to the assurance practice (Dando and Swift, 2003; Adams and Evans, 2004; O'Dwyer and Owen, 2007).
While AA1000AS, ISAE3000 and the GRI Guidelines do not directly compete amongst themselves, indeed, some assurance providers reference them in different combinations since they overlap in the minimum content of assurance.
As Perego and Kolk noted in their study (2012), it is common for companies to adopt a combination of the three guidelines discussed.
In 2008 the highest preference was for AA1000 in combination with GRI guidelines, followed by ISAE3000 in combination with GRI. (Perego and Kolk, 2012)
According to Perego and Kolk, these trend highlights the willingness to improve the credibility of sustainability reports by using all the standards available in order to avoid any gap in their disclosure, given the unregulated area of assurance.
As further demonstration of this is provided by their analysis on the standard choice by different type of assurance providers.
Among the early adopters and consultant firms, the combination of AA1000AS with GRI guidelines seems to be the most popular.
The accounting firms instead seem to draw more frequently on ISAE3000 standards, which is not surprising given that these standards stem from an international auditing body (Perego and Kolk, 2012).
Since all can be used complementarily, despite these initiatives, no generally accepted approach to assure a CSR report has been established, resulting in a high variety of formats and approaches.
Overall, the current absence of an agreed unique and comprehensive set of standards reduces the comparability of assurance statements and causes significant variation between countries in the type of assurance provided.

1.4 Assurance providers

An assurance statement that offers conclusions on the credibility of the reported information can be prepared by several providers, which are commonly grouped in two main categories, namely accounting firms and consultancy firms. (Cohen & Simnett, 2015; GRI, 2013)
The growing variety of potential assurance providers is the litmus test that demonstrate how the CSR assurance market is growing. Auditors, consultants and certification bodies offer their competences, knowledge and legitimacy to reporting companies in order to enhance the perceived quality of the CSR reports. This variety makes the choice of assurance provider not an obvious decision.
To increase the meaning of assurance, Huggins *et al.* (2011) propose several circumstances in which the value of assurance is enhanced. The assurance provider must be independent of the company, must have significant expertise on CSR reporting, must have gathered enough knowledge concerning the collection of sustainability information and needs to have enough quality controls on the process.
Of the three mentioned above, two professional groups have recently emerged in this market as the most common assurance providers; auditing firms and consultants (e.g. Casey & Grenier, 2015; Manetti & Becatti, 2009; O'Dwyer et al., 2011; O'Dwyer & Owen, 2005; Perego & Kolk, 2012; Peters & Romi, 2015; Simnett, Nugent, et al., 2009; Simnett, Vanstraelen, et al., 2009).
Prior literature argues that accounting providers have an advantage with respect to providing high quality assurance given the profession's body of international standards, ethics, independence, and control mechanisms (Pflugrath et al., 2011).
However, it is also commonly recognised in favour of consulting firms that they have significant superior sustainability expertise. The advantage recognised to the auditing firms is probably due to the fact that consultants are subject to different standards of professional conduct and independence than the accounting profession (Huggins et al., 2011), which are usually less strict and tested.
In any case, the differences between these two types of providers are gradually narrowing, this is due to the fact that the different assurance standards to which they rely on are progressively aligning and conforming over the years (Michelon et al., 2018).
While GRI standards are commonly used and taken as reference from all kind of assurance providers, the other two standards used to be specifically designed for the two main assurance provider groups.

ISAE 3000, developed by the International Auditing and Assurance Standards Board (IAASB), provides guidance for professional accountants when conducting non-financial assurance engagements (IAASB, 2013).

The AA1000AS, developed by AccountAbility, regulates the consulting profession and provides similar guidance toward SRA engagements.

Both standards provide guidance on accepting and performing an engagement, the need for independence and competence, the use of materiality, and the importance of evidence gathering to support reliability and accuracy, among other issues.

According to the 2008 report by Corporate Register, 40 percent of the market is assured by audit firms, while 27 percent by consultants and the rest by other providers. The organization recognized, however, that for big firms (in this case companies of the Global FT500), the percentage of auditors' assurance statements is 56 (Corporate Register, 2008).

These data differ from the ones collected by GRI which report that in 2013 audit firms assured around 60% of the CSR report while consultant reached almost 35% percent of the assurance statement (GRI, 2013).

Speaking about large companies, in 2015 According to KPMG's survey, 70 percent of the assurance statements of the G250 companies were assured by audit firms, 20 percent by consultants and the remaining 10 by other providers (KPMG, 2015).

These trends demonstrate how audit firms and consultants emerged and consolidated and established themselves in the market as the main players. Moreover, it is possible to notice that audit firms are preferred by large firms, probably because they are already collaborating with them for financial statement audits (Perego & Kolk, 2012).

A peculiarity of sustainable report assurance is that the relationship between the assurance provider and the reporting company is more stable in a CSR assurance contract than in a financial contract (Simnett *et al.* 2009).

This is due to the fact that CSR assurance is much less standardized with respect to the financial one and thus it is difficult and more costly to change assurance provider.

In fact, once the first audit has been carried out, the provider acquires many details and information about the company and its approach to sustainability.

At this point the audits of the following years become easier and less time consuming.

Continuously changing providers would nullify the mutual knowledge established between auditor and company, generating additional costs and loosing synergies.

1.5 Quality of external assurance on sustainability reports

As mentioned before, giving the lack of a single robust CSR assurance framework and due to its voluntary nature, this practice has been criticized often in current literature.
Assurance on sustainability reports can only be effective and valuable when the assurer is independent, has expertise, and has quality controls in place over the assurance process, otherwise, assurance is not substantively effective (Cohen & Simnett,2015).
Independence is recognized by literature as one of the crucial requirements speaking about assurance, the provider should be able, willing and fearless to provide an adverse opinion if the CSR report is misleading, inadequate or distorted (O'Dwyer & Owen, 2007).
With regard to expertise and competence the standard AA1000AS tries to provide a general framework of skills that an assurance provider has to guarantee.
A company, when choosing the assurance provider, should evaluate if it has competences in the following fields "administrative requirements", "organizational profile", "technical competence and capacity" and "cost implications" (AccountAbility, 2008).
One of the reasons of the critics is that quality of external assurance on sustainability reports is generally considered not sufficient. This is due to lack of information on the coverage of the assurance engagement and a lack of identification of reporting criteria employed (Deegan et al. 2006; Kamp-Roelands 2002).
The problems with sustainability assurance can undermine the credibility of the practice of assurance on sustainability reports, as well as the credibility of sustainability reports (Perego & Kolk, 2012).
Content analysis of the assurance statement is the most common method for defining quality of sustainability assurance in current literature, although, even in this case there is not a single guideline that defines the minimum content required for good level assurance, but different approaches have been developed (Zorio et al.,2013).
One of the first research about this issue was conducted by O'Dwyer and Owen (2005) who examined assurance statements of European companies in order to examine if assurance enhances both transparency and accountability to a company's stakeholders.
They performed their analysis by using a framework based on AccountAbility, FEE and GRI guidelines with which they examined, through content analysis, whether the assurance statements included and addressed the key elements of the above guidelines, namely: independence, standards and criteria employed, engagement scope, materiality, completeness and responsiveness.

Their evaluative framework created to define assurance quality is one of the most used, although often adjusted or updated, by literature. Their findings suggest that there is big variety and big room for improvement, in particular speaking about stakeholder engagement, assurance provider independence, materiality and completeness of the reports, often missing in the assurance statements.

Differences in assurance practices were also found for the G250 companies by Perego and Kolk (2012) in a more recent research. Revisiting the framework by O'Dwyer and Owen in their own codebook, which we will use as well and describe later on, they analysed the content and quality of assurance statements and discovered that statement quality has increased over the years from 1999 to 2008. Despite this increase however, the average quality remained rather low.

The results of their research are supporting the idea that there is high country specific variation in quality, as well as industry variation, while assurance provider affects it only to a limited extent. According to their findings for example, more 'polluting' sectors have traditionally been most active in sustainability assurance, while Accounting firms appear to score only slightly better than consultants in terms of quality. (Perego and Kolk 2012)

However, in this regard, the literature is rather controversial regarding the factors that guarantee higher quality. Various studies often link quality of the assurance report to the type of assurance provider (Peters & Romi, 2015; Simnett et al., 2009) but there is no consensus in the theory regarding the difference in quality of sustainability assurance when considering if assurance is provided by accountancy firms or specialist consultants.

Several studies assume that assurance providers from the auditing profession provide assurance of the highest quality because of their well-developed standards, independence requirements, and quality control mechanisms in place.

However, Hodge et al. (2009) argue that sustainability specialists provide more complete, fair and balanced assurance statements.

Finally, Perego (2009) reason that accounting firms have a positive effect on assurance quality in terms of reporting procedures and format, while specialists provide higher-quality recommendations and opinions.

Another factor related to assurance quality is the country of origin of the companies.

It can be expected that being in a country, more stakeholder- or shareholder-oriented, is associated with the quality of sustainability assurance. In a stakeholder-oriented country society considers that many different stakeholder groups have a legitimate interest in companies' activities and therefore can influence these activities, whilst in a shareholder-oriented country shareholders are regarded as most important, since the function of a company is regarded to be

creating shareholder value. In these countries, other stakeholder groups have less influence on companies' activities since they have less interest in these activities (Simnett et al., 2009). Stakeholder oriented country are more likely to invest in high quality assurance, as it can be a tool for strategically managing relationships with stakeholders (Kolk & Perego, 2010).
Stakeholders oriented country in fact, adopt code law countries, where a corporation is considered an organization that has social responsibilities that go beyond achieving economic efficiency. A corporation have social responsibilities not only towards their shareholders but towards all their stakeholders and therefore, under this influence, is more prone to invest in assurance and in its quality.
This is also demonstrated by Smith, Adhikari and Tondkar (2005) that with their empirical research found that firms in stakeholder oriented (Denmark and Norway) have higher levels of social and environmental reports than the ones from shareholder-oriented companies (United States).

2. CSR REPORT ASSURANCE: THEORETICAL BACKGROUND AND LITERATURE REVIEW

Different theories have tried to explain why companies buy external assurance on sustainability reports. Research on external assurance on sustainability reports has often taken an agency theory perspective (Zorio et al., 2013; Kolk & Perego, 2008).

