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TESIS DOCTORAL

Determinant Factors of Corporate Social Responsibility Reports' Readability in Spanish Language: The Role of GRI Compliance and Corporate Governance

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Dedicada a Javier, mi marido,

a Javi, mi hijo,

a mis padres, Domingo y Loly

y a mi querida Soco, In memoriam.

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1. ANTECEDENTES

Una de las principales herramientas de comunicación al alcance de la empresa es la divulgación de contenidos a través de informes corporativos. A medida que los grupos de interés que acompañan a la empresa son más activos y demandan información desde distintos ángulos, los informes corporativos se vuelven más heterogéneos y prolijos. Los contenidos que divulga la empresa mediante estos informes suscitan gran interés entre inversores, su audiencia tradicional, además de otros grupos de interés que han comenzado a acudir a estas fuentes, entre ellos: clientes/consumidores, empleados, la administración, comunidades locales o proveedores. La información que ahora demandan, no solo se refiere a datos financieros, sino también a gobierno corporativo e información no financiera (Arena, Saverio y Giovanna, 2015; Boiral, Heras-Saizarbitoria y Testa, 2017; Dhaliwal, Li, Tsang, 2011; Reverte, 2012). Esta visión complementaria de la empresa permite a estos grupos de interés completar la información de la compañía y tomar decisiones mejor informadas. De hecho, los consumidores, en sus decisiones de compra, atienden cada vez más a cuestiones medioambientales y los inversores son más sensibles hacia criterios éticos y hacia cuestiones que señalan a las compañías como socialmente responsables (Clarkson, Richardson y Vasvari, 2008). En consecuencia, las empresas han aumentado la información no financiera reportada y, al hacerlo, no solo han reaccionado a la presión de los grupos de interés, sino también a necesidades comerciales en un mundo globalizado y a los escándalos corporativos que han sensibilizado sobre la transparencia. Al mismo tiempo que han reconocido la responsabilidad moral en esta práctica (Amran, Ping Lee y Devi, 2014; Crowther, 2000; Michelon y Rodrigue, 2015). Cada vez más las empresas están tomando conciencia de que los informes no financieros (en adelante denominados informes de responsabilidad social corporativa -RSC-) contribuyen al compromiso de los grupos de interés y, por lo tanto, las inquietudes de estos grupos deberían formar parte del contenido de sus informes (Sacconi, 2004; Smeuninx, Clerck y Aerts, 2016).

Si observamos datos concretos sobre los informes de RSC, algunos estudios han confirmado un aumento en la medición y generación de informes sobre el desempeño medioambiental y social (Morhardt, Baird y Freeman, 2002; O"Dwyer y Owen, 2005), lo que se está convirtiendo en una práctica dominante en el ámbito comercial global (Kolk, 2010; Van Wensen, Broer, Klein y Knopf, 2011). Siendo más precisos en cuanto a la audiencia de los informes, "ésta se ha vuelto más diversa, siendo 48% interna de la empresa, 16% inversores, 14% cadena de valor externa de la empresa y 22% "sociedad civil", lo que incluye medios de comunicación, sindicatos, instituciones públicas, académicos, expertos, así como ciudadanos y consumidores sensibilizados en la materia (Townsend, Bartels y Renaut, 2010)" (citado en Smeuninx, Clerck y Aerts, 2016, p. 60).

Como consecuencia de esta diversidad, las empresas han comenzado a adaptar su comunicación a estos nuevos receptores mejorando la legibilidad de los textos narrativos, entre otros (Smeuninx et al., 2016). Pero, ¿qué es un texto *legible*? Harris y Hodges (1995) consideran que la lectura y comprensión de un texto escrito define el concepto de legibilidad. Smeuninx, Clerck y Aerts (2016) afirman que "cuando las características de un texto facilitan al lector extraer la información deseada, es más legible" (p. 55). La legibilidad mitiga la asimetría de la información, es decir, aspira a evitar que directivos tengan más información que los grupos de interés y podría identificarse como uno de los criterios que influye en la complejidad de los informes, que se refiere a la complejidad del lenguaje explicativo que rodea a los informes financieros de la empresa.

En consecuencia, la legibilidad puede ser una poderosa herramienta de comunicación, como tal, puede ser influenciada intencionadamente, o no, por diferentes factores. Por ejemplo, algunas empresas utilizan la legibilidad para manipular la comprensión de la información divulgada en su mejor interés, haciendo que la narrativa sea más legible cuando la información proporcionada es positiva y haciendo lo contrario cuando es negativa, esto se llama la "hipótesis de la ofuscación" (Courtis, 1998; Rutherford, 2003; Wang, Hsiech y Sarkis, 2018). Esta manipulación se puede dar según la empresa cumpla, o no, con la legislación o con los estándares de referencia, pudiendo facilitar la lectura cuando hay cumplimiento y haciendo lo contrario cuando no lo hay. Asimismo, la elección del tipo de informe utilizado en la divulgación de información, (por piezas separadas o informe integrado), podría tener efecto en la legibilidad por el aparente mayor esfuerzo en claridad asociado a los informes integrados. Además, la legibilidad también puede verse influenciada por aspectos relacionados con gobierno corporativo, ya que los informes de RSC son responsabilidad del consejo de administración en las grandes empresas europeas, entre otros factores influyentes.

La revisión de trabajos académicos vinculados a la legibilidad de los textos narrativos de informes de RSC en español no ha mostrado ningún material. La investigación con mayor similitud que encontramos es la de Moreno y Casasola (2016) que estudiaron la legibilidad de los informes narrativos contables españoles en dos empresas.

Es por ello que analizar cómo las empresas cotizadas españolas emplean la legibilidad en los informes de RSC escritos en español, e identificar qué podría influir en dicha legibilidad, es un campo inexplorado de gran interés.

Así pues, hasta donde conocemos, **no se han realizado estudios previos sobre la legibilidad de los textos narrativos de informes de RSC en español,** lo que supone un claro "gap" de estudio que esta tesis pretende analizar.

2. OBJETIVOS

Los estudios sobre la legibilidad de textos narrativos en español son escasos, y dado que los informes de RSC son una tendencia actual en el entorno empresarial, esta tesis profundiza en el estudio de la legibilidad de los textos narrativos de RSC a través de informes de RSC en español, convirtiéndose, hasta donde sabemos, en los primeros estudios en considerar esta perspectiva.

En consecuencia, los objetivos primarios y secundarios de esta tesis son los siguientes:

2.1. Objetivos Primarios

Primer objetivo primario. **Determinar el nivel de dificultad de la legibilidad de los textos narrativos recogidos en los informes de RSC en español de las mayores empresas cotizadas en España** (Capítulo 4).

Para determinar el nivel de legibilidad es necesario partir de una fórmula que establezca una escala de medida. La fórmula más utilizada para medir en una escala de legibilidad textos narrativos en inglés, es la fórmula de legibilidad de Flesch. Basados en la fórmula de Flesch se utilizan dos índices para medir la legibilidad de los textos narrativos escritos en español, estos son: los índices de Fernández-Huerta e Inflesz. Para determinar los niveles de legibilidad en este estudio, estos índices se aplican a los textos narrativos de los informes de RSC.

Segundo objetivo primario. **Determinar si la legibilidad de los textos narrativos de los informes de RSC en español de las mayores empresas cotizadas en España está influenciada o no por el cumplimiento de los estándares de información no financiera** (Capítulo 4).

En cuanto al cumplimiento de los estándares de información no financiera, desde 2018 las sociedades cotizadas en España deben informar sobre información no financiera aplicando los estándares incluidos en la Directiva Europea 2014/95/UE y en su transposición española por el Real Decreto - ley 18/2017. La Global Reporting Initiative (GRI) se encuentra entre los estándares de información a los que refiere la legislación y se ha convertido en el marco más utilizado en Europa en la actualidad para la presentación de informes de RSC (García-Sánchez et al., 2019; López, García y Rodríguez, 2007) siendo el utilizado por las empresas del IBEX35 en España. El estándar GRI está estructurado en índices. Entre los índices GRI, los seleccionados para este estudio fueron los relacionados con el cumplimiento de leyes y normativas en materia de anticorrupción, comportamiento anticompetitivo, cumplimiento ambiental, etiquetado, marketing y socioeconómico.

Tercer objetivo primario. **Determinar si la legibilidad de los textos narrativos de los informes de RSC en español de las mayores empresas cotizadas en España está influenciada o no por las características de gobierno corporativo de las empresas** (Capítulo 5).

En lo que respecta al gobierno corporativo, el consejo de administración es responsable de definir la estrategia de la empresa, marca el tono en cuestiones de RSC y desempeño a largo plazo, además de tener la responsabilidad sobre la elaboración de los informes de RSC, entre otros. Esto nos permite considerar la posible influencia que determinadas características de gobierno corporativo pueden tener en la legibilidad de los informes de RSC al confrontar la composición del consejo de administración (tamaño del consejo, proporción de consejeros independientes y proporción de consejeras) y la legibilidad.

Cuarto objetivo primario. **Determinar si la legibilidad de los textos narrativos de los informes de RSC en español de las mayores empresas cotizadas en España está influenciada o no por la normativa de RSC de 2017** (Capítulo 5).

Los grupos de interés vienen reclamando la divulgación de información no financiera desde mucho antes de la entrada en vigor en 2018 de la Directiva Europea 2014/95/UE y de su transposición española por el Real Decreto - ley 18/2017 que obliga a ello a determinadas empresas. Este objetivo busca conocer si la legislación ha sido determinante en la mejora de la legibilidad de los textos narrativos de los informes de RSC o si, por el contrario, la legibilidad es la misma que cuando se reportaba voluntariamente a demanda de los grupos de interés.

Quinto objetivo primario. **Determinar si la legibilidad de los textos narrativos de los informes de RSC en español de las mayores empresas cotizadas en España está influenciada o no por la adopción de informes integrados** (Capítulo 5).

