

WORKSHOP INTERNACIONAL

Nuevos modelos empresariales en el cooperativismo agroalimentario

Assurance on sustainability reports in the agri-food industry

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Abstract

Sustainability assurance has increased in the last decade because of the need to gain credibility. The aim of this paper is to develop an exploratory analysis about sustainability assurance in the agri-food industry. Given the lack of previous studies about assurance on sustainability reports focusing in a specific sector, this is an interesting research gap. We aim to identify whether the assurance adoption and the choice of the assessor are associated with the country status where the company is located and to the company size. Findings indicate that the country status and the company size are not significantly associated with the assurance adoption. On the other hand, we did not find an association between the country status and the choice of the assessor. However, the company size is associated with this choice.

KEY WORDS: Assurance, sustainability, CSR, reporting, agri-food industry.

1. Introduction

Nowadays, enterprises operate in a changing business context as they face the pressure to respond to some of the most complex and far-reaching issues of our time, including environmental challenges, social issues and persistent concerns about governance and responsibility (Simnett, 2012). The increase in accountability pressures on companies and the growing demand for transparency about corporate behaviour (Kolk, 2008) by stakeholders has led companies to introduce sustainability into their business strategy. Therefore, communication is a key component of sustainability (Illia et al., 2010) and it is a way to legitimise the company among its stakeholders (Deegan and Rankin, 1999).

Stakeholder theory understands companies as a part of a wider social system in which their commercial activities affect and they are affected by other stakeholder groups within society (Deegan, 2002; Freeman, 1983). Additionally, Freeman (1983) categorized the development of the stakeholder concept into a corporate planning and business policy model and a sustainability model of stakeholder management.

In this sense, stakeholder's acknowledgment requires not only to be able to meet their needs, but also an information policy that allows visualizing the assumption of such commitments (Archel, 2003). Thus, numerous companies issue CSR or sustainability reports, which has quickly become the medium through which companies around the world communicate their environmental, social and economic performance to stakeholders.

In the past, there were no generally accepted standards to govern this kind of reports, making them difficult to compare and less credible (Simnett, 2012). Today, some organisations have published standards for sustainability reporting which ensure the homogeneity of sustainability reports. They have boosted the employment of a common international framework in the development and disclosure of non-financial information. The two most widely used reporting standards currently in practice are the Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI) and the AA1000 AccountAbility Principles Standard (AA1000APS). Both highlight the concepts of accountability and transparency, and are based on the stakeholder inclusiveness' principle. According to GRI (2011), sustainability reporting is the practice of measuring, disclosing, and being accountable to internal and external stakeholders for organizational performance towards the goal of sustainable development. Accountability obliges an organisation to involve stakeholders in identifying,

understanding and responding to sustainability issues, and to report, explain and be answerable to stakeholders for decisions, actions and performance (AccountAbility, 2008).

As sustainability reporting matures, the need for credible reported information in this area is critical. Voluntary assurance of sustainability reports enhances the credibility of the information provided (Adams and Evans, 2004). Independent experts providing assurance on the content and structure of sustainability reports is a common method used to improve the relevance, reliability and comparability of these reports and, therefore, to enhance their overall credibility (Simnett, 2012). The voluntary adoption of assurance can be explained by the companies' willingness to enhance this credibility facing stakeholders (Perego and Kolk, 2012).

The need for credibility of such reporting has accelerated the development of relevant assurance frameworks (FEE, 2004). The two standards that are predominantly applied by assurance providers in performing assurance engagements on sustainability reporting are the AA1000 Assurance Standard (AA1000AS) of AccountAbility and the ISAE 3000 Assurance Engagements of the International Auditing and Assurance Standards Board (IAASB). The combination of both is likely to provide enhanced results because they are complementary in terms of providing a comprehensive and robust assurance process that should satisfy the needs of both management and other stakeholders (Accountability and KPMG, 2005).