2.1 Agency Theory

Agency theory addresses agency problems between a principal and an agent.
When it is hard or expensive for the principal to monitor the agent and there are conflicting interests, the agency problem can occur, which is the problem that the principal cannot know whether or not the agent has been behaving appropriately (Eisenhardt, 1989; Jensen & Meckling,1976). The agency problem covers two aspects: moral hazard (hidden action) and adverse selection (hidden information), both involve unobservable behaviour by the agent.
Third party assurance allows for a reduction in information asymmetry and serves as a bridge between the interests of the principal and the agent, reducing agency problems and the associated agency costs. (Kolk & Perego, 2008).
The conflict of interest between the principal and agent exists in a non-financial setting as well. Stakeholders represent the principals, and the reporting company represents the agent. Stakeholders receive information through sustainability reports and assurance statements, which should reduce information asymmetry (Power, 1991). In this case the assurance report is a “signal” which would identify “good” companies.
From an agency theory perspective, the demand for assurance stems from the need to mitigate agency costs associated with information asymmetry with stakeholders and resultant loss of control due to a lack of observability of managers’ behaviour (Chow, 1982).
Third party assurance of CSR reports add credibility to the information content and may limit the information asymmetry in the field of sustainability performance to a reasonable level.

2.2 Legitimacy Theory

A different perspective about why companies adopt external assurance is designed by the legitimacy theory. According to this scheme, companies are committed to sustainability so as to legitimize themselves and improve their reputation. Legitimacy theory explains sustainability reporting assurance as strategic, organizational tool for influencing society's (and stakeholders groups therein) perceptions of a company's legitimacy and for reducing and responding to stakeholder pressures and concerns, by demonstrating that the company's behaviour is acceptable. The only way to change society's perceptions about the company's legitimacy is to provide them of information, hence, disclosures, such as sustainability reports and assurance, play a crucial role (Deegan, 2002).

External assurance on sustainability reports can be explained as a managerial device to reduce social pressures and by consequence, for closing legitimacy gaps by influencing society's perceptions of a company's legitimacy. External assurance is then linked to issues such as managing stakeholders, increasing reputation and maintaining legitimacy.

Legitimacy theory integrates and overlaps with stakeholder theory. Stakeholder theory extends legitimacy theory by focusing on groups of stakeholders that are influential to a company, and on how relationships with these stakeholders can be managed.

2.3 Institutional Theory

The institutional approach illustrates how organizations tend to adopt the same methodologies and initiatives in order to gain legitimacy (Deegan, 2002; DiMaggio and Powell, 1983).

This willingness for conformity leads to structural similarities and organizational isomorphism (DiMaggio and Powell 1983; Scott 2001).

Through sustainability assurance firms adapt to the needs of society and seek legitimacy in their business environment, that has proper institutional setting (i.e., demand for transparency and crucial role of stakeholders) (Doh and Guay, 2006).

Speaking about sustainability topics, companies strongly depend on the perception and pressure of its external stakeholders and hence they react implementing widely accepted structures and procedures, because not adopting these practices may lead to a loss of legitimacy (DiMaggio and Powell, 1983).

Unfortunately, this may lead to less efficiency because each company, under pressure, tend to conform to already existent predominant patterns and to be conditioned from social behaviour that prevents them to analyse any possible alternative solution that may be rationally or economically advantageous. (Goodrick and Salancik, 1996).

This process and this homogeneity of behaviours is known as isomorphism, which can be classified into the following three basic categories (DiMaggio and Powell, 1983, p. 150):
"(1) coercive isomorphism that stems from political influence and the problem of legitimacy; (2) mimetic isomorphism resulting from standard responses to uncertainty; and (3) normative isomorphism, associated with professionalization".
Even though various theories have been addressed for explaining sustainability report assurance, there is no generally accepted theory in current literature.
What can be noted is that the main reasons why assurance is adopted according to all these theories are credibility, transparency, legitimation and reputation enhancement.
All these intangible resources, as we will see later, are considered increasingly important as they allow to avoid costs and create competitive advantage.
One of the associated problems we will analyse is related to the difficulty in measuring these benefits and therefore in analysing the actual value of the assurance statement practice.

2.4 Determinants of CSR report assurance demand

Different empirical studies have been recently carried out on CSR assurance thanks also to its expansion. Most of these researches are basically a descriptive analysis of the practice or of the factors behind the assurance choice (Birkey et al., 2016).
In the following paragraphs we'll analyse different empirical and theoretical studies that tried to investigate the reason behind CSR assurance choice and its benefit, making use of the theories above described.
A big community, which includes Standard setters and stakeholders, nowadays often undertake that CSR report assurance can support and increase the credibility of CSR reports (e.g. Beets & Souther, 1999; Cho et al., 2014; Global Reporting Initiative [GRI], 2013; Hodge, Subramaniam, & Stewart, 2009; O'Dwyer, Unerman, & Hession, 2005; Peters & Romi, 2015; Simnett, Vanstraelen, & Chua, 2009).
This belief is based on the commonly accepted understanding, borrowed from the financial auditing literature, that assurance leads to an increased focus on reporting and thus help

decreasing accounting errors and inaccuracies contained in the reports. (Michelon, 2018; Palmrose & Scholz, 2004; Pomeroy & Thornton, 2008).

In the frame of the *agency* theory, with respect to examination of the determinants of CSR report assurance Simnett *et al.* (2009) is seen as the first extensive archival study to assess the drivers of assurance. Their sample consists of 2,113 sustainability reports from 867 firms across the world during 2002-2004 to examine the impact of both country-level and firm specific factors on the choice to have CSR reports assured.

Simnett et al. (2009) find that companies seeking to enhance the credibility of their reports and build their corporate reputation are more likely to have their sustainability reports assured.

Since an information asymmetry exists between the management of the company, the stakeholders and the rest of the public about the sustainability performance of the company reducing this information asymmetry is one of the reasons that companies have started issuing CSR reports voluntarily (Simnett *et al.,* 2009). Eventually, it is in the companies' best interest to communicate the information in CSR reports in the most effective and credible way and thus, to provide third party assurance.

Their research shows also that larger firms more frequently opt for assurance and that industry affiliation resulted significantly related to CSR report assurance choice and that companies operating in stakeholder-oriented countries are more likely to adopt CSR assurance.

However, when U.S. firms were deleted from the sample, stakeholder orientation was no longer significant, and as such, Simnett et al. (2009) conclude, in line with Park and Brorson (2005), that the need for enhanced credibility appears to drive demand for assurance.

Cho et al., (2010) always according to *agency* theory, conclude in their study that language is often used to promote the reporting company as a responsible player in society, thereby managing stakeholder impressions, here comes into play the audit of sustainability reports, that helps identifying several reporting errors and management biases in the content.

Further research (Hodge et al., 2009; Pflugrath et al., 2011) support the possibilities that sometimes sustainable reports may not be totally backed up by reality or by true performances thus being used to manipulate the stakeholders and for creating positive impression of the entity's actions and operations not reflecting the reality (Holmlund & Sandberg, 2015).

Therefore, assurance can play a critical role in verifying the authenticity of what has been declared, increasing confidence in the contents of the reports and stakeholders' confidence. Moreover, it allows information asymmetries decrease (Hodge et al., 2009; Pflugrath et al., 2011).

Legitimacy theory is another theory on which empirical researches carried out on CSR assurance are based.

Kolk and Perego (2010) investigate whether country-level and firm specific factors influence the demand for CSR report assurance, justifying this relationship through the *legitimacy* theory, With the exception that firm size was not significant for their sample of Fortune Global 250 companies, results were largely consistent with those reported by Simnett et al. (2009) since they found that companies in countries that are stakeholder-oriented and have weak legal systems are more likely to buy external assurance (Kolk & Perego, 2010).

In countries with weak legal systems, assurance can play a substitutive role in controlling credibility and quality of sustainability reports, and that companies in stakeholder-oriented countries are more likely to buy assurance as a way to manage stakeholder relationships.

In fact, stakeholder social pressures in these environments is higher and thus companies rely on assurance in order to demonstrate the adherence of his behaviour with the expectations of the community, thus gaining reputation and legitimacy (Deegan, 2002).

As in this case, *legitimacy* theory supports Casey & Grenier (2015), which document a positive correlation between assurance and size, but also find evidence supporting a positive relationship between profitability and CSRA demand. In addition, they find that firms having a greater global presence and higher customer awareness are more likely to assure their sustainability reports. A following study by Kolk & Perego (2010) focuses on country-level determinants and in correspondence with Simnett *et al.* (2009) results show that firms domiciled in a stakeholder-oriented country display a greater demand for assurance. These results are also found by Zhou *et al.* (2016).

However, whereas Simnett *et al.* (2009) find a positive relationship between legal enforcement and assurance, Kolk & Perego (2010) document a negative relationship, which support legitimacy theory for which saying that

Another important firm-level characteristic is industry affiliation. Simnett *et al.* (2009) show that being located in an environmentally or socially sensitive industry increases the likelihood of choosing CSRA. The results demonstrate the demand for assurance is higher among companies engaging in more highly visible industrial activity and companies with a larger "social footprint" with companies in Mining, Utilities, and Finance all being more likely to have their sustainability reports assured.

That'd be because, as Simnett et al. (2009) explained "companies belonging to industries having a greater environmental or social impact are more exposed to environmental or social risks and will have a greater need to manage these risks by purchasing assurance to increase user confidence in the credibility of the information contained in the sustainability reports they produce" (Simnett et al., 2009, p. 943).

The mining industry extracts non-renewable resources, the financing industry has a large social impact on society and the utilities industry is the industry with the highest production of greenhouse gasses (Simnett *et al.*, 2009). Results by Perego & Kolk (2012) confirm that for the most polluting firms in their sample the demand for CSRA is the highest. In their first results, Casey & Grenier (2015) only confirm the mining industry to show a positive relationship to CSRA demand.

Some studies are also inspired by *Institutional* theory, as, for example, the one from Perego and Kolk (2012).

Using a panel of 212 firms from the Fortune 500 in the period 1999-2008, they assessed how multinationals adopt sustainability assurance practices and how assurance practices shape the quality of assurance.

The results confirmed that country level factors and institutional factors like signals from governments and litigations from legal environment determine whether a company will adopt assurance (Perego and Kolk, 2012).

Practical results of institutional theory may be find also in the paper of Gürtürk and Hahn (2015), which examining similarities, differences and quality of sustainability reports through a deductive content analysis of a sample of 61 assurance statements from Germany and the UK published during 2013, found evidence that coercive tendencies in sustainability reports exist.

They noted, in fact, a homogenous adaptation of the assurance process led by accountants and ISAE3000, which seems to result in less extensive assurance statements provided to companies (Gürtürk and Hahn, 2015).