La legislación de referencia permite reportar la información de RSC como pieza adicional a las que se vienen reportando o como parte de un informe integrado que aúne en un solo documento, y con un enfoque integral de la empresa, toda la información emitida. Este objetivo busca identificar si el uso de un tipo u otro de formato de informe influye en la legibilidad de los textos narrativos de los informes de RSC.

Un resumen de los objetivos primarios se puede encontrar en la infografía de la figura 1.

Figura 1. Infografía resumen de los objetivos primarios.

Fuente: Elaboración propia a partir de iconos extraídos de la página web Freepng.es

2.2. Objetivos Secundarios

Sin embargo, para reconocer adecuadamente el contexto entorno a la RSC y la gobernanza corporativa, es fundamental describir su marco institucional en Europa, tanto para *soft law* (recomendaciones) como para *hard law* (legislación de obligado cumplimiento), así como comprender los conceptos y la evolución de la RSC y la gobernanza empresarial. Esto nos ha llevado a definir los siguientes objetivos secundarios de esta investigación estructurados por capítulos:

Objetivos secundarios del Capítulo 1. Entendiendo el contexto legal del gobierno corporativo y la información no financiera: *soft* y *hard law.*

- Introducir a la comprensión de la política de la Unión Europea con respecto al marco legal de gobierno corporativo e información no financiera.
- Introducir a la comprensión de por qué cada país de las Unión Europea ha emitido sus propios códigos de gobierno corporativo y si el marco normativo ha influido en este proceso.
- Identificar los criterios que se consideran para que una recomendación de gobierno corporativo pase de *soft law* a *hard law*.
- Definir el contexto legal español con respecto al gobierno corporativo y a la información no financiera.

Objetivos secundarios del Capítulo 2. Visión general de la RSC: comprensión de sus antecedentes, terminología e informes.

- Introducir a la comprensión del fenómeno RSC y a las motivaciones de sus detractores.
- Identificar el papel que juega el consejo de administración en la RSC.
- Introducir dos problemáticas sobre RSC: la variedad de términos que se utilizan para referirse a estas prácticas y la variedad de estándares de referencia disponibles para reportar.
- Identificar próximas tendencias en el rol de los auditores de RSC

Objetivos secundarios del Capítulo 3. Visión general del gobierno corporativo: comprensión y tendencias.

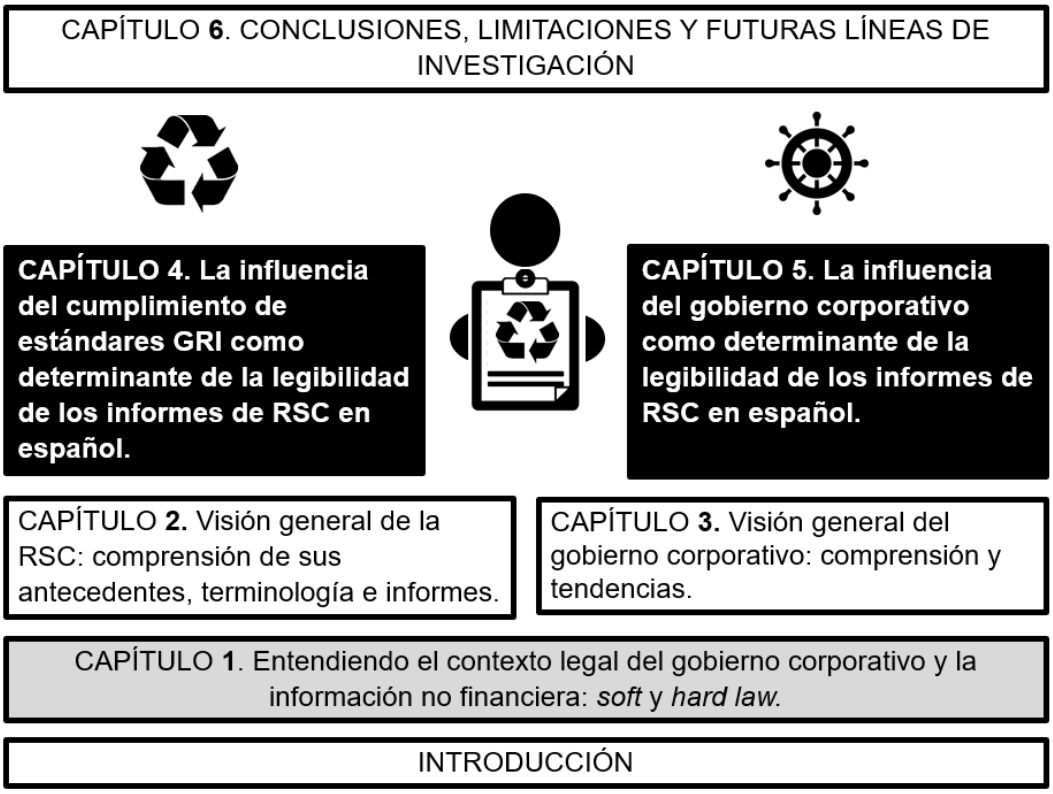
- Introducir a la comprensión del gobierno corporativo.
- Identificar los principales desafíos del gobierno corporativo a día de hoy.
- Identificar principales tendencias.

3. ESTRUCTURA Y METODOLOGÍA DE LA INVESTIGACIÓN

Esta tesis se ha organizado en torno a seis capítulos. Tras la introducción, el primer capítulo sirve de base para entender el contexto legal de los capítulos siguientes, que son el capítulo segundo, que ofrece una visión general de la RSC y el capítulo tercero, que ofrece una visión general del gobierno corporativo. Los capítulos cuarto y quinto estudian mediante análisis empíricos, la influencia del cumplimiento de estándares GRI y del gobierno corporativo, respectivamente, como determinante de la legibilidad de los informes de RSC en español, y el capítulo sexto cierra la investigación, con las conclusiones.

Un resumen de la estructura se puede encontrar en la infografía de la figura 2.

Figura 2. Infografía resumen de la estructura de la tesis.



Fuente: Elaboración propia a partir de iconos extraídos de la página web Freepng.es

El **primer capítulo** de esta tesis describe cómo la gobernanza empresarial y la información no financiera rigen en la zona euro mediante el desarrollo de un marco jurídico que combina *soft law* y *hard law*. En materia de *soft law,* proporciona un estudio de los códigos de gobierno corporativo emitidos y revisados por los países de la UE desde 1992 hasta 2019, considerando los emisores de dichos códigos. En materia de *hard law*, enumera y resume los desarrollos de políticas clave y los resultados regulatorios sobre gobierno corporativo e información no financiera en la UE. Finalmente, ofrece una visión general de la situación en España. Para contextualizar, este capítulo también incluye una introducción al marco legal de gobierno corporativo e información no financiera de la UE.

En términos de metodología, en *soft law*, este capítulo ha estudiado los códigos emitidos y revisados desde 1992 hasta 2019 por países de la UE. La información se ha recopilado principalmente del Instituto Europeo de Gobierno Corporativo (ECGI), las bolsas de valores de los países o los supervisores, así como de diferentes Informes de Gobierno Corporativo elaborados por la OCDE y otros. Los resultados de esta investigación se han contrastado con los estudios realizados por ecoDa y Mazars (2015) y ecoDa e IFC (2015). En *hard law*, el resumen de la UE de los desarrollos de políticas clave y resultados regulatorios se ha basado en información del CFA Institute (2016) actualizada con información de la Comisión Europea. Finalmente, el estudio de la situación en España es de elaboración propia a partir de información de la CNMV (regulador español) y del BOE (diario oficial español).

El **capítulo segundo** se aproxima al concepto de RSC. La RSC ha asumido un papel predominante en el mundo empresarial actual convirtiéndose en una prioridad estratégica esencial para las empresas y sus consejos de administración. Este capítulo proporciona un documento actualizado que resume el estado y las principales tendencias dentro de RSC en un momento crucial, dos años después de que los informes de RSC se hicieran exigibles por ley para las grandes empresas en Europa con la promulgación de la Directiva Europea 2014/95/UE. Este capítulo analiza la definición de RSC y términos y conceptos similares, incluido los términos de “información no financiera”, “ciudadanía corporativa” y “sostenibilidad”, para ayudarnos a comprenderlos mejor. También analiza los informes y estándares de RSC, al tiempo que subraya la relevancia de la auditoría y valoración de los informes. Por último, se encuentra un escrutinio de RSC desde la perspectiva de su retorno a las empresas a través del marketing, el compromiso de los empleados y los resultados económicos.

En términos de metodología, después de realizar una revisión de la literatura de los artículos que la comunidad académica ha proporcionado sobre RSC y términos relacionados, se revisaron los principales artículos académicos y se complementaron con información de diferentes fuentes como OCDE, ICGN (organización liderada por inversores), GRI, entre otros.

El **capítulo tercero** ofrece una descripción general de las principales teorías y mecanismos de control que tradicionalmente han regido el gobierno corporativo. Los hallazgos sugieren cómo los nuevos códigos relevantes de gobierno corporativo llegan a desafiar los mecanismos clásicos de control interno y externo, al incluir la cultura de la empresa, la supervisión y el control internos, así como las funciones del consejo de administración como funciones internas, y los grupos de interés como externas. También muestra cómo el concepto de aplicar y explicar ha llegado a desafiar el *soft law* y cómo el concepto de la primacía del accionista en la teoría de la agencia es desafiado por el concepto de corporación como principal. Además, identifica tendencias futuras, como el gobierno corporativo para empresas que no cotizan en bolsa o cambios en los informes de gobierno corporativo. Este capítulo ofrece una visión general de las discusiones académicas contemporáneas sobre teorías y mecanismos de control, enriqueciéndolas con información complementaria y actualizada de instituciones, investigación académica y no académica.

En términos de metodología, este capítulo fundamenta el marco teórico mediante la revisión de artículos académicos relevantes sobre gobierno corporativo contrastados con trabajos recientes, estudios no académicos y documentos de prestigio de referencia en la materia.