The aim of this paper is to develop an exploratory analysis of sustainability assurance in the agri-food industry. We studied the determinants influencing both assurance adoption and choice of assurance provider. In the following section, we present a literature review. Afterwards, we describe the research method employed and the sample studied. Then, we discuss the results of our analysis. Finally, we expose our conclusions.

2. Literature review

The number of sustainability reports has vastly grown over the last years (Kolk, 2004; O'Dwyer and Owen, 2005). The GRI Sustainability Guidelines has achieved widespread adoption with 82% of Global 250 (G250: the top 250 companies of the

Fortune 500 index) and 71% of National 100 (N100: the top 100 companies in 16 countries where KPMG operates) (KPMG, 2013).

Similarly to sustainability reporting, assurance is increasing. Currently, 59% of G250 companies and 38% of N100 companies use assurance as a strategy to verify and assess their corporate responsibility information (KPMG, 2013).

Previous studies investigated factors influencing assurance adoption. Kolk and Perego (2010) and Simnett et al. (2009) found that companies in stakeholder-oriented countries are more likely to assure their sustainability reports. Zorio et al. (2013) and Simnett et al. (2009) pointed out a significant relationship between assurance and industry; specifically, companies engaging in more highly visible industrial activity and companies with a larger 'social footprint' are more likely to adopt assurance. Sierra et al. (2013) and Simnett et al. (2009) determined that company size significantly affects the voluntary decision to assure sustainability reports, and they affirmed that large companies are more likely to adopt assurance. Finally, Sierra et al. (2013) highlighted that assurance also depends on profitability and leverage.

Other research works have analysed determinants of choice of assurator. Findings showed a significant positive association between company size and choice of a member of the auditing profession as an assurance provider. Members of the auditing profession were also found to be more likely to be assurance providers of companies with less leverage. Companies domiciled in countries that are more stakeholder-orientated are also more likely to choose assurance from the auditing profession (Simnett et al., 2009). Similarly, Perego (2009) predicted that firms domiciled in weaker legal systems are more likely to choose a large accounting firm as their assurator.

This research work analyses the determinants associated with voluntarily assurance on sustainability reports and choice of assurance providers in agri-food firms. Accordingly, we formulated the following research questions:

RQ1.1: Is the decision to adopt assurance associated with the country status where the company is located?

RQ1.2: Is the decision to adopt assurance associated with company size?

RQ2.1: Is the choice of assurance provider associated with the country status where the company is located?

RQ2.2: Is the choice of assurance provider associated with company size?

3. SAMPLE AND METHODOLOGY

3.1. Sample and data collection

For our purpose, we employed the GRI Sustainability Disclosure Database to look for agri-food firms worldwide that disclosed a sustainability report in 2012 and 2013. Table 1 summarises characteristics of sample. It is composed of 537 sustainability reports, 61.3% of which were issued by firms located in OECD (Organisation for Economic Co-operation and Development) countries, while 38.7% were issued by organisations located in non-OECD countries. Regarding company size, 27.4% of reports belonged to multinational enterprises (MNE), 61.8% to large companies and 10.8% to small and medium-sized enterprises (SME). Afterwards, we checked which sustainability reports were assured and found that 22% of them included an assurance statement. Among these ones, 61.9% belonged to agri-food firms located in OECD countries, while 38.1% corresponded to firms located in non-OECD countries. As regards company size, 8.5% of assurance statements belonged to MNEs, 61% to large organisations and 10.8% to SMEs. If we differentiate according to type of provider, 61% of the assurance statements were drawn by an accountant, while 38.1% were drawn by a non-accountant provider.