2.5 Benefits of CSR report Assurance

Previous studies have extensively examined the potential benefits of CSR reporting, but only limitedly on the benefits of CSRA (Casey & Grenier, 2015).

Many empirical researches that analysed possible relationships between CSR assurance and positive financial effects have found justification in agency theory.

Reporting on CSR information has shown to be negatively related to cost of capital and analyst forecast errors (Dhaliwal *et al.,* 2011). Next to that, CSR reporting seems to positively affect firm value (Matsumura *et al.*, 2014; Servaes & Tamayo, 2013).

In an early experimental study using Australian participants (students), Hodge *et al.* (2009) analysed the perceived credibility of CSR reports when these reports were either assured or not. The results of their study show that the confidence of the participants in the credibility of the

CSR reports is higher when it is externally assured. Instead, they could not find any direct significant relationship between the level of assurance (reasonable vs. limited) and user confidence.

A subsequent study by Pflugrath *et al.* (2011) performed a similar experiment with financial analysts from the U.S., U.K. and Australia as the participants. The results are in line with the findings by Hodge *et al.* (2009), namely that the perceived credibility is significantly higher when the reports are externally assured.

In addition, Pflugrath *et al.* (2011) examined whether industry differences influence the perceived credibility of the information. Based on the contrast in industries found by Simnett *et al.* (2009), they compare the mining industry to the retail industry and document a significant difference in the perceived credibility of CSR information in favour of the mining industry when the reports from these two industries are externally assured.

Irrespective of specific details, companies generally seek to reduce information asymmetries and agency costs and increase the credibility of sustainability-related information through sustainability related assurance (Hodge et al., 2009; Pflugrath et al., 2011).

Such increased credibility can, for example, lead to lower equity capital costs (Dhaliwal et al., 2011) or a greater willingness to invest in a company (Cheng et al., 2015).

Whereas Hodge *et al.* (2009) and Pflugrath *et al.* (2011) analyse the credibility of information, Brown-Liburd & Zamora (2015) focus on the direct relationship to the capital market. This is also the aim of the study performed by Cheng *et al.* (2015), which find that the subjects in their experiment are more willing to invest in the respective company when its performance indicators are externally assured.

Furthermore, companies adopt assurance practices because this potentially reduces analysts' forecast errors (Dhaliwal et al., 2012), as well as investors' concerns about companies engaging in impression management (Barnea and Rubin, 2010; Cho et al., 2010) or even greenwashing (Lyon and Maxwell, 2011). In addition to external benefits, companies seek to use assurance statements as a tool for checking and improving internal management systems. Prior research refers to the inadequacies of existing information systems which potentially increase the risk of reporting inaccurate information (Edgley et al., 2010).

The first archival study on the benefits of CSRA is performed by Casey & Grenier (2015). In a U.S. setting, they investigate whether the adoption of CSRA and the type of assurance provider are related to the cost of capital, analyst forecast errors and analyst forecast dispersion. Results indicate that the adoption of external assurance leads to a reduction in the cost of capital in the subsequent year.

From a different perspective, linked to legitimacy theory, Jones and Solomon (2010) interviewed CSR representatives from 20 U.K. firms regarding their perceptions of the need for, and benefits of, CSR report assurance. Interestingly, a majority of the interviewees were reluctant to support external assurance on the reports, partly because of the practice's "relative current unimportance" (Jones & Solomon, 2010, p. 29). However, Jones and Solomon (2010, p. 30) find that "managers are using [assurance] as a way of reinforcing [CSR reporting] as a method of giving a favorable impression of the company to outside stakeholders." Somewhat similarly, Edgley, Jones, and Solomon (2010), based on interviews with assurance providers in the U.K., identify that CSR report assurance can add value by helping managers and companies to manage reputation risk.

In this regard, our study aims to analyse the relationship between CSR assurance and corporate reputation, in particular to assess the possible effect of CSR assurance on reputation and the possible relationship between quality of assurance and reputation.

Credibility is one of the goals collectively mentioned in the literature when it comes to CSR assurance, (Simnett et al., 2009, Owen & O'Dwyer, 2005; KPMG, 2008; CPA Australia, 2010), as well as transparency (O'Dwyer & Owen, 2005; Jones & Solomon, 2010).

In addition to this, another of the objectives mentioned is to remove the suspicion of greenwashing, thus legitimizing and reinforcing the social image of the company, this study aims to examine how sustainability-related initiatives, in this specific case CSR assurance, are actually useful to fill the widely discussed credibility gap and consequently produce positive effects on the corporate reputation perceived by the various stakeholders.

According to Fombrun's (1996) widely cited definition, reputation is a social construct that is based on the perceptions of stakeholders.

As noted by Kuruppu and Milne (2010), much of the existing social and environmental accounting literature carries an underlying untested assumption that sustainability initiatives produce legitimating effects, but little is known about the actual influence of such initiatives on reputation.

In our opinion the topic is interesting as external stakeholders are influenced by corporate reputation when they choose products, jobs, and make investment decisions (Fombrun and Shanley, 1990).

As previously analysed, it is commonly acknowledged that reputation may be an important strength and a strategic intangible asset as it allows to create competitive advantage by establishing positive and long-term relationships with multiple stakeholder groups (Boyd et al, 2010).

Empirically testing, therefore, whether CSR assurance is in any way able to improve or increase the reputation is interesting to understand whether the reputation can really be considered one of the drivers in the choice of managers to adopt assurance.

This analysis can also be useful to the managers themselves helping them to assess the potential benefits that assurance may offer.

Two researches in recent literature, using legitimacy theory, have tried to analyse the connection between assurance and reputation, and on these works our project lays the foundation.

The first we will examine is the paper by Birkey, Michelon, Pattena, Sankara, 2016 "Does assurance on CSR reporting enhance environmental reputation? An examination in the U.S. context", which suggest that the benefits of assurance can be directed to the valuation of the company.

Birkey *et al.* hypothesize and investigate whether external assurance of CSR reports in the U.S. is associated with the company's environmental and therefore lead to better outside assessments of firms' environmental reputation using scores as reported by Newsweek magazine in its 2009 and 2010 rankings of 'the greenest companies in America'. The reputation measures represent one of three different metrics compiled by Newsweek in calculating its rankings.

Taking as reference a sample of 351 US firm-year observations they tested, through ordinary least squares multiple regression analysis whether assurance was linked to corporate environmental reputation.

They assume the following "if firms acquire outside assurance of their reports to enhance the credibility of the message being portrayed as argued in much recent research (e.g., Kolk & Perego, 2010; Park & Brorson, 2005; Simnett et al., 2009), we would expect the practice to impact assessments of its environmental reputation as opposed to being directly related to differences in firm value."

According to the result of their empirical research we find that assurance is highly associated with higher assessments of companies' environmental reputation as captured by Newsweek magazine's environmental reputation scores.

Impacts on environmental reputation differ depending on assurance provider type accounting firms versus other providers, but the results indicate that having assurance from either type of provider is significantly related to increased environmental reputation, suggesting that it is the presence of assurance, as opposed to assurer type that impacts assessments of corporate environmental reputation.

Assurance is positively and significantly associated with environmental reputation and positively influences perceptions of firms' environmental standing.

Their results legitimate their arguments against the idea that assurance is being issued mainly to reduce information asymmetries between management and investors (Dhaliwal, Li, Tsang, and Yang, 2011; Casey and Grenier, 2015)

Rather than being used as a signaling device to corporate investors, CSR assurance reports instead are more likely used to enhance the environmental image of the issuing companies (see also Cho et al., 2012). Overall, the results suggest that there may indeed be positive outcomes associated with the choice to seek assurance on standalone CSR reports, and this may help explain why some companies, at least in the U.S. setting, are willing to incur the expense related to the practice. This view is supported by KPMG International's (2011, p. 18) which claim that "the business imperative behind CR reporting and its assurance" is reputation.

The second paper we are going to address is "Sustainability performance and assurance: Influence on reputation.", 2015 by Alon & Vidovic. Also in this work the authors have examined the relationship between sustainable initiatives and reputation.

They take advantage of the legitimacy theory to explain how these sustainable initiatives (including CSR assurance) are used by managers as a signal to stakeholders, in order to gain credibility and reduce information asymmetries in the legitimation process.

Specifically, one of the connections examined, of greater interest for our field of research, was the correlation between the adoption of CSR assurance and corporate reputation.

Alon & Vidovic analysed in detail how, sustainability initiatives, among which CSR external assurance, can produce reputation-legitimizing effects by filling the credibility gap between management and stakeholders.

Users of the reports, in fact, need to differentiate between companies that use disclosure for "greenwashing" and manipulating public perception from firms that are truly committed to sustainability (Higgins and Walker, 2012;).

Taking into consideration a sample of 100 companies, representative of a variety of industries and major global brand with high degree of familiarity in big economies such as China, Germany, India, Japan, the United Kingdom, and the U.S., they measured how the Sustainability Perception Score (2011 Sustainability Leadership report) depended in some way on the adoption of CSR assurance.

Using for this purpose covariance-based structural equation (SEM) path analysis the results demonstrate that sustainability assurance does not affect corporate reputation and thus that external stakeholders do not incorporate that signal into their evaluation of firm sustainability reputations.

They state and verify that, even if the assurance of sustainability reports becomes increasingly widespread, stakeholders do not fully recognize its importance and, therefore, the company's reputation value increase does not take place.
According to their conclusion "Assurance appears to be a managerial tool associated with internal processes rather than a performance-differentiating signal to external stakeholders" since assurance do not have a direct association with reputation.
The added value that assurance guarantees to the reputation, in fact, has been questioned in light of the scarcity of certainties and comparability difficulties caused by the lack of globally accepted standards and a wide range of providers offering this service (e.g., Ball *et al*., 2000; Deegan *et al*., 2006; Manetti and Becatti, 2009; Perego and Kolk, 2012). Kuruppu and Milne (2010), in an experimental case study designed to explore decisions of potential employees, found that assurance of sustainability disclosure did not impact perceptions of organizational reputation and legitimacy.

3. CORPORATE REPUTATION

The globalised economy raised the attention on the identification of the sustainable competitive advantage sources. The search for these advantage drivers broadened arriving to embrace not only the tangibles, but also those that are located in the field of intangibles (Schwaiger, 2004). This is not surprising, since most United States executives consider corporate reputation one of the most influential factor for the firm's success (Hall, 1992).

Companies are increasingly becoming aware that intangible assets provide more competitive advantages than product-related sources (Rindova, Illiamson, Petkova, & Sever, 2005).