El **capítulo cuarto** analiza la legibilidad de la comunicación del consejo de administración a partir del estudio de los textos narrativos de los informes de RSC en español de las sociedades del índice IBEX35, que incluye las 35 mayores empresas cotizadas de España por su capitalización bursátil. Realiza un estudio empírico con dos propósitos: primero, describir la escala de legibilidad de estos textos, y segundo, determinar si el cumplimiento de los estándares de RSC influye o no en la legibilidad de la divulgación. El estudio se ha realizado sobre los textos narrativos de seis índices de datos GRI relacionados con el cumplimiento de las leyes y normativas, incluidos en 140 Informes de RSC de empresas cotizadas en España del IBEX35 en el período 2015-2018. La legibilidad se midió utilizando dos índices de legibilidad en español: los índices de Fernández-Huerta e Inflesz. Estos índices se basan en la fórmula de medición de lectura de Flesch para textos narrativos en inglés. Los hallazgos sugieren que la comunicación del consejo de administración con respecto a los Informes de RSC necesita mejorar ya que, en general, estos informes son difíciles de leer. Los hallazgos también sugieren que el cumplimiento de los estándares GRI podría estar relacionado con una dificultad de lectura baja de los informes y el incumplimiento con una dificultad de lectura alta.

En cuanto a metodología, tras una revisión literaria de los artículos proporcionados por la comunidad académica sobre legibilidad, informes de RSC y términos relacionados, se sientan las bases para la siguiente revisión literaria sobre la relación entre el cumplimiento de las leyes y regulaciones de informes de RSC, con la legibilidad. A continuación, se ha realizado un estudio sobre 140 Informes de RSC de empresas cotizadas en el IBEX35 en España durante el periodo 2015-2018. El índice IBEX35 reúne a las 35 empresas cotizadas más importantes de España dada su capitalización bursátil. Según la teoría de los *stakeholders*, el tamaño de la empresa está vinculado a las divulgaciones de RSC (Roberts, 1992; Tagesson, Blank y Broberg, 2009; Tamimi y Sebastianelli, 2017). Para esta investigación, recopilamos manualmente los datos GRI relacionados con el cumplimiento de las leyes y regulaciones sobre anticorrupción, comportamiento anticompetitivo, cumplimiento ambiental, etiquetado, marketing y cumplimiento socioeconómico, a continuación, los clasificamos siguiendo los criterios de la base de datos KLD. Luego se aplicaron los índices de legibilidad de Fernández Huertas e Inflesz en español. Después de analizar estadísticas descriptivas y emplear un análisis multivariante, los resultados muestran que la calificación en la legibilidad de los textos narrativos de RSC fue "algo difícil" para ambos índices, lo que significa que los textos son difíciles de leer. Otros resultados, obtenidos mediante la aplicación de regresiones múltiples, sugieren una asociación entre cumplimiento y legibilidad.

El estudio empírico del **capítulo quinto** considera la influencia de varias características internas de gobierno corporativo (tamaño del consejo de administración, proporción de consejeros independientes y proporción de consejeras) en la legibilidad de los informes de RSC en idioma español. También considera si la implantación del *hard law* sobre los informes de información no financiera en España a partir de 2018, y el uso de informes integrados, influye en la legibilidad de los informes de RSC. El estudio se ha realizado sobre 140 informes de RSC o informes de sostenibilidad de empresas españolas cotizadas en el IBEX35 en el período 2015-2018 utilizando las fórmulas Fernández-Huerta e Inflesz de legibilidad en español. Los hallazgos sugieren que las variables internas de gobierno corporativo no afectan a la legibilidad del informe de RSC per se. Asimismo, la legibilidad no se ve afectada cuando la ley exige la divulgación de información no financiera o cuando las cuestiones de RSC se presentan en un informe integrado. Por el contrario, el estudio sugiere que cuando las empresas cumplen las pautas GRI e informan sobre más indicadores GRI, mejoran la legibilidad de sus informes.

En términos de metodología, complementamos la información de sostenibilidad recopilada previamente de los informes de RSC de las empresas españolas del IBEX35 mediante la recopilación manual de datos de los informes anuales de gobierno corporativo recuperados de las páginas web de las empresas. Después de aplicar análisis descriptivos y de correlación, primero empleamos las pruebas U-Mann Whitney y Wilcoxon para detectar diferencias significativas en la legibilidad de la RSC, según las características de gobierno corporativo y el tipo de informe. A continuación, para contrastar las hipótesis de investigación, analizamos la influencia de las características de gobierno corporativo, la regulación y el tipo de informe en la legibilidad de la RSC aplicando un modelo de datos de panel de efectos aleatorios, dado que la prueba de Hausman revela una posible autocorrelación entre las variables independientes y los efectos fijos.

El **capítulo sexto** concluye la tesis con comentarios, limitaciones, recomendaciones y estudios futuros.

4. RESULTADOS DE LOS ESTUDIOS EMPÍRICOS

En cuanto a los resultados de los estudios empíricos realizados en los capítulos 4 y 5 de esta tesis, sobre 140 Informes de RSC de empresas cotizadas en el IBEX35 en España durante el periodo 2015-2018, se describen brevemente los resultados obtenidos:

Primer estudio: Establecer el nivel de legibilidad de los informes de RSC en español y la influencia del cumplimiento de estándares GRI como determinante de la legibilidad de los informes de RSC en español.

Los resultados muestran que el **promedio de legibilidad de ambos índices** estudiados (Fernández-Huerta e Inflesz) de los informes de RSC en español cae en un **nivel "algo difícil"** en la escala de medida de legibilidad, por lo tanto, en un nivel preuniversitario, por encima del nivel normal de legibilidad de un adulto.

Además, en cuanto a **la influencia del cumplimiento de estándares GRI** como determinante de la legibilidad de los informes de RSC en español, después de presentar el marco teórico basado en la teoría de la legitimidad donde se argumenta la relevancia de los informes de RSC en la búsqueda de la legitimidad social como herramienta que refleja el cumplimiento de las empresas con leyes y regulaciones sobre información no financiera. Y de presentar la teoría de los *stakeholders* y la teoría de la agencia para comprender la relevancia de la legibilidad como herramienta de manipulación del texto narrativo de los informes de RSC, la primera hipótesis propuesta de esta tesis es:

El cumplimiento normativo de estándares GRI se asocia positivamente con la legibilidad.

Los resultados obtenidos sobre la muestra analizada nos llevan a **aceptar la hipótesis propuesta.** Los resultados de la regresión muestran como el cumplimiento normativo, es decir, cumplir o no con 6 estándares GRI relativos a regulación, se asocia positivamente con los índices estudiados de Fernández-Huerta e Inflesz, lo que sugiere una asociación entre cumplimiento y legibilidad. Por lo tanto, altos índices de legibilidad se asocian con alto cumplimiento, y viceversa, como se planteó en nuestra hipótesis. Este resultado está respaldado por los hallazgos de Wang, Hsiech y Sarkis (2018), quienes afirmaron que la legibilidad podría usarse para ofuscar los textos narrativos de los informes de RSC.

Segundo estudio: La influencia del gobierno corporativo como determinante de la legibilidad de los informes de RSC en español.

El alcance del gobierno corporativo se está ampliando y "ahora aborda las preocupaciones del ámbito social, ambiental y público" (McBarnet, 2007, p. 556), así como las cuestiones relacionadas con la ética, la rendición de cuentas y la divulgación (Lerach, 2002). Este estudio profundiza en la relación entre determinadas características de gobierno corporativo y la legibilidad de la RSC. Estas características son el tamaño del consejo, la proporción de consejeros independientes y la proporción de consejeras. Además estudia si la entrada en vigor de la legislación sobre información no financiera e informar mediante informes integrados influyeron sobre la legibilidad de los informes de RSC.

El **tamaño del consejo de administración** es una variable crucial en el gobierno corporativo. Estudios previos sobre el tamaño del consejo de administración dentro de la teoría de agencia sugieren que los consejos con más miembros tienen mejores informes de RSC y representan a diferentes grupos de interés, lo que se traduce en un mayor esfuerzo para comunicarse y satisfacer sus demandas (Kaymak y Bektas, 2017). Los consejos de mayor tamaño pueden influir en la dirección para que se comprometa con las actividades de RSC (Jizi, Salama, Dixon y Stratling, 2014; Tamimi y Sebastianelli, 2017), también pueden influir en la divulgación de las acciones que realiza la empresa (Frias - Aceituno et al., 2013; Tamimi y Sebastianelli, 2017) o en la adopción de prácticas de RSC (Ben Barka y Dardour, 2015; Tamimi y Sebastianelli, 2017). En resumen, los consejos de administración de mayor tamaño tienen una diversidad más amplia de experiencia y habilidades, lo que contribuye a una mejor y más transparente divulgación de RSC y podría mejorar su legibilidad. En base a lo anterior, proponemos la primera hipótesis de este capítulo:

El tamaño del consejo de administración se asocia positivamente con la legibilidad de la RSC.

Los resultados contradicen los estudios previos y no apoyan relaciones positivas entre la legibilidad de la RSC y el tamaño del consejo de administración, por lo que **no se acepta esta hipótesis**.

Con respecto a los **consejeros independientes**, estudios sobre la independencia y la transparencia del consejo de administración han sugerido una asociación positiva entre la divulgación voluntaria y la independencia del consejo (Cheng y Courtenay, 2006; Donnelly y Mulcahy, 2008), así como una relación negativa entre la divulgación voluntaria y el número de consejeros externos en el consejo de administración (Eng y Mak, 2003; Gul y Leung, 2004). Por lo tanto, planteamos la segunda hipótesis:

La proporción de consejeros independientes en el consejo de administración se asocia positivamente con la legibilidad de RSC.

Los resultados no apoyan una relación positiva entre la legibilidad de RSC y el número de consejeros independientes. Por lo que **no se puede aceptar dicha hipótesis**. Este resultado está respaldado por los hallazgos de Eng y Mak (2003) y Gul y Leung (2004) para el caso español.

