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Shareholders' requirements for corporate environmental disclosures: A cross country comparison

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ABSTRACT

We survey individual shareholders in Australia, the UK and the US regarding corporate environmental disclosures. In general, respondents in the three countries are interested in, and positively disposed towards, these disclosures. We observe country and gender differences with Australian and female respondents more in favour of environmental reporting than others. Specifically, respondents require disclosure of an overview of environmental risks and impacts, the environmental policy, performance against measurable environmental targets and information on a range of environmental costs. Most shareholders require environmental disclosures to be audited. Shareholders call for environmental information because they believe managers should be accountable to shareholders for their companies' environmental impacts. Furthermore, shareholders have indicated the uses for specific types of environmental information. Our results imply that legislators, standard setters and companies have to consider the policy implications of these shareholder views.

1. Introduction

Recent times have seen the "(re)birth of social disclosures, the evolution of triple bottom line reporting and sustainability reporting" (Deegan, 2004, p. 91). Annual reports, sustainability reports and triple bottom line (TBL) reports now often refer to corporate accountability and community license to operate (Deegan, 2004) and the number of companies reporting these issues has increased (O'Dwyer & Owen, 2005). For example, the number of the top 100 US companies that publish a corporate responsibility report has increased from 37 in 2005 to 74 in 2008 (KPMG, 2008). The Chief Executive Officers (CEOs) of Global Fortune 500 companies believe that environmental credibility will in future be only marginally less important than financial credibility (University of Cambridge, 2003). They also identify environmental credibility as one of six key elements that will influence corporate reputation. Deegan, Cooper, and Shelly (2006) and Simnett, Vanstraelen, and Chua (2009) document the increased use of assurance statements in TBL reports. Furthermore, institutional investors increasingly regard social, ethical and environmental (SEE) information as relevant for decision-making (Solomon & Solomon, 2006). Finally, more than 80% of capital market intermediaries and auditors in a CPA Australia (2009) survey in Australia, the UK and Hong Kong, in the midst of a financial downturn, indicate that interest in socially and environmentally responsible portfolios will either increase or remain unchanged over the next 12 months.

Research has shown for some time that there are country differences in financial reporting in general (see for example Ali & Hwang, 2000; Gray, 1988; Nobes, 1998; Rahman, Perera, & Ganeshanandam, 1996) and social and environmental reporting

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more specifically (see for example, Halme & Huse, 1997; Holland & Foo, 2003; Silberhorn & Warren, 2007; Van Der Laan Smith, Adhikari, & Tondkar, 2005). Country comparisons are increasingly published in accounting journals, such as the Simnett et al. (2009) study in *The Accounting Review* comparing voluntary assurance of CSR reporting in 31 countries and the Choi and Wong (2007) study in *Contemporary Accounting Research* regarding auditor governance functions across a range of countries. KPMG (2008, 2005) reports on the disclosure and assurance of corporate responsibility reporting in 22 countries and these reports reveal significant country differences, for example a much larger proportion of UK companies disclose and assure these reports than do US or Australian companies (KPMG, 2008). Surveys in different countries report different results (see Section 2 for a summary of this research), but since these surveys use different questions, comparisons are problematic. Since we know there are country differences in reporting and assurance, an interesting question is whether these reporting differences are driven by shareholder requirements for reporting and assurance. The use of the same survey over three countries presents the first opportunity for comparisons of this nature in the accounting literature. The inclusion of three countries also improves the prospects of generalising the results.

According to Wilmhurst and Frost (2000), management mostly considers shareholders and legislation in their environmental disclosure decision-making process. Regulators (both government and stock exchanges) have also tended to focus their attention on the information needs of shareholders (Deegan, 2004). Nevertheless, calls for environmental reporting standards and audits (e.g. Beets & Souther, 1999) have largely gone unheeded. Although institutional investors and individual shareholders may share similar (wealth maximisation) goals, individual shareholders can only rely on publicly available information, whereas institutional investors have the means to also gather additional private information. Solomon and Solomon (2006, p. 564) show that institutional investors develop "sophisticated private [social and environmental] disclosure channels", because they regard public disclosures as inadequate for their decision-making. Given that regulators aim to protect shareholders by ensuring the availability of relevant information, they should arguably focus on the needs of individual shareholders, who are reliant on regulation because they are not able to gather private information. Therefore it is important to consider the environmental information needs of these individual shareholders. Their needs, including whether they need environmental information, the kinds of environmental information they need, whether they want it assured, and their reasons for needing the information, are largely unknown and are addressed by this study. We discuss the prior research in more detail in the next section, but in summary, there are relatively few studies that examine the environmental information needs of individual shareholders and none in the accounting literature since 1999. Given the increased importance attributed to the environment as a business issue documented above, we expect shareholders to be increasingly concerned about the possibility of environmental risk and liability and therefore to be more interested in corporate environmental disclosures than before. Our study contrasts with prior studies as they do not ask about specific environmental disclosures, do not consider the needs of shareholders in more than one country and do not explore the reasons why shareholders may require/need environmental information. Our results highlight country differences and we also focus on other differences, for example the gender and age of respondents. We restrict our study to Anglophone countries to avoid any translation issues. Some of the largest Anglophone economies are Australia, the United Kingdom (UK) and the United States of America (US). We use an online questionnaire and analyse the results to determine if there are any significant differences between the views of shareholders in the three countries while we control for respondents' investment decision orientation (making own decisions vs. relying on others), age, gender and retirement status.

Apart from the research community, our results have particular relevance for government policy development, accounting standard setters, such as the IASB, FASB and the SEC, and stock exchange rules regarding (environmental) disclosures. Policy makers will find the views of shareholders more compelling than any other stakeholder group. At the same time other stakeholders, such as environmental groups, will be interested to know that shareholders share their enthusiasm for corporate environmental disclosure, albeit perhaps for different reasons. Managers will also be interested in the differences in shareholder disclosure expectations between these countries and between the genders.

In the next section we discuss the background and prior research, followed by the development of our expectations. The method, including questionnaire development, is then explained, followed by the results and, finally, the discussion and conclusion sections.

2. Background and prior research

Environmental accounting research often focuses on what companies disclose (e.g. Bell & Lehman, 1999; Gray, Kouhy, & Lavers, 1995; Newson & Deegan, 2002), where they disclose (Tilt, 2008) and why they do it (e.g. Adams, Hill, & Roberts, 1998; Clarkson, Li, Richardson, & Vasvari, 2008), given that it is done mostly voluntarily. One line of research examines market reactions to environmental disclosure (e.g. Blacconiere & Patten, 1994; Patten & Nance, 1998; Shane & Spicer, 1983), but the archival method used does not allow exploration of the specific information needs of shareholders. Although some studies examine the information needs of pressure groups, NGOs and other stakeholders (e.g. O'Dwyer, Unerman, & Hession, 2005; Tilt, 1994), there has been limited research on the information needs of investors (Solomon & Solomon, 2006).

The literature indicates that institutional investors and analysts previously stated they do not require environmental disclosure (see literature reviews by Friedman & Miles, 2001; Milne & Chan, 1999; Solomon & Solomon, 2006), but institutional investors now appear to be more interested in environmental information to the extent that they acquire private environmental information (Solomon & Solomon, 2006).Experiments have shown that analysts (both novice and expert) and individual shareholders react to both good and bad environmental information in investment decision-making when this is