During the last few decades the consideration of intangible assets as an important factor in the pursuit of competitive advantage has gained an increasing interest in both the academic and industry sectors (Barney, 1991). Regarding the industries, in his work Hall observes that CEOs consistently rank reputation as one of the most important intangible assets and recommends that this issue should receive constant management attention (Hall, 1993).

Corporate reputation, instead, is a reflection of how the organisation as a whole is regarded by its stakeholders (Feldman et al, 2014) and it affects the way various stakeholders behave towards the company (Chun, 2005).

Numerous authors identify corporate reputation as one of the most important intangible assets (e.g., Griffith, Ryans, 1997; Parkhe, 1998) playing an increasingly important role in terms of firms' propensity to influence important stakeholder groups, such as financial analysts, employees, and customers in global markets (e.g., Eberl, 2010).

Reputation is an important means by which companies can maintain a sustainable competitive advantage and endure a long term relationship with multiple stakeholder groups (Boyd et al, 2010).

It can help the organisation obtain trust and credibility in society, which will assist in the achievement of its objectives and goals (Mahon and Wartick, 2003).

For example, a good reputation can improve customer confidence in a company's products or advertising claims (Fombrun & van Riel, 1997) and can increase customer commitment, customer satisfaction (Eberl, 2010), word-of-mouth and loyalty (Walsh, Mitchell, Jackson, & Beatty, 2009).

It is an important source of goodwill when dealing with crises; it can constitute a mobility barrier (Caves and Porter, 1977) and help the organisation to attract and retain talent in order to ensure the best employees and their loyalty.

In fact, a good corporate reputation can limit personnel fluctuation, and increase production efficiency via lower salaries and a higher employee motivation. Likewise, negotiation, contracting, and monitoring costs may be lower in supplier markets (Bergh, Ketchen, Boyd, 2010).
Corporate reputation is a market-based asset resulting in a firm's improved marketplace performance and, finally, in increased stock returns.
A favourable reputation encourages shareholders to invest in a company; it attracts good staff, retains customers and correlates with superior overall returns (Roberts et Al., 2002).

3.1 Corporate reputation, a perceptual concept?

Many of these benefits have been criticised, because based on flawed measures of reputation or rely on conceptualisations of reputation that are unclear (Chun, 2005).
Wartick (2002) argued that "one cannot talk about measuring something until one knows what that something is" and also that "reputation, be it corporate or otherwise, cannot be argued to be anything but purely perceptual".
Hence, the objects of empirical research are perceptions of the reputation of an entity.
Perceived corporate reputation can be understood as an individual's impression of a firm, and this individual perception of reputation is based on a "collective assessment of the company's ability to provide valued outcomes to a representative group of stakeholders" (Fombrun et al. 2000) meaning that the individual takes into account what he thinks a collective (e.g. 'the public'; 'the stakeholders') think about the company.
The term 'corporate reputation' is then defined as the individual's estimation of an assumed aggregated perception of all stakeholders towards all salient characteristics of a firm (Barnett, Jermier a. Lafferty 2006).

3.2 Corporate reputation determinants

It has been cited in the literature, that corporate reputation is affected by many factors as for example personal reputation (Musteen et al., 2009), the reputation of the leader, management or the owner affects the reputation of an organization. Many studies have highlighted the importance of the leader's reputation in determining the reputation of an organization to the

extent that the leader can account for up to 48% of the organization's reputation (Grupp and Gaines-Ross, 2002). This was clearly the case for many organizations such as Apple, General Electric. Accordingly, Grupp and Gaines-Ross (2002) emphasize the importance of managing the leaders reputation in terms of: credibility, integrity, and high quality communications.
Industry reputation also affects corporate reputation. In most cases this is the result of the work of a few organizations which affect all organizations within the industry. This is beneficial for those organizations that are not competitive enough which gain from a good industry reputation (Mahon 2002).
Finally, the reputation of a country also affects corporate reputation. This includes the effect of country-of-origin on the reputation of corporations (Mahon, 2002). Reputations are self-validating in the sense that beliefs derived from one source are confirmed by other sources. This evaluation could be based on stakeholder's direct experiences with a company and other forms of communication and symbols from a company from other people and objects. Further, it is formed over time by repeated impressions of the corporate image whether positive or negative (Gray and Balmer, 1998;). Other elements that have been cited to affect corporate reputation include (Le Roux, 2003):
1) Organizational ethics
2) Financial performance
3) Shareholder value
4) Corporate branding activities
5) Marketing mix activities
6) Public relations
7) Relationships with stakeholders

Getting back to the problem above introduced, most researchers and practitioners in the field of reputation management will agree that "to be managed, corporate reputations must be measured" (Fombrun 2002), preferably by taking into account the target group of reputation management: the stakeholders of the firm. While awareness for the need of measurement prevails, there is by far no consensus on how to measure: "The biggest hurdle in making the case for building, maintaining and managing reputation is how to measure it effectively" (Larkin 2003).

3.3 Corporate reputation measurement

Reputation is usually operationalized as a judgmental perception leading to either a positive or negative evaluation of the firm's reputation (Dollinger et al., 1997).

As a consequence, an evaluation of corporate reputation has to result in certain values on a metric scale between the binary counterpoints 'good reputation' or 'bad reputation'.

Porter's (1980) analysis of generic strategies raised the first attention about corporate reputation, but Fombrun and van Riel's (1997) work started a new era of reputation studies based on the Corporate Reputation Review and the identification of several key research problems related to the theme. Fombrun (2005) provides the following definition of corporate reputation:

A corporate reputation is a collective representation of a company's past actions and future prospects that describes how key resource providers interpret a company's initiatives and assess its ability to deliver valued outcomes.

From Fombrun's research comes to light that the lack of research was partially due to a problem of definition, as corporate reputation was defined in different ways by different schools of thought (Fombrun et Al., 1997).

The concept of reputation has appeared in a large number of contexts, in both the academic literature and popular use. For example, often for the public, firms offering warranties are often said to be cultivating reputations for high quality, advertising campaigns are designed to create a reputation for trendiness, forecasters are said to have reputations for accuracy, or advisors for giving useful counsel (Mailath et al., 2006).

In literature numerous theories have been used to examine the concept of corporate reputation, theories that often continued to use the following list of constructs as synonym to 'corporate reputation': image, identity, prestige, goodwill, esteem, and standing (Wartick, 2002). Depending on the field of study each of the previous terms has been offered as

- a broader term that encompasses reputation,
- an important component within reputation,
- the equivalent of reputation.

In other words, these terms are intended as bigger than, smaller than, or just the same as corporate reputation. Despite the fact that reputation assumes different names in different context and consistently with Wartick cited study, one common feature should be considered: reputation and its literature synonyms all refer to a perceptual representation of a company's past actions and future prospects which describe the firm's overall appeal to all of its key

constituents when compared with other leading rivals. The key points of this definition are the following:

- corporate reputation has a perceptual nature,
- corporate reputation is the result of the aggregation of the perceptions of all stakeholders
- corporate reputation is comparative.

Considering how wide is the stakeholder concept it is possible to deduce that organisations will be likely to have different reputations with different stakeholder groups. The evaluation criteria stakeholders use to judge an organisation's reputation will differ depending on the particular stakeholder's expectations of the organisation's role. Is important to notice that stakeholders' expectations are dynamic, and thus likely to change over time (Hanson, Stuart, 2001). Additionally, as an organisation's reputation increases, so do stakeholders' expectations (Mahon, 2002)

Corporate reputation is not an "easy variable to accurately measure" (Geller, 2014). Multiple disciplines studied the key aspects of the definition of corporate reputation (Rhee, Valdez, 2009) and various heterogeneous approaches have been used to measure the corporate reputation construct. Both, definitions as well as measuring tools have been lively discussed with regard to their usability and validity (Horn,2014). Basically, every measurement approach is linked to a definition of what actually is measured (Wartick, 2002).

Academic studies on measuring corporate reputation can be generally classified into: (1) single-faceted generic measures of corporate reputation, and (2) multi-faceted specific measures of corporate reputation. In the case of single-faceted generic measures, all stakeholders are asked generic questions regarding their perceptions about the overall reputation of a corporation.

However, researchers realized that using a single-overall measure for corporate reputation did not incorporate the specific measures by which stakeholders form their overall perception of a corporations' reputation. Moreover, using single-item measurement limits the organization's ability to identify the specific elements of a corporation which bring about a positive reputation and which elements result in a negative reputation. Thus, a series of measures for corporate reputation have been proposed from a multi-specific approach.

Geller observes that "although some rankings are verifiable and replicable, they tend to give disproportionate importance to a few stakeholders, resulting in a biased perception as other key stakeholders are excluded from the analysis" (Geller, 2014). In this scenario fall one of the methodologies mostly used to evaluate corporate reputation: Fortune's indicators (AMAC and GMAC).

3.4 Fortune’s indicators

One of the most commonly used standardized quantitative approaches of measuring corporate reputation are the several ranking lists published by Fortune magazine as for instance Fortune’s Most Admired Companies. Fortune’s AMAC index (Hutton, 1986) was the first reputation ranking of US firms on a global level.

Fortune’s American ratings AMAC and its global counterpart, the GMAC, are published by the North American magazine Fortune. Until 1997 the Fortune’s AMAC was the only reputation ranking available on a global level, but it was restricted to US firms. The AMAC indicator rates 1000 U.S. manufacturing and service firms (Fombrun et al. 1999), while the GMAC evaluates 1,000 leading North American companies, complemented with 500 international companies. Both indexes rank the organisations in terms of financial results, best performance and turnover. The indexes have later been further developed into the World’s Most Admired Companies (WMAC) index, which is annually reported by the Fortune magazine.

The evaluation group includes executives, managers and financial analysts of each sector who are familiar with the companies that are being evaluated.

They are asked to evaluate a set of eight criteria on an eleven-point scale ranging from 0 = ‘poor’ to 10 = ‘excellent’ (Fombrun a. Shanley 1990). The criteria (indicators) are Quality of Management; Financial Soundness; Quality of Products and Services; Ability to Attract, Develop, and Keep Talented People; Innovativeness; Responsibility for the Community and the Environment; Long-term Investment Value, Wise Use of Corporate Assets.

The overall ratings are obtained through the aggregation of the evaluations by attributes made by the respondents.

Numerous authors criticize the AMAC index. Sobol, Farelly, and Taper (1992) note the lack of a precise construct definition and a sound theoretical grounding of the eight categories. Owing to the construct’s unidimensional operationalization, Fombrun et al. (2000) maintain that the index cannot capture all facets of corporate reputation, which calls the scale’s content validity into question. A further point of concern is that the AMAC relies on single items to measure constructs, which respondents very likely perceive as heterogeneous (Sarstedt & Wilczynski, 2009). It is generally held that abstract constructs require the use of multi item measures, because ‘‘most constructs, by definition, are too complex to be measured effectively with a single item.’’