En cuanto a la **presencia femenina** en los consejos de administración, mientras que Fernandez-Feijoo, Romero y Ruiz-Blanco 2012) encontraron una relación positiva entre que hubiera más de tres mujeres en el consejo de administración y los informes de RSC, un estudio de Ginesti, Drago, Macchioni y Sannino (2018) consideró el efecto del género en el consejo de administración y la legibilidad. Ese estudio analizó una muestra de empresas italianas y descubrió que la participación femenina en el consejo tenía un impacto positivo en la legibilidad de los informes anuales en empresas con consejos de administración de menor tamaño, pero el efecto contrario en empresas con consejos de administración de gran tamaño. En conclusión, estudios anteriores sugieren que una mayor proporción de mujeres en los consejos aumentará la calidad de los informes de RSC y, por lo tanto, la legibilidad. En consecuencia proponemos, la tercera de las hipótesis:

Una mayor proporción de consejeras se asocia positivamente con la legibilidad de la RSC.

Los resultados no apoyan una relación positiva entre la legibilidad de RSC y el número de consejas. Este resultado está respaldado por los hallazgos de Amran, Ping Lee y Devi (2014) que no encontraron ninguna relación consistente entre la diversidad de género y la calidad de los informes de RSC. Por lo que **no se acepta esta hipótesis.**

Estos resultados sobre gobierno corporativo podrían explicarse, en parte, por las características de las empresas consideradas en la muestra: IBEX35. Estas empresas son las mejores firmas en términos de liquidez del mercado español y compiten por la captación de fondos externos, por lo que suelen situarse muy altas en los rankings de gobierno corporativo. O tal vez, esto significa que debido a la reciente aplicación de los informes de RSC, los consejeros aún no están preocupados por la importancia de la información de RSC y, como consecuencia, por su legibilidad.

Por último, también se ha estudiado **el efecto de la legislación sobre los informes de información no financiera**, así como la **influencia en la información de RSC del uso de informes integrados.**

La presentación de informes de RSC (información no financiera, como lo denomina la legislación) se rige por la Directiva 2014/95/UE. Además, en España, objeto de nuestro estudio, la presentación de informes de RSC fue declarada obligatoria por la ley 18/2017 (24 de noviembre de 2017) para todas las empresas con determinadas características[1] con entrada en vigor en 2018. Por tanto, resultaría interesante conocer si la legibilidad de los informes de RSC ha cambiado desde la aplicación de la nueva legislación.

Según esta legislación, se permite a las empresas informar sobre RSC ya sea dentro del informe de gestión (informe integrado) o con pieza aparte, siempre que se incluya el contenido que exige la ley (RD 18/2017, de 24 de noviembre). Los informes integrados reúnen en una sola narrativa el informe de RSC y el informe financiero, en lo que viene a ser una representación integral del desempeño de una empresa en términos de finanzas y sostenibilidad (Roman et al., 2019). Esperamos que las empresas que informan sobre criterios de RSC a través de informes integrados obtengan una mejor puntuación en legibilidad, porque estas empresas están haciendo un esfuerzo por mejorar la calidad de sus informes.
En resumen, en esta tesis consideraremos si existen diferencias en la legibilidad de los informes de RSC antes y después del cambio de norma y se usen o no informes integrados, por lo que proponemos la cuarta de las hipótesis:

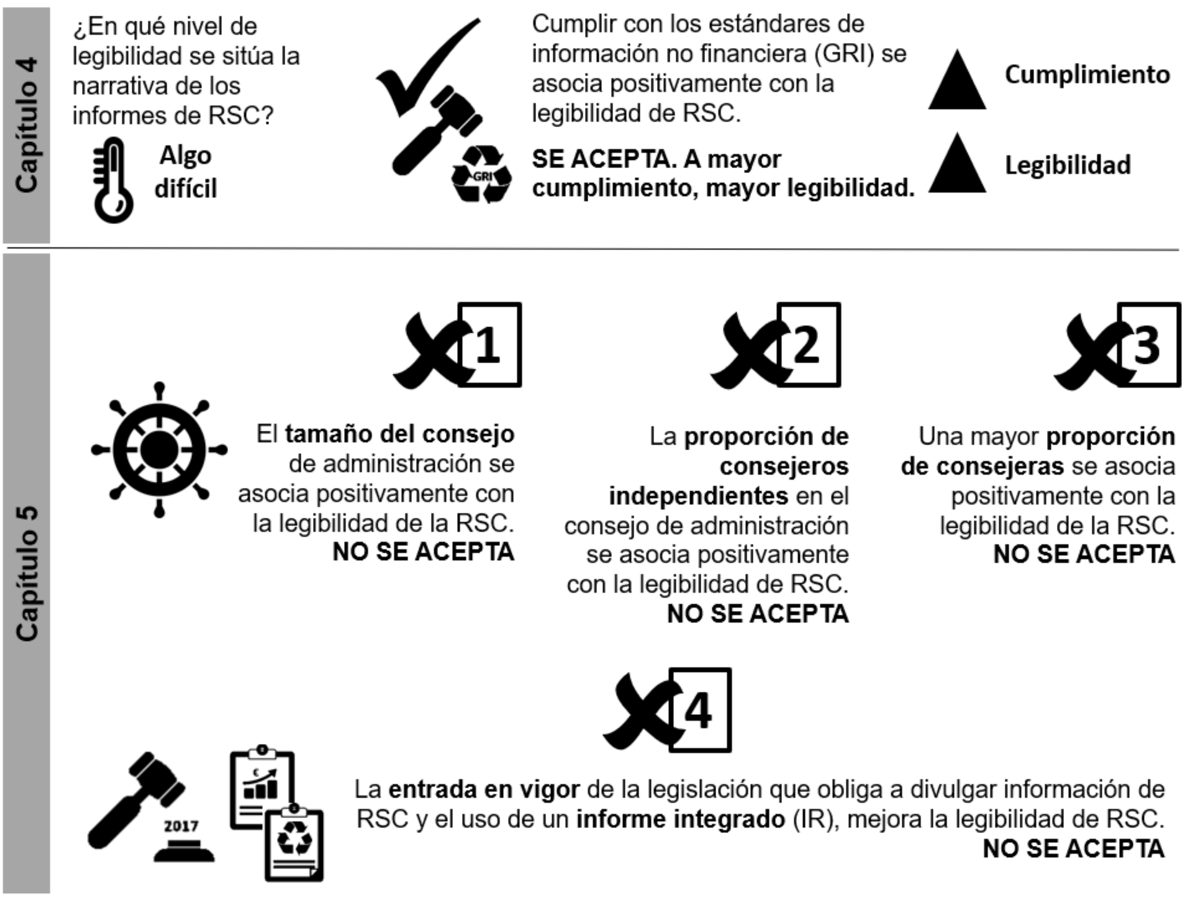
[1] Las empresas bajo esta norma son entidades de interés público, empresas con 500 empleados en promedio en el año y empresas clasificadas como "grandes empresas" durante dos años seguidos. (Las grandes empresas son aquellas que cumplen dos de estos criterios: 20 millones de euros en activos, 40 millones de euros en facturación anual y 250 empleados de media.) También incluye bancos y compañías de seguros, entre otros.

La entrada en vigor de la legislación que obliga a determinadas empresas a divulgar información de RSC y el uso de un informe integrado (IR), mejora la legibilidad de RSC.

Los resultados sugieren que ninguna de las variables estudiadas en esta última hipótesis ha contribuido a mejorar la legibilidad de los informes de RSC, habiendo puntuado "algo difícil" en ambos índices estudiados. Esta conclusión viene a reforzar el papel desempeñado por los grupos de interés, ya que las empresas estudiadas ya informaban sobre RSC, a petición de los grupos de interés, antes de que existiera una regulación obligatoria. La evidencia muestra que el uso de informes integrados no influye en las valoraciones de legibilidad como se podría haber esperado por la mayor implicación y aparente voluntad de proporcionar información clara e integral que está asociada con los informes integrados. Como consecuencia, **no se aceptan** estas hipótesis.

Un resumen de estos resultados empíricos se puede encontrar en la infografía de la figura 3.

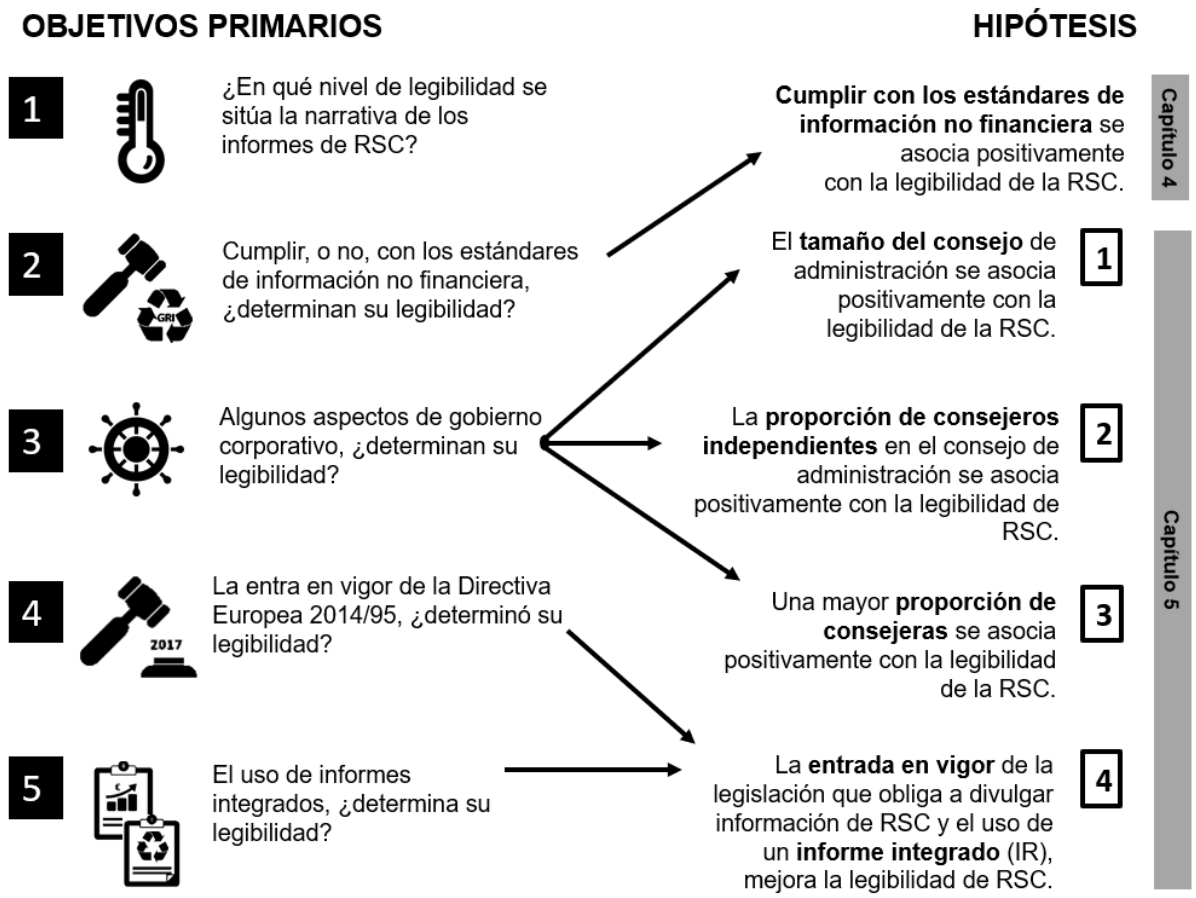
Figura 3. Infografía resumen de los resultados empíricos hallados.



