Mitigating information asymmetry through sustainability assurance: The role of accountants and levels of assurance

Beatriz Cuadrado-Ballesteros*, Jennifer Martínez-Ferrero, Isabel María García-Sánchez

University of Salamanca, Facultad de Economía y Empresa – Multidisciplinary Institute for Enterprise (IME), Campus Unamuno, FES, 37007 Salamanca, Spain

ABSTRACT

This paper aims to examine the usefulness of sustainability reporting in reducing information asymmetry as result of lower dispersion and higher accuracy in financial analysts’ earnings forecasts. The empirical results from an international sample of listed companies indicate that the disclosure of sustainability information alone is not sufficient in this regard as our findings indicate that information asymmetry is reduced to a greater when such information is assured, supporting the value relevance role of sustainability reporting and assurance. In addition, the empirical findings suggest differences in terms of assurance attributes (provider and level of engagement) and such differences are even more relevant when controlling the institutional context. Assurance is highly appreciated by investors in more stakeholder-oriented countries; however, in more shareholder-oriented environments, assurance affects information asymmetries only when it is provided by accounting professionals who also report a “reasonable” opinion.

1. Introduction

For some years, there has been a consistent belief that traditional financial reports do not adequately represent the different dimensions of corporate activity, resulting in additional non-financial measures of performance (Simnett, Vanstraelen, & Chun, 2009). This has led companies worldwide to disclose non-financial information, among which it is possible to note the general use of stand-alone reports regarding social and/or environmental concerns, termed sustainability reports. There is no regulation that requires the disclosure of this information (Glaum, Baetge, Grothe, & Oberdörster, 2013) by turning private into public information, minimizing the differences between informed and uninformed stakeholders (Diamond & Verrecchia, 1991).

However, the considerably growing trend for sustainability reporting in recent decades has not been accompanied by an increase in information credibility and accuracy due to the sense of a lack of consistency and completeness of sustainability reports (Adams & Evans, 2004). In the context of this lack of credibility, stakeholders demand external assurance (Zorio, García-Benau, & Sierra, 2013) as a means of enhancing the degree of confidence in the outcomes of the evaluation of particular subject matter. Thus, assurances tend to be used to provide greater confidence in the accuracy of reported information (Carey, Simnett, & Tanewski, 2000), expecting that information asymmetries will be lower given the lower dispersion in analysts’ forecasts (Shroff, Sun, White, & Zhang, 2013); it is this notion that is tested in this study.

Assurance is not a legal requirement and there is no universal standard, leading to differences that make it relevant to study the “who”, “how” and “what” in relation to assurance. Regarding the “who”, in the sustainability assurance market, both accounting professionals and specialist practitioners can assure sustainability reports, but some authors suggest differences between them. While other assurance providers (e.g. sustainability consultants) possess a higher level of subject matter expertise (Simnett et al., 2009), Big N firms (accountants in general) have made significant investments in training their professionals on sustainability issues, with the aim of providing high-quality assurance statements (Hodge, Subramaniam, & Stewart, 2009). These characteristics have led to the expectation that information asymmetries will be lower when the assurance service is provided by accounting professionals.

Another relevant attribute of the assurance process is the level of assurance (the “how” aspect), which indicates the extent of practitioners’ work and therefore the degree of confidence in the sustainability report assured. In general, two levels are offered, “reasonable/high” and “limited/moderate”, according to the standard followed by

* Corresponding author.
E-mail addresses: u77171@usal.es (B. Cuadrado-Ballesteros), jenny.marfe@usal.es (J. Martínez-Ferrero), lajefa@usal.es (I.M. García-Sánchez).

http://dx.doi.org/10.1016/j.ibusrev.2017.04.009
Received 13 September 2016; Received in revised form 19 April 2017; Accepted 26 April 2017
0969-5931/ © 2017 Elsevier Ltd. All rights reserved.

Please cite this article as: Cuadrado-Ballesteros, B., International Business Review (2017), http://dx.doi.org/10.1016/j.ibusrev.2017.04.009
the practitioner. Reasonable assurance engagement communicates a higher level of verification than the limited level, so more rigour is expected in the assurance process (Hasan, Roebuck, & Simnett, 2003). It is expected that the information asymmetries will be lower when the assurance concludes that the sustainability reporting is at a reasonable/high level.

In sum, the aims of this study concern two questions: (i) Does the assurance of sustainability information affect analysts’ forecast predictions concerning future earnings and then the level of information asymmetry? (ii) Do the attributes of assurance determine the level of information asymmetry as result of the reduction in the dispersion of analysts’ assessments of future cash flows? In addition to these questions, it is expected that sustainability assurance may be strongly influenced by institutional factors (Kolk & Perego, 2010; Martínez-Ferrero & García-Sánchez, 2017; Simnett et al., 2009). This will be examined by considering the national legal system as a proxy of stakeholder orientation (Martínez-Ferrero & García-Sánchez, 2016; Perego, 2009) and the efficiency and effectiveness of legal enforcement as a proxy of shareholder orientation (La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1998; Martínez-Ferrero & García-Sánchez, 2017).

To test these objectives, we use an initial international sample composed of 740 companies for the period 2007–2014 from 17 countries and 9 activity sectors. In brief, our empirical results suggest that sustainability assurance tends to influence the market’s expectations of firm value by enhancing the credibility of sustainability reporting, reducing analysts’ forecast errors and thence the information asymmetry that operates to the advantage of better informed investors. Furthermore, these boundaries are greater when the assurance service is provided by accounting professionals and when the level of sustainability assurance is “reasonable/high”.