Other authors observe that the index is subject to a strong financial halo effect (e.g., Davies, et al. 2004). For example, Fombrun and Shanley (1990), show that the index mainly captures a company’s past financial success rather than its corporate reputation in terms of the

stakeholders' overall evaluation. Specifically, the AMAC index does not take the expectations of other stakeholder groups such as customers, employees, and the general public into account (e.g., Fombrun et al., 1999; Schwaiger et al., 2004). While the AMAC index marks the beginning of reputation research and offers the largest reputation database to date, most researchers agree that it is a rather narrowly focused measure of corporate reputation (e.g., Eberl, 2010).

Our empirical study reveals that all measurement approaches (with the exception of the AMAC index) achieve comparable levels of convergent validity, whereas the RQ scale and Schwaiger's (2004) approach are the preferred measurement approaches in terms of criterion validity. (M. Sarstedt 330 et al. 2013)

3.5 Reputation Institute's indicators

In 1999, Fombrun et al. highlighted some limitations of the indexes used to measure corporate reputation, especially: (i) the lack of content validity and (ii) the restricted perceptions elicited by the surveys, both points due to the fact that the group of respondents is constituted by corporate leaders and financial analysts (Fombrun et al., 1999). Recognising a growing need by both practitioners and academics for a better conceptual and empirical tool for assessing and managing reputation and to overcome the available methodologies' inadequate representation of all stakeholders, the Reputation Institute launched a global project in 1998 to understand and measure the diverse factors associated with corporate reputation (Fombrun et al., 2015). The first measurement instrument that resulted from the exploration was the Reputation Quotient.

The Reputation Quotient is an index based on surveying US population and which aims to find out which companies are liked and respected by individuals, and for what reasons.

Fombrun et al. (2000) developed the RQ, which has frequently been used in prior research studies (e.g., Porritt, 2005). The approach comprises 20 items representing the following reflectively measured corporate reputation dimensions: (1) emotional appeal, (2) products and services, (3) vision and leadership, (4) workplace environment, (5) social and environmental responsibility, and (6) financial performance. Researchers acknowledge that the RQ is conceptually superior to the AMAC due to the inclusion of the emotional appeal factor, which captures how stakeholders feel about a firm (e.g., Davies et al., 2004).

RQ successively has been exploited as a reference in order to create the four-attribute RepTrak® Pulse index which was developed in 2005 and used to create a separate measure of a person's emotional attachment to a company. (Fombrun et al., 2015)

This evolved into The full RepTrak® System, which was created in 2006 as a replacement for its predecessor to provide executives with an analytical instrument that could be used, not only to track and assess stakeholder perceptions of companies, but that would also enable a more comprehensive understanding of the underlying informational drivers of reputation that elicit emotional attachment" (Fombrun et al., 2015).

The system is based on measuring a company's overall reputation using the RepTrak® Pulse and decomposing that emotional attachment into an underlying set of dimensions and attributes, and predicting their effects on stakeholder support.

RepTrak contains new dimensions and new attributes from the Reputation Quotient. The evaluation is held in the form of a poll in different countries, with respondents looking at one, two or three companies that they are familiar with, continuously throughout the year, grading it on a scale from 1 to 7.

Unfortunately, since RepTrak is a patent, it is not disclosed, and thus clear, how the construct measure is developed and how the reputation rating-scores are calculated.

Within RepTrak, 23 reputation indicators are combined to form seven core dimensions (products and services; innovation; workplace; governance; citizenship; leadership; and performance) which represent the building-blocks of the so called 'RepTrak Reputation Score Card'. (Figure 4)

Hypothetical model of corporate reputation

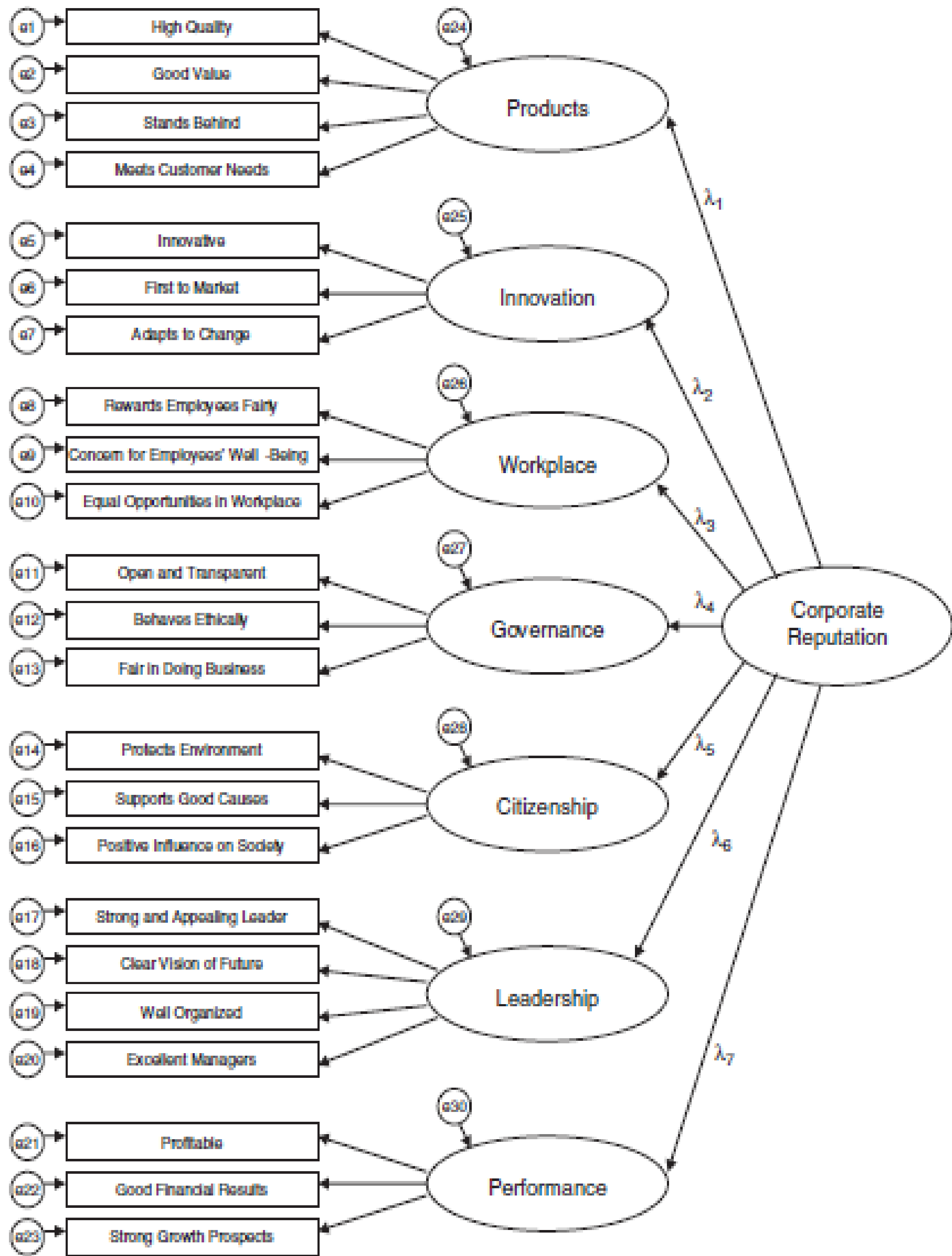

Figure 4

Source: Fombrum et al, 2015. "Stakeholder Tracking and Analysis: The RepTrak® System for Measuring Corporate Reputation"

For benchmarking purposes, the RI offers a so called ‘RepTrak Pulse Score’.
RepTrak is a standardized measurement approach used mostly for commercial purposes.

Among the various measures for corporate reputation, from the moment it was created the Reputation Quotient became the most popular measure, as it overcomes the aforementioned critical aspects of the Fortune's indicators (Fombrun et al., 2015). It was one of the first accredited measures for reputation and many subsequent measures for reputation are based on the Reputation Quotient. Wartick (2002) claims that the Reputation Quotient is a good measure for reputation as it is broad and generic enough that makes it applicable to most stakeholder groups and many cultural contexts. Groenland (2002) highlighted that the Reputation Quotient satisfies the psychometric properties, and the practical experience in many different commercial settings. This increases the confidence in the usefulness of the Reputation Quotient. The results of Groenland’s (2002) qualitative study to validate the dimensions of the Reputation Quotient highlighted that all six dimensions of the Reputation Quotient were supported as relevant for measuring corporate reputation.

3.6 CR RepTrak

Reputation institute (https://www.reputationinstitute.com/), once a year, also publish the results of The Global Corporate Responsibility RepTrak Study.
This study conducted annually by Reputation Institute, is based on close to 230,000 individual ratings across the 15 largest economies. To be included in the study, which is conducted every year from January to February, respondents had to be familiar (>20 percent overall familiarity and >20 percent familiarity in 5+ markets) with the companies they were asked to evaluate and to have an informed opinion regarding the state of their reputation, as well as the corporate responsibility metrics.
CR RepTrak score in fact is specifically derived from 3 out of the 7 dimensions commonly considered from RI, (Citizenship, Governance and Workplace) and reflects the performance of companies only on the basis of the social related attributes.
The importance of these dimensions, as showed in figure 5 below, is really close to 40%, meaning that the weight of the CSR reputation in the calculation of the general Reptrak score is considerable and relevant.