Fuente: Elaboración propia a partir de iconos extraídos de la página web Freepng.es

Un resumen de la relación entre objetivos primarios e hipótesis planteadas se puede encontrar en la infografía de la figura 4.

Figura 4. Infografía resumen de la relación entre objetivos primarios e hipótesis planteadas sobre la legibilidad de la narrativa de los informes de RSC estudiados.



Fuente: Elaboración propia a partir de iconos extraídos de la página web Freepng.es

5. CONCLUSIONES

A continuación, pasamos a comentar las principales conclusiones obtenidas de esta tesis. Antes de que en 2018 entrara en vigor la obligación para las grandes empresas europeas de reportar mediante informes de RSC, este canal de comunicación había ganado relevancia y poder de influencia. Una amplia variedad de grupos de interés se había interesado en el contenido de los informes de RSC y reclamaba que las empresas divulgaran esta información, que comenzaron a hacer de forma voluntaria. En la actualidad, las empresas cotizadas españolas del IBEX35 están proporcionando informes de RSC según normativa y estándares, pero aún no han adaptado completamente su comunicación a los nuevos grupos de interés.

Debido a la gran variedad de grupos de interés interesados en la actividad de RSC de las empresas que utilizan estos informes como fuente de información sobre esta materia, las empresas deben adecuar su comunicación a esta nueva demanda y audiencia de forma que sea accesible, transparente y legible, cumplan o no con los estándares exigidos de RSC. Existen distintos estándares de RSC que pueden ser utilizados como referencia por parte de las empresas y que vienen determinados por la legislación europea y su transposición en cada país. Es por ello de interés conocer cómo se expresa el cumplimiento, o no, del estándar de RSC seleccionado por la empresa en los informes de RSC. Además, en la empresa, es el consejo de administración quien tiene la responsabilidad de que se reporte, mediante un informe, sobre determinada información de RSC y, dado que el gobierno corporativo establece las normas por las que se rigen los consejos de administración, es de interés saber cómo el gobierno corporativo influye en estos informes.

Por tanto, las investigaciones de esta tesis estudian si factores como el cumplimiento de la normativa y determinados criterios de gobierno corporativo condicionan la legibilidad de los informes de RSC en español. Con este propósito esta tesis ofrece dos estudios de legibilidad sobre 140 informes de RSC de empresas cotizadas españolas del índice IBEX35 en el periodo 2015-2018.

Además, para comprender plenamente las investigaciones realizadas, esta tesis comienza con una revisión del contexto legal del gobierno corporativo y la información no financiera en la UE, analiza el concepto de RSC, su evolución y últimas tendencias, así como el concepto de gobierno corporativo a través de las principales teorías, códigos y desafíos, con las siguientes conclusiones finales estructuradas por objetivos:

5.1. Conclusiones finales asociadas a los objetivos primarios

Dado que el estudio de 140 informes de RSC de empresas españolas del IBEX 35 en el periodo de 2015 a 2018 da como resultado que el **promedio de legibilidad** de ambos índices estudiados (Fernández-Huerta e Inflesz) cae en un nivel "algo difícil" en la escala de medida de legibilidad, por lo tanto, en un nivel preuniversitario, es decir, por encima del nivel de lectura “normal” de un adulto, se concluye que la narrativa de los informes de RSC de empresas españolas del IBEX no está adaptada aún a la amplia variedad de grupos de interés que en la actualidad consultan los informes de RSC. La empresa debe hacer un esfuerzo por adaptar el grado de legibilidad a su audiencia actual, por lo tanto, deberá escribir sus informes de RSC a un nivel de legibilidad más accesible según la escala de medida.

En cuanto a la relación entre el **cumplimiento de los estándares GRI** y la legibilidad de los informes de RSC, el resultado de ambos índices sugiere una asociación entre el cumplimiento de los estándares GRI y la legibilidad. Altas tasas de legibilidad se asocian con un alto cumplimiento y viceversa. De este resultado se concluye que es positivo cumplir con los estándares GRI ya que, el cumplimiento, contribuye a la facilidad de lectura de la narrativa y, por lo tanto, permite que los informes de RSC sean comprensibles para un mayor número de grupos de interés. Sin embargo, el incumplimiento de los estándares de información no financiera está asociado al uso de la legibilidad como herramienta para ofuscar los textos narrativos de los informes de RSC o como sobrecarga de información y *green washing* y, en consecuencia, podría afectar la reputación y legitimidad de la empresa. Este resultado podría verse influenciado por el uso de explicaciones más largas que con frecuencia se requieren en el incumplimiento.

Sobre si las **características de gobierno corporativo** afectan o no a la legibilidad de la RSC, los estudios sugieren que no afectan. En este sentido, este resultado es similar al obtenido por Amran, Ping, y Susela (2014). Esto podría explicarse en parte por las características de las empresas de la muestra consideradas: Empresas cotizadas españolas del IBEX35. Se trata de las mejores firmas en términos de liquidez del mercado español y suelen estar muy bien posicionadas en los rankings de gobierno corporativo. Otra posible explicación podría ser que los consejos aún no están concienciados de la importancia de la información de RSC y, por lo tanto, no supervisan la legibilidad de los informes de RSC. Esta conclusión refuerza la relevancia del papel que juegan los directivos en la elaboración de informes de RSC. La legibilidad de la RSC no se ve afectada por el **tamaño del consejo de administración**. El hecho de que el tamaño del consejo no influya podría significar que es un tema que no está en la agenda del consejo y, por lo tanto, no se aborda en las reuniones. Tampoco se ve afectada por la proporción de **consejeros independientes** (externos). Esto podría ser una señal de que los consejeros externos no influyen en la definición estratégica del contenido de la información difundida en los informes de RSC, tampoco se involucran, ni supervisan, su elaboración. Finalmente, nuestros resultados no muestran ninguna influencia de las **consejeras** en la legibilidad de la RSC. Esto podría deberse a que, en España, las consejeras suelen ser consejeras externas. Nuevamente, es posible que no participen en las decisiones estratégicas sobre el contenido de los informes de RSC. Además, la baja proporción de consejeras en las firmas estudiadas también puede afectar este resultado, contrario a resultados de estudios anteriores, aunque esos estudios se centraron en la calidad y no en la legibilidad de los informes de RSC (Fernandez Feijoo et al., 2012).

En cuanto a la implantación de la **legislación** sobre los informes de información no financiera en la EU en 2017 con aplicación a partir de los informes de 2018, esta no ha contribuido a mejorar la legibilidad de los informes de RSC en general, habiendo puntuado "algo difícil" en ambos índices estudiados. Este resultado refuerza el papel que juegan los grupos de interés, ya que las empresas estudiadas ya informaban sobre RSC, a demanda de los grupos de interés, antes de la normativa de obligado cumplimiento. Siguiendo la teoría de la legitimidad, antes de que entrara en vigor la normativa las empresas ya facilitaban información sobre RSC a los *stakeholders* como medio para mejorar sus relaciones con ellos, así como para mejorar la reputación e imagen de la empresa. Asimismo, debido a la complejidad de las firmas del IBEX35, y siguiendo los estudios de Guay, Samuels y Taylor (2016), podría haber habido un aumento en la divulgación voluntaria con el fin de mitigar el impacto negativo de la complejidad financiera en su entorno. Este resultado pone de manifiesto la gran influencia de los grupos de interés sobre las empresas. Destacar en particular cómo los grandes inversores institucionales se ven influidos por la petición de sus clientes de invertir en empresas sostenibles y cómo esta petición alcanza a las empresas. Además, esta petición se amplifica a través de los medios de comunicación y es seguida de la regulación por parte de las administraciones públicas. También poner de manifiesto el poder del consumidor, como grupo de presión con voz a través de las redes sociales, que está cada vez más concienciado en un consumo sostenible y dispuesto a tomar decisiones de compra, y a ejercer influencia, en función de criterios de RSC.

Concluimos que hay una coherencia entre este resultado y el estudio realizado sobre la emisión de códigos de gobierno corporativo por los países europeos ya que muchos de ellos se emitieron, se sugiere que a demanda de los inversores (los principales *stakeholders* del momento), antes de las distintas acciones y normativas europeas referenciadas.

Por último, dado que informar sobre RSC a través de **informes integrados** no mejora la legibilidad, como cabía esperar por la mayor voluntad aparente e implícita de proporcionar una información clara y holística que se asocia con los informes integrados, se concluye que el que haya una integridad en la información no implica que la narrativa de las empresas vaya a ser más legible y, por lo tanto, las empresas han de atender a criterios distintos a la legibilidad cuando decidan en qué formato reportar los informes de RSC de la compañía.