Table 1- Sample description

	Sustainability reports				Assurance statements	
	N = 537	%		N = 118	%	
Country status			Country status			
OECD	329	61.3	OECD	73	61.9	
Non-OECD	208	38.7	Non-OECD	45	38.1	
Company size			Company size			
MNE	147	27.4	MNE	36	8.5	
Large	332	61.8	Large	72	61.0	
SME	58	10.8	SME	10	10.8	
Assurance			Type of provider			
Yes	118	22.0	Accountant	72	61.0	
No	405	75.4	Non-accountant	45	38.1	
Missing	14	2.6	Missing	1	.8	

Source: GRI database.

3.2. Variables measurement

The aim of this paper was to study the factors associated with the decision to adopt assurance and choice of assurator. Therefore, we analysed the associations between assurance adoption and (a) the country status where the company was located and (b) company size, by means of cross tabulations and Pearson's chi-square. We also analysed the associations between choice of assurator and the same factors. We classified the variables by adapting the GRI data legend (GRI, 2012).

Thus, the ASSURANCE variable indicated whether a CSR report was assured. It took the value '0' if it was not assured and '1' if it was assured.

The TYPE OF PROVIDER variable pointed out the type of firm that provided external assurance. It took a value of '0' if the assurance provider did not belong to the accounting profession (including engineering firms and small consultancies/boutique firms) and a value of '1' when the assurance provider was an accountant.

The COUNTRY STATUS variable showed whether the country where the reporting organisation was located was an OECD member or not. This variable took a value of '0' for a non-OECD country and a value of '1' for an OECD country.

According to the GRI and the EU definitions, the SIZE variable took the value '0' for SMEs (fewer than 250 employees and with a turnover under 50 million € or 43 million € in assets), a value of '1' for large companies (more than 250 employees and with a turnover more than 50 million € or 43 million € in assets), and a value of '2' for MNE (large and multinational).

4. Results

First results refer to factors that may be associated with the decision to adopt assurance. Table 3 reveals that 22.9% of sustainability reports from agri-food firms located in an OECD country are assured. Similarly, firms located in non-OECD countries only assure 22.1% of sustainability reports. In both cases, reports are mostly not assured. As we can see in Table 4, no significant association was found between country status and the decision to assure ($\chi^2(1) = 0.048$, $p > 0.05$ and $p > 0.10$).

Table 3- Country status * Assurance Crosstabulation

			External Assurance		Total
			No	Yes	
Country Status	Non-OECD	Count	159	45	204
		% within Country Status	77.9%	22.1%	100.0%
	OECD	Count	246	73	319
		% within Country Status	77.1%	22.9%	100.0%
Total		Count	405	118	523
		% within Country Status	77.4%	22.6%	100.0%

Table 4- Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	.048 ^a	1	.826		
Continuity Correction ^b	.013	1	.910		
Likelihood Ratio	.049	1	.826		
Fisher's Exact Test				.915	.457
Linear-by-Linear Association	.048	1	.826		
N of Valid Cases	523				

a. 0 cells (.0%) have expected count less than 5. The minimum expected count is 46.03.

b. Computed only for a 2x2 table

Results in Table 5 show that regardless the company size, sustainability reports are mostly not assured. Only 17.5% of reports from small and medium enterprises, 22.3% of reports from large companies and 20.6% from multinationals are assured. As shown Table 6, there is not a significant association between the company size and the decision to assure ($\chi^2(1) = 3.947, p > 0.05$ and $p > 0.10$).

Table 5- Size * Assurance Crosstabulation

			External Assurance		Total
			No	Yes	
Size	SME	Count	47	10	57
		% within Size	82.5%	17.5%	100.0%
	Large	Count	251	72	323
		% within Size	77.7%	22.3%	100.0%
	MNE	Count	107	36	143
		% within Size	74.8%	25.2%	100.0%
Total		Count	405	118	523
		% within Size	77.4%	22.6%	100.0%

Table 6- Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	1.394 ^a	2	.498
Likelihood Ratio	1.429	2	.489
Linear-by-Linear Association	1.337	1	.247
N of Valid Cases	523		

a. 0 cells (.0%) have expected count less than 5. The minimum expected count is 12.86.