CR Reptrak Dimension – 2018

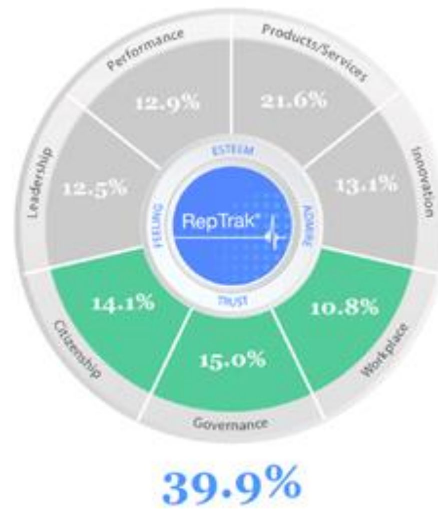

Figure 5
Source: https://www.reputationinstitute.com/

According to RI the importance over time of these dimension is overall stable, with the exception of the recent decline of Workplace. (Figure 6)

CR Dimension Importance Over Time

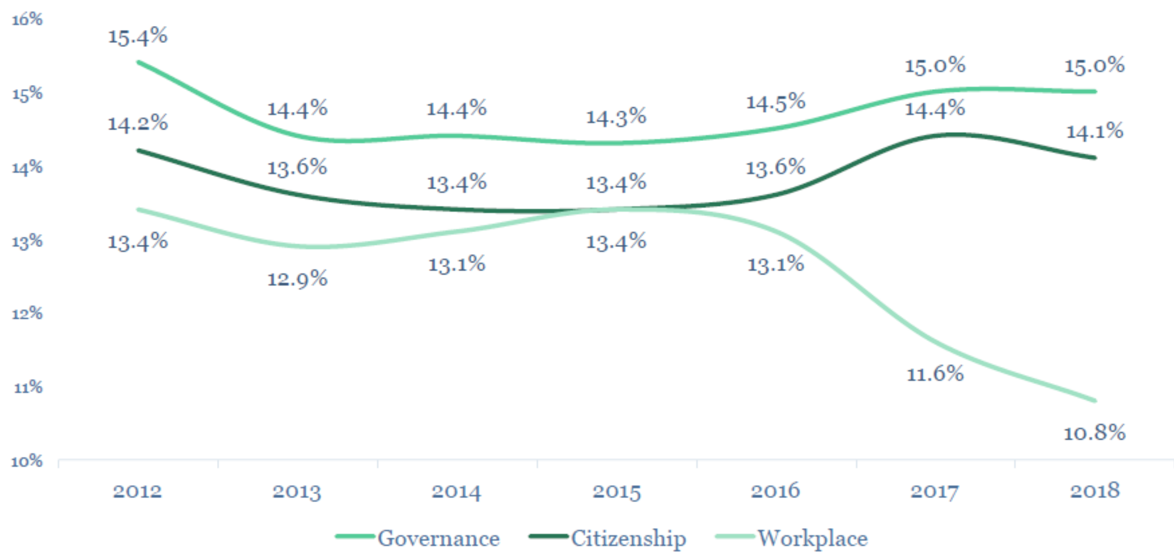

Figure 5
Source: https://www.reputationinstitute.com/

They are the three most important drivers among companies with a poor reputation; and are among the key drivers for companies with weak to strong reputations.

It is only when a company reaches an excellent reputation and delivers on CR that other dimensions such as products, performance and leadership emerge as key focus areas.

4. HYPOTESES DEVELOPMENT

As previously anticipated the objective of our research is to investigate if corporate reputation enhancement could be one of the determinants that bring companies to adopt external assurance on CSR reports.
We'll examine, through an empirical model, if CSR report assurance may increase credibility towards stakeholder and hence bring positive effects on corporate responsible reputation.

4.3 Hypotesis

In light of the contrasting results of the two cited papers from Birkey et al. (2016) and Alan and Vidovic (2015), which we find the most renowned in the literature regarding CSR assurance and Reputation, since cited respectively in 36 and 29 published studies on the subject (https://scholar.google.com/), our work aims to re-analyse the possible relationship between these two.
Our first hypothesis is thus similar, in the form, to those of the previous works.
Hypothesis 1 will be researched in 'Model 1' and will be referred to as such.

H1. Is Company Responsible Reputation score positively associated with the presence of assurance statement in the last CSR report?

Based on the cited literature we expect that the relationship, if any, should be positive.
The operationalisation of the independent and dependent variables will be discussed in the next section. The control variables used will be analysed in the next chapter as well.

Due to its voluntary nature, the quality of CSR reports is not guaranteed. External assurance should improve the credibility of these sustainability reports. However, the quality of external assurance on sustainability reports varies considerably.
Assurance statements should answer two questions, namely: "*Does this report give an account of the company and its performance that readers can rely on?*" and "*Is the report complete, accurate, honest and balanced in its portrayal of the organisation?*" (Adams & Evans, 2004, p. 101). Assurance quality thus refers to the reassurance of the completeness, accuracy, honesty and balance of the information provided in the reports, where organizational stakeholders can rely on.

Therefore, assurance statements on sustainability reports that fully answer these questions can be regarded as of high quality.
As described before the quality of external assurance on sustainability reports is generally identified as poor, and the practice of external assurance, lacking a single robust framework due to its voluntary nature, has been criticized often in current literature. One of the key problems is management's control over the assurance process, which poses restrictions on assurance providers, makes independent enquiry difficult, and makes assurance statements "virtually worthless" (Gray, 2000, p. 251). For instance, management can control the scope of the assurance engagement, which makes it hard for readers of assurance statements to know if key aspects of the sustainability report are assured. Another issue is assurance providers' lack of identification of the reporting criteria that reporting companies use to produce sustainability reports, which makes it impossible to indicate if the report is in compliance with these criteria, and leaves assurance statements' conclusions open to readers' individual interpretation and possibly misunderstanding (Deegan, Cooper & Shelly, 2006). These problems undermine accountability and transparency to stakeholders. Moreover, great variation in quality of assurance statements on sustainability reports has been found (e.g. O'Dwyer & Owen, 2005). The potential for external assurance to be used as a strategic device instead of being motivated by accountability and transparency to stakeholders, calls to a need to focus on the quality of assurance statements on sustainability reports.
The conflicting perspectives may be due to the earlier mentioned problems with external assurance on sustainability reports, which can lead to low quality assurance.
There's the possibility that the quality of the assurance can be determining in ensuring greater credibility and transparency to stakeholders and therefore positively influencing corporate reputation.
Our research therefore wants to go further and focus also on whether the details contained in assurance statements (assurance quality) play a role in the firm sustainability reputation.
Accordingly, our Second hypothesis will be the following:

H2. Is Responsible Reputation score positively associated with the quality of the assurance statement?

5. RESEARCH METHOD

5.1 Sample

To test the hypotheses formulated, an initial sample of 100 global companies that are included in the Global CR RepTrak® 100 in 2018 was used.

We decided to use this sample because it includes a good variety of global companies, belonging to different markets, industries and countries, all provided with a measure of their CSR reputation (Global CR RepTrak® 100, 2018).

Choosing companies that have the highest CSR reputation was likely to result in a sample of companies that report on sustainability and possibly buy external assurance on their sustainability reports.

In fact, to be included in our analysis, companies, above being listed on the Reputation institute ranking in year t (2018), had to have issued a CSR report in year t – 1.

To determine if a company publishes a sustainability report, the Corporate Register directory was consulted. Corporate Register is the world's most comprehensive online database of non-financial reporting, with over 109,000 reports profiled from over 18,600 organisations. However, not all existing reports are included and therefore a sole reliance on their database is not sufficient since some companies' reports might be omitted. Therefore, when the Corporate Register database did not provide search results for any of the 100 companies, the company website was consulted in order to see if the company published sustainability reports

Additionally, to be part of the sample companies needed to have ESG score available in Thomson Reuters and have data for financial control variables available on Thomson Reuters Eikon.

After omitting firms for which data was missing the eventual sample consists of 85 firms.

For hypothesis two a subsample is used as it only includes firms that had external assurance, which led to a 49 observations subsample.

The presence of external assurance on sustainability reports was checked for each company.

All assurance statements were retrieved from the CSR reports or from the company websites.

Table 2 shows the sample selection:

Sample selection	
	Observations
Global CR reptrak (Initial sample of firm observation)	100
Less:	
Not publishing CSR report in 2017 (standalone or integrated)	9
Control Variable not available (on Eikon)	6
Total Observations Available (H1)	**85**
Less:	
Not having Indipendent Assurance statement	36
Total Observations Available (H2)	**49**

Table 2

The following GICS sectors were represented: Communication Services, Consumer Staples, Health Care, Information Technology, Consumer Discretionary, Industrials, Financials.
Also, it is interesting to note that in the final sample, 16 countries are represented, with Japan and United States as the most represented in the sample; together they amount to above the 50% of the firms.
As the assurance market is an expanding market, taking the most recent year will provide interesting results, especially in comparison to earlier studies.
The reason to take one year only stems from additional difficulties with assessing multiple years. By analysing multiple years, one must take into account whether or not the firm had assurance in all these years, whether the level remained the same, whether the provider remained the same and in which year the firm had taken assurance for the first time. This would make data gathering harder and interpretation of the results more difficult.

5.2 Dependent variable

To measure CSR reputation**,** we use the CR RepTrak issued by Reputation institute and above described.
Since we want to assess the possible correlation between assurance and reputation and we considered in our analysis CSR report issued during the 2017, we take as reference the 2018 CR RepTrak score, which resulted from surveys collected by the Reputation Institute during January and February 2018 and hence, when all CSR report and related external assurance were already issued and available to all the stakeholders.

As previously explained 2018 CR RepTrak score is constructed on an annual survey based on more than 200,000 individual ratings across the 15 largest economies.

CR RepTrak score in fact is specifically derived from 3 out of the 7 dimensions commonly considered from RI, (Citizenship, Governance and Workplace) and reflects the performance of companies only on the basis of the social related attributes.

Reputation scores (*CorpRep)* for the sample companies ranged from 71,9 to 63,1 with a mean (median) of 65,50 (65,4). The top three rated companies were Google (Alphabet Inc), Walt Disney, and the Lego Group.

5.3 Independent variables

5.3.1 Assurance

We obtained data on whether firms obtained external assurance of their sustainability reports from Corporate Register, an online directory of sustainability reports, or, if not available, from the company website. We define our *assurance (CRASS)* variable as equal to 1 if the company's sustainability report is assured by a third party and 0 if it is not. Forty-nine companies in our sample had their sustainability reports assured.

5.3.2 Assurance quality

Following prior research (e.g. Fonseca, 2010; O'Dwyer & Owen, 2005; Perego & Kolk, 2012), the quality of assurance statements was determined by means of content analysis.

We therefore conducted a content analysis on all 49 external assurance report available in our sample (companies listed on the Reputation institute ranking in year t (2018) that issued a CSR report in year t – 1).

The codebook by Perego and Kolk (2012) was used, which is the most recent instrument for measuring the quality of assurance statements on sustainability reports, and can be found in appendix A. It includes minimal requirements for high quality assurance statements as prescribed by the GRI, IFAC and AccountAbility. Based on the evaluation framework by O'Dwyer and Owen (2005), who introduced the minimum requirements of a high quality assurance statement, Perego and Kolk made a few improvements to the codebook in order to avoid bias. Finally, the codebook resulted in 19 aspects or ranking criteria, the possible range of scores obtainable from the content analysis goes from zero (lowest quality level) to 27 (highest quality level). For most of the 19 items in the codebook, the coding procedure is the

result of assessing the various items on the basis of existence/mentioning/reference of a specific item in the sustainability assurance statement (Perego & Kolk, 2012).