Estos estudios contribuyen al conocimiento sobre comunicación, RSC y gobierno corporativo con una investigación sobre la legibilidad en el idioma español. Proporciona a empresas, reguladores y grupos de interés resultados empíricos sobre la dificultad de los textos narrativos de los informes de RSC y las posibilidades de mejora en esta área de comunicación. Esta investigación brinda el primer estudio empírico que considera la influencia del cumplimiento de estándares GRI sobre la legibilidad de los informes de RSC y el primer estudio empírico que considera la influencia de varias características internas de gobierno corporativo (tamaño del consejo de administración, proporción de consejeros independientes y proporción de consejeras) en la legibilidad de los informes de RSC en idioma español. También considera el grado de influencia de la regulación sobre información no financiera en España, y el uso de informes integrados.

5.2. Conclusiones finales asociadas a los objetivos secundarios

Respecto a los objetivos asociados al **contexto legal de gobierno corporativo e información no financiera**, hemos obtenido las siguientes conclusiones:

La Unión Europea es muy consciente de las ventajas que ofrece el gobierno corporativo para prevenir escándalos y atraer inversiones, por lo que mantiene un marco legal sólido que respalde las mejores prácticas de gobierno y salvaguarde las particularidades de cada estado miembro, además alienta a sus estados miembros a mantener dicho marco legal mediante recomendaciones (*soft law)* y normas de obligado cumplimiento (*hard law)*.

Del estudio de los códigos de gobierno corporativo (*soft law)* emitidos y revisados por los estados miembros de la UE desde 1992 hasta 2019 se concluye que, como los códigos emitidos por entidades internacionales de referencia (por ejemplo, OCDE o ICGN) están planteados para su aplicación transversal por diferentes países en el mundo, en lugar de tomarlos como referencia, cada país de la Unión Europea ha preferido desarrollar un código propio con el propósito de contemplar sus particularidades culturales y empresariales. También concluimos que el marco regulatorio no influyó en la emisión de códigos ya que muchos de ellos se emitieron con anterioridad, y por lo tanto al margen, de las distintas acciones y normativas, posiblemente motivados por las exigencias de los inversores internacionales. Sobre los emisores de las revisiones de los códigos, no hay una unidad de criterio sobre quienes las llevaron a cabo.

En cuanto al *hard law*, se concluye que las Directivas de la UE sobre gobierno corporativo convierten en normativa de obligado cumplimiento aquellos criterios de gobierno corporativo, normalmente recogidos en los principios de buen gobierno (*soft law*), que se consideran de aplicación necesaria por parte de todos los estados miembros.

En relación a la información no financiera, la UE está tratando de mantener el ritmo de divulgación demandado por los inversores y grupos de interés. La Directiva europea 2014/95/UE es un hito para la presentación de informes de información no financiera, pero aún queda mucho por hacer para que la presentación de estos informes facilite el análisis y la comparación de conceptos e índices equivalentes de información no financiera. Este es un gran desafío debido a las particularidades de las métricas en los países y los sectores.

Sobre el contexto legal español, en materia de *soft law*, con cuatro códigos España se sitúa casi en la media de la UE en emisión de códigos (la media de la UE es 4,3). En *hard law* ha evolucionado con las exigencias europeas y ha incorporado a las entidades de interés público (EPIs) entre las compañías reguladas en esta materia. Sobre a la información no financiera, esta fue introducida en España mediante *soft law* por el Código de Buen Gobierno Corporativo de 2015. En la actualidad, la presentación de información no financiera se rige por la Directiva Europea 2014/95/UE, y su transposición española Real Decreto - ley 18/2017 de aplicación en 2018. La mayoría de las empresas españolas del IBEX35 informaron de forma voluntaria sobre información no financiera antes de la entrada en vigor de esta legislación. El estándar de información más utilizado por las empresas del IBEX35 en España es GRI.

Respecto a las conclusiones asociadas al **estudio de la RSC, antecedentes, terminología e informes:**

Dado que la RSC aúna los intereses de los diferentes actores vinculados a la empresa, con los intereses de la propia empresa, muchas de las teorías de gestión más relevantes se han unido entorno a este complejo concepto.

La influencia de los grupos de interés ha sido el factor determinante para la relevancia que ha adquirido la RSC. Además, la participación de los grupos de interés en las estrategias y operaciones de la empresa ha contribuido a la integración de la sostenibilidad en la estrategia empresarial y también ha contribuido a prevenir decisiones económicas destructivas y desequilibrios sociales. La legislación que rodea la divulgación de información mediante la presentación de informes de RSC ha llevado esta información un paso más allá elevándola al nivel de la información financiera y de gobierno corporativo.

Las consecuencias positivas que tiene la comunicación de medidas de RSC, junto con los escándalos corporativos, han desencadenado insinuaciones de *green washing*, por lo que la coherencia se ha vuelto relevante al divulgar sobre RSC, y una visión holística de la RSC, liderada por el consejo de administración e integrada en la cultura de la empresa, se ha vuelto crucial para asegurar la legitimación y credibilidad de la empresa ante los grupos de interés. Es por ello que la RSC es en la actualidad una de las mayores preocupaciones de los consejos de administración, por su relevancia para la definición estratégica de la empresa y por la falta de un conocimiento claro sobre lo que realmente se les exige. El enfoque estratégico de RSC de una empresa debe convertirse en una parte esencial de la cultura de la compañía y debe reflejarse en todas sus acciones.

Tras estudiar el término de RSC concluimos que no existe una definición única de RSC. También se observa que se emplean diferentes términos de manera indistinta, (como información no financiera, ciudadanía corporativa o sostenibilidad). Estos nuevos términos enfatizan algunas dimensiones de RSC o subrayan el punto de vista de la empresa o de algunos grupos de interés, a la vez que crean confusión sobre el concepto y dificultan los estudios empíricos. En base a su evolución, y considerando que es un concepto muy amplio cuyo alcance aún se está definiendo, parece razonable que el término RSC continúe evolucionando, aunque existe una demanda y una expectativa de consenso sobre los principales temas que representa este concepto. Una nueva legislación podría contribuir a aclarar los límites del término.

Cuando se trata de estándares de referencia para la elaboración de informes de RSC, la amplia variedad de marcos permitidos por la regulación como base para los informes está causando una gran confusión. No obstante, existen algunos estándares, como los estándares GRI, que destacan del resto por ser ampliamente utilizados en Europa.

Actualmente, la llamada a la acción se centra en la demanda de los grupos de interés, en su mayoría inversores, de una directriz o marco común, con criterios inequívocos, que sirva de referencia para la presentación de informes internacionales de RSC. Esta demanda es muy difícil de satisfacer ya que los actores involucrados, sectores, empresas, culturas y gobiernos pueden diferir en los criterios y en la forma en que interpretan y reproducen unas posibles directrices transversales. Por lo tanto, distintos organismos, entre ellos la Organización Internacional de Comisiones de Valores (IOSCO), el regulador global, están abordando este problema con el propósito de armonizar las reglas y los marcos de referencia.

Con referencia al papel de los auditores, concluimos que es posible que el papel de los auditores se vuelva más relevante con el tiempo e incluso es posible que se vea sometido a una mayor regulación, ya que será necesario, no solo identificar la información que proporcionan las empresas, sino también verificar su veracidad. Además, las prácticas y políticas de auditoría y supervisión de calificaciones sobre los estándares de RSC reportados por las empresas se analizarán más a fondo y cada vez será mejor valorado ir un paso por delante de la normativa sobre auditoria en RSC.

Finalmente, las conclusiones asociadas a la **comprensión**, **desafíos y tendencias sobre Gobierno Corporativo** son las siguientes:

Tras profundizar sobre el concepto de la primacía del accionista en la teoría de la agencia concluimos que éste es desafiado por el concepto de la corporación como principal, concepto que defiende cómo en toda decisión se ha de velar por el interés de la empresa por delante del interés del accionista. Otro de los desafíos del gobierno corporativo es ser capaz de alinear los diferentes intereses del principal y la agencia. Esto queda ampliamente ilustrado por las dificultades que tienen las empresas para asegurar que la dirección asuma y aplique las decisiones estratégicas tomadas por el consejo de administración.

En cuanto al concepto de aplicar y explicar, éste ha llegado a desafiar al *soft law*. La forma en que las empresas aplican las recomendaciones basadas en el principio de cumplir o explicar, es uno de los mayores desafíos para el gobierno corporativo, ya que las empresas miran el cumplimiento como un propósito, cuando el propósito es aplicar e internalizar el gobierno corporativo en la organización. Esta es una de las razones por las que el *soft law* está orientándose hacia un enfoque de aplicar y explicar, donde las empresas deben aplicar, y también explicar, cómo y por qué se ha realizado la aplicación.

Consideramos que otro debate es el conflicto entre *soft law* y *hard law*; encontrar la combinación adecuada entre ellos; cuál de ellos es más eficaz en la aplicación de buenas prácticas de gobierno corporativo y cuál tiene más probabilidades de lograr una transformación natural y profunda de la empresa hacia los estándares de gobierno corporativo.

En cuanto a los mecanismos de control, sugerimos cómo los nuevos códigos de gobierno corporativo llegan a desafiar los mecanismos clásicos de control interno y externo al incluir la cultura de la empresa, la supervisión y el control internos, además de las funciones del consejo de administración como funciones internas, siendo los grupos de interés externas. Entre los grupos de interés figuran los medios de comunicación, la sociedad y los *millennials*, como futuros ejecutivos, inversores y clientes.

Respecto a las tendencias, concluimos que el gobierno corporativo aún tiene grandes desafíos por delante, entre los que destacamos: la tendencia a proporcionar principios de gobierno corporativo para empresas no cotizadas, consolidándose con los Principios de Wates del Reino Unido de 2018. También cómo el gobierno corporativo está aumentando su alcance y complejidad, por ejemplo, al incluir en su ámbito la información no financiera. Destacar las tendencias de evolución desde "cumplir o explicar" a "aplicar y explicar" y el enfoque hacia la contribución a largo plazo de la empresa, la sostenibilidad y la transparencia. En el plano legislativo, es tendencia la transición de recomendaciones a cumplimiento, y desde el punto de vista de los *stakeholders* se observa cómo hay una transición por parte de la empresa de dar relevancia, casi en exclusiva, a inversores y accionistas, a considerar otros grupos de interés.