Next results refer to factors that may influence on the choice of the assurator. Table 7 reveals that most of sustainability reports from firms located in OECD (57.5%) and non-OECD countries (68.2%) are assured by accounting firms, although the percentage is higher in the case of countries from outside of the OECD. In this line, Table 8 shows that there is not a significant association between the country status and the choice of assurator ($\chi^2(1) = 1.315$, $p > 0.05$ and $p > 0.10$).

Table 7- Country status * Type of provider Crosstabulation

			Type of Assurance Provider		Total
			Non-accountant	Accountant	
Country Status	Non-OECD	Count	14	30	44
		% within Country Status	31.8%	68.2%	100.0%
	OECD	Count	31	42	73
		% within Country Status	42.5%	57.5%	100.0%
Total	Count		45	72	117
	% within Country Status		38.5%	61.5%	100.0%

Table 8- Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	1.315 ^a	1	.251		
Continuity Correction ^b	.904	1	.342		
Likelihood Ratio	1.330	1	.249		
Fisher's Exact Test				.327	.171
Linear-by-Linear Association	1.304	1	.254		
N of Valid Cases	117				

a. 0 cells (.0%) have expected count less than 5. The minimum expected count is 16.92.

b. Computed only for a 2x2 table

As shown in Table 9, most of MNEs (72.2%) and large companies (60.6%) preferred accountants to assure their sustainability reports. However, SMEs chose mostly non-accountants (70%). Table 10 shows that size is significantly associated with the choice of assesor ($\chi^2(2) = 5.967, p > 0.05$ and $p < 0.10$).

Table 9- Size * Type of provider Crosstabulation

			Type of Assurance Provider		Total
			Non-accountant	Accountant	
Size	SME	Count	7	3	10
		% within Size	70.0%	30.0%	100.0%
Large	Count	28	43	71	
	% within Size	39.4%	60.6%	100.0%	
MNE	Count	10	26	36	
	% within Size	27.8%	72.2%	100.0%	
Total	Count	45	72	117	
	% within Size	38.5%	61.5%	100.0%	

Table 10- Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	5.967 ^a	2	.051
Likelihood Ratio	5.917	2	.052
Linear-by-Linear Association	5.103	1	.024
N of Valid Cases	117		

a. 1 cells (16.7%) have expected count less than 5. The minimum expected count is 3.85.

5. Conclusions

This research has attempted to study whether the assurance adoption and the choice of assurator in the agri-food industry are associated to the country status where the company is located and the company size.

Most agri-food firms disclosing a sustainability report between 2012 and 2013 are large companies from countries members of OECD, and only 22% of them adopt assurance. Among them, most opted for an accountant to carry out the assurance process.

With regard to the assurance adoption, we found that the country status where analysed companies are located is not significantly associated with the assurance adoption. This is against Kolk & Perego (2010) and Simnett et al. (2009), who found that the country-level factor affects the decision to assure, indicating that companies from stakeholder-orientated countries were more likely to adopt assurance.

Opposite to Sierra et al. (2013) and Simnett et al. (2009), we did not find a significant association between the company size and the decision to assure in the case of agri-food firms. Regardless of size, they are more likely to not to assure their sustainability reports.

On the other hand, there is not a significant association between the choice of the assesor and the country status, which is against findings posited by the existing literature, like Simnett et al. (2009) or Perego (2009), who established that the country-level factor affects the selection of the assesor.

However, the choice of the assesor is associated with the company size, which is in line with Simnett et al. (2009), who found a significant positive association between company size and choice of a member of the auditing profession as an assurance provider. In our case, most of MNEs and large companies opted for accountants, while SMEs chose non-accountants.

In short, agri-food firms do not follow the general trends concerning the assurance on sustainability reports. Their location and their size do not affect the assurance adoption, and their location do not influence on the choice of assesor. However, their size does affects the choice of assesor.

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