The empirical examination and the content analysis of the assurance statement is the most common method to understand and define the quality of sustainability assurance in the current CSR assurance literature (Gürtürk & Hahn, 2016; Perego & Kolk, 2012), this approach is consistent with the assurance quality index suggested by O'Dwyer and Owen (2005) and Zorio et al. (2013).

Hence, based on the content analysis performed using the rules and the criteria cited above and listed in appendix A, we create an index referred as "*ASSQ*".

5.4 Control variables

This research investigates the association between the presence (or the quality) of an assurance statement in sustainability reports and the corporate reputation of the firm. However, a lot of factors could influence this relation and excluding them in this research could imply that *good reputation* is wrongfully attributed to the presence of assurance on sustainability reporting, thereby harming the internal validity of this research. Therefore, several control variables are added to rule out their possible impact on the relation between the independent and dependent variable. The below stated control variables are often included in similar researches using OLS-regressions.

We hence control for several factors that might be expected to influence environmental reputation, factors that we selected after a careful review of the literature (see for comparison, Dhaliwal et al., 2012; Cheng et al., 2014).

The first control variable we'll analyse centres on assessments of the sample companies' actual ESG performance.

We retrieve sustainability performance data from the Eikon database.

Thomson Reuters ESG Scores are designed to transparently and objectively measure a company's relative ESG performance, commitment and effectiveness across 10 main themes (emissions, environmental product innovation, human rights, shareholders, etc.) based on company-reported data.

In line with Birkey et al. (2016) we would expect companies with worse ESG performance to be ranked lower in terms of CSR reputation. Consequently, we predict a positive association between *ESGScore* and CSR reputation

We then considered a few financial variables that could condition the relationship analysed. Our main financial control variables included *Size*, following Simnett *et al*. (2009), who find that large companies are significantly more likely to have their sustainability reports assured compared to small companies, consistently, several studies (e.g., Brown & Perry, 1994; Brown et al., 2010;Craig & Brennan, 2012; Guidry & Patten, 2010) note that, presumably owing to visibility, survey assessments of corporate reputation are positively associated with firm size. We used as its proxy the 2017 revenues of each company, obtained from Eikon to account for firm size.

The relation could as well be affected by the leverage ratios of companies as well.

In fact, companies with less debt in the capital structure have more resources to invest in non-profit making activities (Matsumura et al., 2014).

The leverage ratio *LEV* is defined as the 2017 ratio between total debt and total equity and is included in the OLS-regression as a control variable.

We also control for firms' financial performance in the form of 2017 return on assets (*ROA*) as our fourth control variable. Guidry and Patten (2010) document that the environmental reputation score in 2009 was positively associated with financial performance, a finding consistent with investigations of other measures of CSR reputation (see, e.g., Brown & Perry, 1994; Brown et al., 2010). In addition, Waddock and Graves (1997) argue that better financial performance potentially results in the availability of slack resources providing an opportunity for companies to invest in CSR activities, which in turn could be expected to influence environmental reputation.

As explained before, also industry affiliation can be regarded as determinant with a view to adopt assurance. However, given the small number of industries represented in our sample, and considering the low number of sample companies belonging to the so-called "sensitive" sectors (Mining, Utilities, and Finance) we have decided not to include this variable among the control ones.

5.4.1 Descriptive statistics

Variable	N	Min.	Max.	Mean	S.D.
CR REPTRAK REPUTATION SCORE (*CorpRep*)	85	63,10	71,90	65,53	1,59
ESG Score *(ESGScore)*	85	44,73	96,16	76,28	9,84
Total Revenue (FY2017, Milion USD) *(Size)*	85	1.733	247.775	53.344	50.760
Total Debt to Total Equity, Percent (FY2017) *(LEV)*	85	0,00%	1190,14%	134,30%	176,17%
ROA Total Assets, Percent (FY2017) (*ROA*)	85	-4,58%	38,15%	7,19%	5,98%
Assurance Statement Score (*ASSQ)*	49	13	26	18,43	3,21
Sample frequencies:					
Assurance	49 (57,65%)				

Table 3

CSR assurance report 2017	Freq.	Percent
0 = No	36.00	42.35
1 = Yes	49.00	57.65
Total	85.00	100.00

Table 4

Table 3 and 4 show descriptive statistics for the sample companies.
From the 85 companies of the sample 49 of those companies had their sustainability reports assured in 2017, which is 57,65% of the reporting companies.
As indicated sample company CSR reputation scores range from 63,1 to 71,9 with a mean of 65,53. On average, our sample companies are large (Mean sales: 53.344 Milion $) and profitable (aver-age ROA = 7,19%) with only 5 companies (6%) unprofitable.
Finally, the mean Eikon ESG score for our sample firms was 76,28 based on a range from 44,73 to 96,16.

SPEARMAN CORRELATION MATRIX						
	CorpRep	*CRASS*	*ROA*	*LEV*	*Size*	*ESGScore*
CorpRep	1,0000					
CRASS	-0,1563	1,0000				
ROA	0,1286	0,0557	1,0000			
LEV	-0,1208	0,2096	0,0466	1,0000		
Size	-0,2040	0,0342	0,0761	0,2039	1,0000	
ESGScore	-0,0239	0,1586	0,0030	-0,0308	0,1058	1,0000
The table displays the Spearman correlation analysis. The highest correlation possible is 1,0000, the lowest -1,0000.						

Table 5

Table 5 contains the Spearman correlation matrix, which is a measure that describes the dependence of two variables. The Spearman correlation coefficient is a number from 1 to -1 which indicates how well two variables correlate. The closer to 1 or -1, the more perfect the variables correlate, while a correlation coefficient of 0 means no correlation at all.
A Spearman correlation matrix is performed, as a first indication of association between the variables in Hypothesis 1 and 2 but no particular correlation between the variables is noted since all the values are much closer to 0 than to 1 or -1.

5.5 Models

In order to analyse the collected data and to test our hypotheses we used ordinary least squares (OLS) regression.
An OLS-regression is used to draw a conclusion on the significance of an association between two variables, it creates a linear regression line based on a number of observations. In doing this, it tries to estimate and minimize the residuals between the observations and the regression line. The significance of an association between two variables depends on the distance between *n* observations and the regression line (the absolute value of the residuals), where a bigger distance means a larger difference between the observation and the expected value of that observation, indicating whether observations can be predicted.
Hypothesis 1 is tested using an OLS-regression analysis with *Corporate reputation* as dependent variable and a dummy variable *CRAss* as independent variable.
The model, with expected relations in parentheses after each independent variable, is stated as:

Mod.1: $CorpRep = \alpha 0 + \beta 1 \mathrm{CRAss}_{(+)} + \beta 2 \mathrm{ESGCcore}_{(+)} + \beta 3 SIZE_{(+)} + \beta 4 \mathrm{LEV}_{(-)} + \beta 5 ROA_{(+)} + \varepsilon$

Where:
- *CorpRep* is a measure of Corporate reputation, proxied by the 2018 CR RepTrak score published on corporate reputation website, which resulted from surveys collected by the Reputation Institute during January and February 2018.
- *CRAss* shows if the company's sustainability report in 2017 is assured by a third party (= 1) or if it is not (= 0).
- *ESGCcore* is equal to 2017 Thomson Reuters ESG Scores.
- *SIZE* is the company size, measured by the natural logarithm of the total revenues (2017).

- *LEV* is the leverage, which is measured by the long-term debt on total assets (2017).
- *ROA* is a measure of profitability, assessed by the return on assets, equal to net income divided by total assets (2017).

This first model hence, measures the effect of having an assurance statement on the CSR corporate reputation and is tested including the whole sample (85 observations available).
The second model instead aims to measure the effect that different level of assurance quality has on the CSR corporate reputation. This model is run on a subsample, as it only includes firms that have externally assured their CSR report. In this way, results of this model will show the isolated effect of the assurance quality level on Reputation.
The following ordinary least squares (OLS) regression equation was estimated:

Mod.2: $CorpRep = \alpha 0 + \beta 1 \text{ASSQ}_{(+)} + \beta 2 \text{ESGCcore}_{(+)} + \beta 3 SIZE_{(+)} + \beta 4 \text{LEV}_{(-)} + \beta 5 ROA_{(+)} + \varepsilon$
Where:
- ASSQ is the quality of assurance on sustainability reports as measured by content analysis based on the framework illustrated in appendix A.

5.6 Results

5.6.1 Regression results

REGRESSION RESULTS MODEL 1			
Variable	**Predicted relation**	**Coefficient Estimate**	**t-Statistic**
_cons	None	66,32***	93,09
CRAss	(+)	-0,479345	-1,34
ESGScore	(+)	0,001251	0,17
Size	(+)	-0,013032	-1,82
LEV	(-)	-0,003613	-0,49
ROA	(+)	0,010139	1,44
N	85		
*Denotes significance at p < .10 **Denotes significance at p < .05 ***Denotes significance at p < .01			

Table 6

REGRESSION RESULTS MODEL 2			
Variable	**Predicted relation**	**Coefficient Estimate**	**t-Statistic**
_cons	None	65,76***	39,93
ASSQ	(+)	-0,022584	-0,33
ESGScore	(+)	0,003615	0,24
Size	(+)	-0,025075	-1,60
LEV	(-)	0,002029	0,13
ROA	(+)	0,018490	1,18
N	49		
*Denotes significance at p < .10 **Denotes significance at p < .05 ***Denotes significance at p < .01			

Table 7

Tables 6 and 7 shows the results of the regression analyses, distinguishing between regression analyses with assurance adoption (model 1) and assurance quality (model 2) as independent variables.

Hypothesis 1 predicted that companies that adopt CSR assurance are more likely to have bigger Company Responsible Reputation score.

The results in the regression analysis performed do not support this statement and in reverse, in contrast to the expected relationship a negative not significant association between CSR assurance presence and Reputation is highlighted for this sample. This means that the first hypothesis has to be rejected.

Regarding the control variables, three of them showed the expected positive (ESGscore, ROA) or negative (LEV) relations while Size was not in accordance with our forecast.

Anyhow, none of these relations is statistically significant and we should say that, according to these results, none of the control variables really influence Company Responsible Reputation score.

With regard to hypothesis 2 we can draw the same deductions. The quality level of the assurance is not positively correlated to reputation. Here as well thus there is no significance in the relationship, leading to the conclusion that neither assurance adoption nor the its quality affect Corporate reputation.