6. IMPLICACIONES PARA LAS EMPRESAS

De esta tesis se desprenden las siguientes implicaciones para las empresas:

La empresa debe esforzarse por comunicar en los informes de RSC con una narrativa más sencilla y los reguladores deben estimularlo, dado que la audiencia de la empresa ahora incluye grupos de interés con diferentes niveles de lectura, entre los que se pueden encontrar desde clientes y sociedad, a inversores, medios de comunicación u otros.

Cumplir con los estándares de RSC contribuye a una mejor legibilidad de los informes y, por lo tanto, a una mejor comunicación con los grupos de interés. Además, mantener una postura proactiva y comunicar de manera clara debe ser la norma en la comunicación de RSC, incluso en caso de incumplimiento, ya que, de lo contrario, podría interpretarse como sobrecarga de información y *green washing* pudiéndose ver afectada la reputación y legitimidad de una empresa.

Los consejos de administración deben asumir su responsabilidad en la divulgación de RSC, definir la estrategia, sus líneas generales y supervisar y controlar la implementación. Además, la composición del consejo de administración debe ser más diversa e incluir consejeros con conocimientos de RSC para aportar esta perspectiva al consejo de administración. Es una buena oportunidad para que los consejeros externos se especialicen en RSC y proporcionen estas nuevas habilidades y conocimientos al consejo de administración.

Por lo tanto, la empresa debe:

- Escribir la narrativa de los textos de los informes de RSC con un nivel de legibilidad menor que el actual, para que sea accesible a todos los grupos de interés.
- Cumplir con los estándares GRI para reforzar así la legibilidad de los textos.
- En caso de incumplimiento, mantener un nivel de legibilidad accesible a todos los grupos de interés.
- Revisar periódicamente el nivel de legibilidad de los textos narrativos de los informes de RSC y de otros informes corporativos.
- Valorar la posibilidad de llevar a cabo una auditoria que profundice más allá de lo exigido por ley, ya que aporta confianza a los grupos de interés y mejora la reputación.
- Analizar si el consejo de administración está tomando las riendas de RSC.
- Definir la estrategia de RSC, así como sus líneas generales, incluida la legibilidad, además de supervisar y controlar la implementación.
- Incluir temas de RSC en la agenda de las reuniones del consejo de administración.
- Preguntarse qué papel está asumiendo la dirección respecto a la RSC y por qué.
- Considerar formar al consejo de administración en temas de RSC.
- Continuar escuchando a los grupos de interés y adelantarse a la normativa.
- Utilizar el formato de informes que considere oportuno teniendo en cuenta que la legibilidad de los informes de RSC no se verá afectada por esta decisión.

En general, hay mucho que mejorar en la legibilidad de la divulgación de sostenibilidad a través de informes de RSC para las empresas españolas del IBEX35. Los consejos de administración deben tomar la iniciativa y marcar el tono en los temas de RSC. Además, una metodología de presentación de informes más precisa y estándar podría contribuir a este enfoque, así como una auditoría sistemática y detallada. La función de los reguladores, los grupos de interés, auditores y las empresas es fundamental para este proceso.

7. CONTRIBUCIONES ACADÉMICAS

En cuanto a las contribuciones académicas de esta tesis, los estudios empíricos sobre legibilidad en la mayoría de los casos se refieren al idioma inglés, hasta donde sabemos, no se han realizado estudios sobre la legibilidad de los textos narrativos de informes de RSC en español. Además, el objeto que se considera para medir la legibilidad de la empresa es diferente. Estudios anteriores han considerado declaraciones del presidente, cartas a los grupos de interés, informes anuales (Moreno y Casasola, 2014), los menos se centran en información de RSC (Abu Bakar y Ameer, 2011; Roman et al., 2019) como el informe integrado o los informes de RSC. Además, hasta donde sabemos, ningún estudio ha considerado el cumplimiento de los estándares GRI y las características de gobierno corporativo como determinantes de la complejidad y dificultad de comprensión de los informes. En la mayoría de los casos, el estudio de la legibilidad de RSC está asociada con el desempeño de la empresa (Abu Baker y Ameer, 2010). Solo el artículo de Amran, Ping, y Susela (2014) considera el papel del consejo de administración en la calidad del informe de RSC (pero no en su legibilidad). También consideramos el efecto de la regulación en la legibilidad, así como el uso de informes integrados y su relación con la legibilidad. Por lo tanto, existe un claro "gap" de estudio completado con este estudio.

8. FUTURAS LINEAS DE INVESTIGACIÓN

Las futuras líneas de investigación incluyen:

Con respecto a la investigación académica sobre **RSC**, hay muchos campos para explorar en el futuro. Por ejemplo, un estudio exhaustivo sobre los estándares actuales de RSC podría contribuir a la difícil tarea de proporcionar un estándar común. Además, ahondar en propuestas de definición de RSC basadas en la investigación académica podría sentar las bases para alcanzar una definición consensuada del término. Otras áreas de investigación podrían ser: cómo mejorar el diálogo empresa-inversor; cómo incorporar la RSC a la cultura empresarial; identificar las limitaciones para la aplicación del estándar de RSC debido a contextos sectoriales, culturales o nacionales; la implicación del consejo de administración según los resultados de RSC y en la presentación de informes; la comprensión por parte de los grupos de interés de los informes de RSC; los riesgos de RSC, o los resultados de diferentes estrategias de RSC, entre muchos otros.

Otros campos de investigación sobre la **legibilidad de los informes de RSC** podrían ser estudiar el cumplimiento y legibilidad de otros índices GRI, investigar una muestra más amplia de empresas cotizadas y no cotizadas en España y en otros países que informen utilizando el español, así como comparar resultados con otros países europeos. Además, podría ser de interés hacer una comparación adicional entre inglés y español, al igual que llevar a cabo investigaciones sobre legibilidad y calidad de la información, divulgación o auditoría. También se podrían realizar estudios similares en diferentes marcos institucionales y en otros idiomas para ver si existen diferencias.

En cuanto a estudios de investigación sobre **gobierno corporativo y legibilidad de informes de RSC,** podrían realizarse estudios de varios países, de una muestra mayor de empresas que coticen en bolsa y/o con variables de gobierno corporativo adicionales. Entre las variables de gobierno corporativo se podrían considerar, por ejemplo, si la RSC está en la agenda del consejo, la presencia en el consejo de consejeros independientes con conocimientos de RSC, el número de reuniones del consejo, si la presidencia del consejo es o no ejecutiva, si la comisión de auditoría supervisa los informes de RSC, si existe una comisión específica de RSC, etc.

INTRODUCTION

I. RESEARCH JUSTIFICATION

One of the main communications tools a company has is the disclosure of information through corporate reporting. As businesses become increasingly complex and companies' interest groups become more active, corporate reporting grows increasingly multifaceted and exhaustive. The contents that the company discloses through these reports arise great interest among investors, its traditional audience, as well as other interest groups that have begun to turn to these sources, including: clients/consumers, governments, local communities, employees and suppliers. They information they now demand is not only financial data, but also corporate governance and non-financial information (Arena, Bozzolan, & Michelon, 2015; Boiral, Heras-Saizarbitoria & Testa, 2017; Dhaliwal, Li & Tsang, 2011; Reverte, 2012). This complementary view of business allows stakeholders to see the 'complete picture' of the company and make better informed decisions. In fact, consumers are increasingly considering environmental criteria in their purchase decisions and there has been an increase in investments under ethical and socially responsible criteria (Clarkson, Richardson & Vasvari, 2008). Consequently, companies have augmented non-financial reported information, and, by doing so, have not only reacted to stakeholder pressure, but also to business interests in a globalised world and to corporate scandals that have sensitised stakehoders towards transparency. At the same time, they have recognised the moral responsibility inherent in this practice (Amran, Lee & Devi, 2014; Crowther, 2000; Michelon & Rodrigue, 2015). Companies are becoming increasingly aware that non-financial reports (from now on referred to as corporate social responsibility – CSR – reports) contribute to stakeholder engagement, and that the interests of stakeholders should be represented in them (Sacconi, 2004; Smeuninx, Clerck & Aerts, 2016).

Considering the facts on CSR reporting, studies have confirmed an increase in environmental and social performance reporting (Morhardt, Baird & Freeman, 2002; O'Dwyer & Owen, 2005), which is becoming a mainstream global business practice (Kolk, 2010; Van Wensen, Broer, Klein & Knopf, 2011). The Governance and Accountability Institute determined that more than 82% of Standard & Poor's 500 index (S&P 500) companies had published a CSR Report in 2017, compared to just 53% in 2012 (Pei-yi Yu, Qian Gou & Van Luu, 2018). Moreover, in 2017, KPMG's Survey of Corporate Responsibility Reporting signified that 78% of companies issuing reports worldwide had included corporate responsibility information in their annual financial reporting. In 2011, that figure was 44%.

Further analysing the audience for reports 'has become more diverse, being 48% company-internal, 16% investors, 14% company-external value chain, and 22% 'civil society', which includes media, labour unions, public institutions, academics and other experts, as well as concerned citizens and consumers (Townsend, Bartels & Renaut, 2010)' (cited at Smeuninx, Clerck & Aerts, 2016, p. 60). Due to this diverse audience, companies have begun to adapt their communications by improving the narrative texts' readability, among other things (Smeuninx et al., 2016).