However, these results are influenced by the legal and institutional context. In more shareholder-oriented countries, sustainability information tends to reduce asymmetries, but assurance is only relevant when it is provided by accounting professionals and when the final output is a “reasonable/high” opinion. In more stakeholder-oriented countries, assurance enhances the reduction in information asymmetries achieved by sustainability reporting independently of the type of provider or the level of assurance reported.

The paper is structured as follows: Section 2 develops the theoretical background and Section 3 the research hypotheses; the research methodology is explained in Section 4 and in Section 5 we present the empirical results obtained, followed by a discussion of our findings in Section 6; finally, we conclude with some remarks, limitations and future lines of research in Section 7.

2. Theoretical background: sustainability reporting and information asymmetry

The rationale for this study is based on the fusion of two frameworks that justify the need for sustainability reporting and – more concretely – assured information: (i) stakeholder theory; (ii) agency theory. Drawing on stakeholder theory, voluntary corporate disclosures play a fundamental role in the functioning of an efficient capital market. In relation to voluntary disclosure and subsequent assurance demand, it argues the need for organizations to interact with a broad set of stakeholders to ensure their long-term survival through the so-called “social contract” between the firm and society (Deegan, Cooper, & Shelly, 2006); as Ullman (1985) suggested, the social and environmental commitment is a mechanism for dealing with stakeholders’ demands.

Moreover, most large companies are owned by a multitude of shareholders and investors. Such companies are characterized by a clear separation between property and control, which is the basis for agency theory. According to this theory, a shareholder (the principal) delegates the management of the firm to managers (agents). The latter should act in line with the former’s goals and intentions; however, the principal and the agents have different interests, leading managers to act in their own self-interests. It is difficult for the principal to control managers because of differences in access to information (Jensen & Meckling, 1976). The different abilities to access corporate information may generate expropriation issues as a result of information asymmetries between the two (Shleifer & Vishny, 1992).

In this agency context, firms can combat market frictions by increasing corporate disclosure, thus inducing the optimal functioning of an efficient capital market (Healy & Palepu, 2001). Firms that consistently make quality disclosures are perceived in the market to have a lower likelihood of withholding relevant unfavourable information and thus they are accorded a lower risk in the market (Sengupta, 1998). Thus, information is highly appreciated by investors, who employ corporate disclosures to evaluate their investment opportunities (Barberis & Thaler, 2003). In this regard, a number of studies have suggested that corporate disclosures tend to reduce information asymmetry as an agency cost. For example, Healy, Hutton, and Palepu (1999) and Leuz and Verrecchia (2000) found a negative link between disclosure quality and the firms’ bid-ask spread as a proxy for information asymmetry. Voluntary sustainability disclosures contribute to reducing the information asymmetry that arises from differences in information available to and held by stakeholders (Cormier, Ledous, & Magnan, 2011; Healy et al., 1999; Leuz & Verrecchia, 2000; Verrecchia, 2001). Informed stakeholders – usually managers – have better access to more data than uninformed ones, who have access only to public information.

Thus, voluntary sustainability information may contribute to an increase in information accuracy, a reduction in the dispersion of analysts’ forecasts and thus asymmetry between more and less informed stakeholders (Dhaliwal, Li, Tsang, & Yang, 2011; Dhaliwal, Radhakrishnan, Tsang, & Yang, 2012; Verrecchia, 2001). In this regard, Schipper (1991) suggested that the dispersion in analysts’ earnings forecasts can be viewed as a measure of investors’ uncertainty about a firm’s future economic performance, which arises from information asymmetries between the different stakeholders. Similarly, Lang and Lundholm (1996) documented that companies reporting additional non-financial information enjoy greater accuracy and less volatility in forecast revisions, which reduces the estimation risk and the information asymmetry problem.

3. Research hypotheses

3.1. Sustainability assurance and information asymmetry

According to the previous theoretical framework, sustainability reporting may reduce information asymmetry. However, a credibility problem arises from the incentives of more informed stakeholders to make their private information public. Users may view the management’s decision to disclose voluntary information as a strategic decision (Coram, Monroe, & Woodliff, 2009), giving rise to a credibility problem.

In this regard, auditing plays a relevant role in the market, improving the credibility and quality of reported information and reducing the information asymmetry between shareholders and managers (Watts & Zimmerman, 1983), regardless of whether the information is financial or non-financial (Coram et al., 2009). The auditing of financial statements reduces the dispersion of analysts’ forecasts with regard to future earnings, thus enhancing information accuracy and mitigating conflict arising from information asymmetry (Clinch, Stokes, & Tanawski, 2012); similarly, we expect assurance to reduce the asymmetry between informed and uninformed stakeholders, enhancing the credibility and accuracy of sustainability reporting and improving its value relevance.

According to Mercer (2004), the credibility of voluntary disclosures by managers depends on different factors, including validation by external sources, among others. In this attempt, several authors have concluded that the external assurance of sustainability reports is a relevant mechanism to ensure the credibility of information for the
دریافت فوری
متن کامل مقاله

<table>
<thead>
<tr>
<th>متن کامل مقاله</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ امکان دانلود نسخه تمام متن مقالات انگلیسی</td>
</tr>
<tr>
<td>✓ امکان دانلود نسخه ترجمه شده مقالات</td>
</tr>
<tr>
<td>✓ پذیرش سفارش ترجمه تخصصی</td>
</tr>
<tr>
<td>✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله</td>
</tr>
<tr>
<td>✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله</td>
</tr>
<tr>
<td>✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب</td>
</tr>
<tr>
<td>✓ دانلود فوری مقاله پس از پرداخت آنلاین</td>
</tr>
<tr>
<td>✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات</td>
</tr>
</tbody>
</table>