For the above reasons also hypothesis two is not supported and therefore rejected.

The same applies to the controls which are again not significantly correlated to our dependent variable.

5.7 Discussion

The following observation may be drawn according to our results since both of our hypothesis resulted as not supported by the statistical model and hence rejected.

Firstly, since no significant relationship is detected, we find that assurance is not linked to company responsible reputation.

This observation is in line not only with Alon &Vidovic but also with Kuruppu & Milne, (2010) who examined the effects of external assurance on potential employees' decisions finding that assurance did not affect perceptions of organizational legitimacy, nor reputation.

In order not to incur in the same boundaries highlighted by Alon et al, we did not limit to examine the general signal of whether the firm obtained third-party assurance but we also conducted a content analysis for each of the assurance statement of our sample to be able to assess their quality.

The quality assessment is the result of assessing the various items on the basis of existence/mentioning/reference of a specific item in the sustainability assurance statement.

Using the codebook (Perego & Kolk, 2012) we were able to assess the amount and the extent of details contained in the assurance statements, translating them in a "quality" score.

This score was useful to verify any relationship between the completeness of the assurance statements and firm responsible reputation and test our second hypothesis.

Nevertheless, also in this case the hypothesis is rejected and the result confirmed that the assurance statement quality does not affect responsible reputation.

6. CONCLUSION

Criticisms have been raised around the effectiveness of assurance, but on the other side, theory and early evidence suggest that assurance may be beneficial to firms. As Birkey et al. report, nowadays there is no agreed detailed consensus about the added value that CSR assurance may bring, even if, as before described by many researchers, the incidence of assurance in CSR reporting is progressively growing.

One relationship that literature tried to detect was between assurance and market valuation. Ballou, Heitger, and Landes (2006), Dhaliwal et al. (2011), for example state that assurance is mainly a vehicle for reducing information asymmetries between managers and investors, however, one of the main study, by Cho et al. (2014), fail to find any significant relation between the assurance and market valuation.

Birkey et al. argue that “rather than being used as a signaling device to corporate investors, standalone CSR reports instead are more likely used to enhance the environmental image of the issuing companies”. Cho himself, in a later research concludes that standalone CSR reports may instead be used to enhance the social and environmental image of the firms (see, e.g., Cho, Guidry, Hageman, & Patten, 2012). Accordingly, Birkey et al. test whether external CSR report assurance is related to higher assessments of companies’ environmental standing and they find a positive statistically significant relationship.

A similar study was conducted by Alon and Vidovic (2015) which investigated sustainability reporting and its assurance influence on companies’ reputation from a signaling theory perspective. Contrarily to Birkey et al they find that sustainability assurance does not affect reputation directly and consequently conclude that “assurance seems to function as a managerial tool to improve internal processes and to signal their commitment to sustainability issues in-house, rather than a signal to external stakeholders.”

Since there is no wide consensus in the literature regarding these relationships, our intent with this work is to empirically test the possible correlation ourselves.

This thesis aims to investigate if CSR assurance and/or its quality affect company responsible reputation in order to understand whether assurance and related quality may lead to reputational benefits for companies. Whether reputation is really affected by assurance should be an interesting food for thought for companies, managers and assurance providers. Having a specific purpose, the assurance would be justified and could be developed and designed to maximize its result, addressing itself more and more specifically to support the company's reputation and credibility. Managers and companies would be able to assess more accurately the benefits of assurance and would therefore be able to make more informed and reasoned

choices in terms of external assurance adoption. The assurance providers themselves, if the above was confirmed, could focus their marketing and advertising campaigns in order to tempt companies to invest in assurance to gain intangible credit among the various stakeholders.

According to the results above described we can therefore consider that our research is consistent and confirm the conclusion of Alon & Vidovic (2015).

Responsible reputation it is not affected by CSR assurance, nor by the quality of the assurance.

The results of our study should be interpreted in light of the following limitations.

The survey data were obtained from published reports, and the data collection process could not be verified, additionally, measuring quality of external assurance on sustainability reports is not an easy task.

We focused on large multinational companies domiciled in developed countries, thus the observed relationships may not hold for other types of firms. Also, we do not find that firm size affects the reputation scores. One potential explanation is the lack of variation in the size of the firms in the sample, as all firms are large and well established.

To conclude, we would like to point out that, since our proxy for corporate responsible reputation is derived by opinions and answers of many different stakeholders group, we can consider that one of the reason behind this result is that there is insufficient familiarity with third-party assurance on the part of the external users, which are the majority of the stakeholders considered. Also, as signaling theory does note that for the signal to be effective, the receiver needs to be aware of what to look for (Connelly et al., 2011) it is possible that they may not fully understand the process and implications of third-party assurance.

In this context the lack of global standards and different types of assurance providers, which leads to inconsistent approaches to assurance does not help users to confer it utility and to appreciate its benefits, resulting in poor use and confidence of this instrument. As highlighted by Perego and Kolk (2012), in fact, these structural deficiencies potentially “undermine the credibility of such novel verification mechanisms”. Lack of consistent standards and provider differences make it difficult for non-specialists to interpret what assurance statements mean in terms of sustainability performance (e.g., Manetti and Becatti, 2009; Perego and Kolk, 2012).

This reasoning could also explain the different findings described by Birkey et Al (2016).

The reputation scores used in their research (Newsweek) are based on surveys and opinions from academics, professionals and other environmental experts, a narrower sample which of course is more specialized and more familiar with CSR reporting and assurance. Reputation, as discussed, is defined as the individual’s estimation of an assumed aggregated perception of all stakeholders towards all salient characteristics of a firm.

Finally we may conclude that, if companies and assurance providers are willing to use CSR assurance as a tool useful to increase credibility and reputation they should focus then on external stakeholders, making them more acquainted with the CSR audits and rethinking the assurance statement in a more user friendly perspective.

APPENDIX A

Ranking criteria	Definition	Scale (tot 27 point)	
1. Title	Title of the assurance statement	0 1	No reference Reference
2. Addresse	Party to whom the assurance statement is formally addressed (either in title separate addressee line or within text)	0 1 2	No reference Addressee is internal or “the readers” Stakeholder mentioned in the addressee
3. Name of Assuror	Name of the firm that conducts the assurance engagement	0 1	No reference Reference
4. Location of assuror	Location of the office of the assurance provider	0 1	No reference Reference
5. Report date	Reference to the date at which the assurance exercise was finished	0 1	No reference Reference
6. Responsibilities of reporter	Explicit statement that reporter is responsible for preparation of report (keywords: responsible, responsibility)	0 1	No reference Reference
7. Responsibilities of assuror	Explicit statement that the reporter is responsible to express an (independent) opinion on the subject matter (the sustainability/environmental/social report)	0 1	No reference Reference
8. Independence of assuror from reporting organization	Statement expressing the independence of the two parties involved (a 1 is assigned as soon as the word(s) independent or independence appear anywhere in the assurance statement or its title. Thus, remarks such as “this is an independent opinion…” would already qualify for a 1)	0 1	No reference Reference or mere statement expressing that independence can be looked up on the internet
9. Impartiality of assuror towards stakeholders	Assuror’s declaration of impartiality with respect to stakeholder interests	0 1	No reference Reference (a remark that such a declaration can be made available on request or reference to an internet site already qualifies for a 1)
10. Scope of the assurance engagement	Assurance statement coverage (a 1 should be assigned if anywhere in the assurance statement the coverage of the assurance exercise is stated)	0 1	No reference Reference
11. Objective of the assurance engagement	Objective to be achieved through the engagement (indicating the level of assurance intended)	0 1 2	No reference Review, limited assurance, independent opinion, independent assurance, external verification, external assurance or validation Reasonable Assurance or reasonable and limited assurance (e.g. two different levels of assurance for different parts of the report)
12. Competencies of assuror	Description of the professional skills that enable the engagement team to conduct the assurance exercise	0 1 2	No reference Statement claiming competency (but no explanatory note) or mere reference to an internet site Explanatory statement of competencies based on prior experience/engagements

(continued)

Ranking criteria	Definition	Scale (tot 27 point)	
13. Criteria used to asses evidence and reach conclusion	A statement that makes reference to particular criteria against which the sustainability report has been prepared (e.g. GRI and often internally developed standards)	0 1 2	No reference Reference to publicly unavailable criteria Reference to publicly available criteria (e.g. internally developed criteria that are published anywhere in the report or GRI)
14. Assurance standard used	Standards used which govern the work of the assurance provider (e.g. AA1000AS or ISAE3000)	0 1 2	No reference Reference to publicly unavailable criteria Reference to publicly available criteria
15. Summary of work performed	Statement explaining the actions taken to arrive at a conclusion	0 1	No reference Reference
16. Materiality	Degree of information provision on materiality level. If the conclusion states that the report is in conformance with the AA1000 principles (Materiality, Completeness and Responsiveness) this qualifies for a reference and thus a 1 is assigned	0 1 2 3	No reference Reference limited to a broad statement (e.g. “covers all material aspects” or “…in all material respects…”) but also negative statements claiming that assuror has not undertaken any work to confirm that all relevant/material issues are included Reference and explanation of materiality setting or reference limited to a broad statement and stakeholder perspective introduced (e.g. “issues material to stakeholders have been considered”) Reference, explanation of materiality setting and stakeholder perspective introduced
17. Completeness	Statement expressing that all material aspects are covered by the report. If the conclusion states that the report is in conformance with the AA1000 principles (Materiality, Completeness and Responsiveness) this qualifies for a reference and thus a 1 is assigned	0 1	No reference Reference
18. Responsiveness to stakeholders	Statement referring to the organization’s procedures (or lack of them) for identifying stakeholder interests and concerns. If the conclusion states that the report is in conformance with the AA1000 principles (Materiality, Completeness and Responsiveness) this qualifies for a reference and thus a 1 is assigned	0 1	No reference Reference
19. General Conclusion/Opinion	Statement expressing the result of the assurance exercise. If there is no general conclusion but the conclusion solely refers to the 3 principles of AA1000 (Materiality, Completeness and Responsiveness) a 0 is assigned	0 1 2	No reference Mere statement expressing the opinion of the assuror (e.g. “XY’s report is a fair presentation of XY’s CSR performance”). A 1 should be assigned only if the conclusion consists only of one sentence Explanatory statement (more than one sentence, but recommendations for improvement are not considered part of the conclusion)

Base: 4.900 N100 companies and 250 G250 companies
Source: KPMG Survey of Corporate Responsibility Reporting 2017

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