But what is meant by readability? Harris and Hodges (1995) consider that reading and understanding a written text defines the concept of readability. Smeuninx, Clerck and Aerts (2016) state that 'when a text's features make it easier for the reader to extract desired information it is more readable' (p. 55). Readability mitigates information asymmetry and could be identified as one of the criteria which influences the complexity of reporting, which refers to the complexity of explanatory language surrounding a company's financial reporting. Consequently, readability can be a powerful communication tool and, as such, it might be purposefully or un-purposefully influenced by different factors. For example, some companies use readability to manipulate the understanding of disclosed information to their best interest, making narrative texts more readable when the information given is positive, and the opposite when it is negative. This is called the 'obfuscation hypothesis' (Courtis, 1998; Rutherford, 2003; Wang, Hsiech & Sarkis, 2018). This manipulation might occur whether or not the company complies with legislation or reference standards, being able to facilitate reading when there is compliance and doing the opposite when there is not. Likewise, the type of report used in the disclosure of information (i.e. in an integrated report or in other, separate pieces) could have an effect on readability, due to the apparent greater commitment to transparency associated with integrated reports. In addition, readability might be influenced by aspects related to corporate governance, as CSR reports have recently become the responsibility of the board of directors in European large companies.

Discerning how the readability of Spanish CSR written reports is employed by companies, and identifying what could influence it, is an unexplored field of great interest.

II. OBJECTIVES

Studies on readability in Spanish language are scant, and since CSR reporting is a current trend in business, as previously mentioned, this study will further look into the readability of CSR narrative texts through CSR reporting in Spanish. As far as we know, this is the first study to consider this perspective.

The primary and secondary objectives of this thesis are as follows:

a. Primary objectives and results

First primary objective. **Determining readability difficulty levels of CSR reports' narrative texts in Spanish, of the largest listed companies in Spain** (Chapter 4).

To determine the level of readability, it is necessary to start from a formula that establishes a scale of measurement. The most commonly used formula to measure narrative texts in English on a readability scale is the Flesch readability formula. Based on the Flesch formula, two indexes are used to measure the readability of narrative texts written in Spanish, these are: the Fernández-Huerta and Inflesz indexes. To determine the levels of readability in this study, these indices are applied to the narrative texts of 140 CSR reports of IBEX35 Spanish-listed companies in the period 2015-2018. The study concludes that the **readability average of both indices studied (Fernandez-Huerta and Inflesz) fall into 'somewhat hard' level in the readability measure scale**.

Since stakeholders have taken the lead in demanding sustainability transparency, engagement with them has become more important than ever and companies and regulators should make an effort to communicate in a simple manner. They should keep in mind that their target audience might not now be a specialized one and they should simplify the readability of their reports so that they may be understood by their varied receptors, which could include everyone from clients and society to investors, media or others.

Second primary objective. **Determining whether or not the readability of Spanish-language narrative texts in CSR reports of the largest listed companies in Spain, are influenced by compliance with non-financial information standards.** (Chapter 4).

Regarding compliance with non-financial information standards, since 2018 companies listed in Spain must report on non-financial information applying the standards included in the European Directive 2014/95/EU and in its Spanish transposition by Royal Decree - Law 18/2017. The Global Reporting Initiative (GRI) is among the information standards to which the legislation refers and has become the most widely used framework for CSR reporting today (García-Sánchez et al., 2019; López, García and Rodríguez, 2007) being the one used by IBEX35 companies in Spain. The GRI standard is structured in indices. Among the GRI indices, those selected for this study were those related to compliance with laws and regulations on anti-corruption, anti-competitive behavior, environmental compliance, labeling, marketing and socioeconomic.

To determine the levels of readability in this study, the Fernández-Huerta and Inflesz indexes are applied to the narrative texts of GRI índices studied. The result suggests an **association between compliance and readability, that high rates of readability are associated with high compliance, and vice versa**. It's of interest to emphasize that complying improves readability and that a proactive stand and clear sustainability communication should be the rule even when there is non-compliance, since one of the outcomes of this empirical study is that a company's readability becomes more difficult when there is non-compliance. This result could be influenced by the use of longer explanations frequently required by non-compliance, but this practice could also be due to information overload, obfuscation and greenwashing and, consequently, could affect a company's reputation and its legitimacy.

Third primary objective**. Determining whether or not the readability of Spanish-language narrative texts in CSR reports of the largest listed companies in Spain, are influenced by corporate governance characteristics** (Chapter 5).

With regard to corporate governance, the board of directors is currently responsible for defining the companies' strategy, the "tone from the top" on CSR and long-term performance matters, and for the preparation of CSR reports. This allows us to consider the possible influence that certain corporate governance characteristics may have on the readability of CSR reports when comparing the composition of the board of directors (size of the board, proportion of independent directors and proportion of female directors) and legibility.

We conclude that **considered corporate governance characteristics do not affect CSR readability**. In this sense, this result is similar as the one obtained by Amran, Lee, and Devi (2014) on a sustainability reporting quality cross-sectional study of 113 Asia-Pacific companies where they highlighted 'The weak role of the board of directors in upholding the sustainable development agenda through the reporting process' (p. 217). CSR readability is not affected by either the size of the board or the proportion of independent directors. Finally, our results do not show the effect of female directors on CSR readability. This result is contrary to previous results (Fernandez Feijoo et al., 2012), although those studies were focused on the quality rather than the readability of CSR reports.

Fourth primary objective. **Determining whether or not the readability Spanish-language narrative texts in CSR reports of the largest listed companies in Spain, are influenced by 2017's CSR regulation** (Chapter 5).

Stakeholders have been demanding the disclosure of non-financial information since long before the entry into force in 2018 of the European Directive 2014/95/EU and its Spanish transposition by Royal Decree - Law 18/2017 that obliges to certain companies. This objective seeks to know if the legislation has been decisive in improving the readability of the narrative texts of CSR reports or if, on the contrary, the readability is the same as when it was reported voluntarily at the request of stakeholders.

Regarding **laws on the reporting of non-financial information, as is the case in Spain, these have not contributed towards improving the readability of CSR reports** in general, having scored ‘somewhat hard’ in both indices studied.

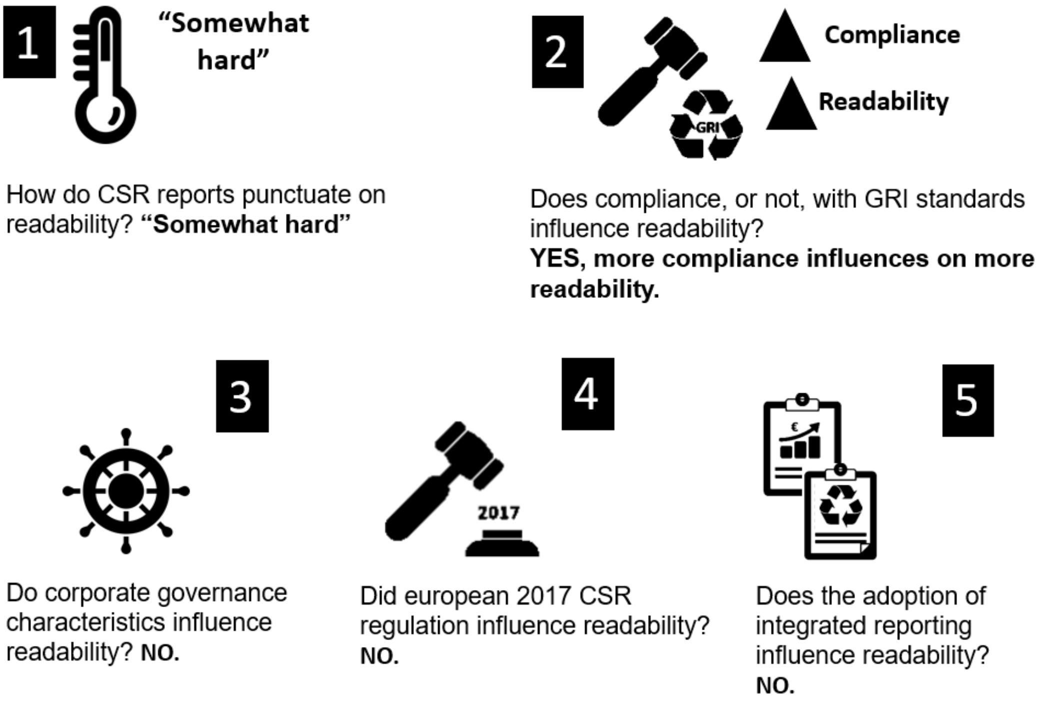
Fifth primary objective. **Determining whether or not the readability of Spanish-language narrative texts in CSR reports of the largest listed companies in Spain, are influenced by the adoption of integrated reporting** (Chapter 5).

The reference legislation allows CSR information to be reported as an additional piece or as part of an integrated report that brings together in a single document, and with a comprehensive approach to the company, all the information issued. This objective seeks to identify whether the use of one type or another of report format influences the readability of the narrative texts of CSR reports.

Reporting CSR criteria via integrated reporting does not improve readability. Evidence shows that the use of integrated reports does not influence readability scores as could have been expected by the apparent and implied increased willingness to provide the sort of clear and holistic information that is associated with integrated reporting.

An infographic that summarises primary objectives and results can be seen on figure 1.

Figure 1. Infographic summary of primary objectives and results



Source: By author using icons retrieved from the web page Freepng.es

b. Secondary objectives

To properly recognise the context surrounding CSR and corporate governance, it is essential to describe their institutional framework in Europe, for both soft law and hard law, as well as to understand CSR and corporate governance concepts and evolution. This takes us to the following secondary objectives, structured by chapters:

Secondary objectives, Chapter 1. Understanding corporate governance and non-financial information legal context: soft and hard law.

- Introduce the understanding of European Union policy regarding the legal framework for corporate governance and non-financial information.
- Introduce the understanding of why each country in the European Union has issued its own corporate governance codes, and whether or not the regulatory framework has influenced this process.
- Identify the criteria considered when a corporate governance recommendation moves from soft law to hard law.
- Define the Spanish legal context with respect to corporate governance and non-financial information.

Secondary objectives, Chapter 2. CSR overview: understanding its background, terminology and reporting.

- Introduce the understanding of the CSR phenomenon and the motivations of its detractors.
- Identify the role of the board of directors in CSR.
- Introduce two issues on CSR: the variety of terms used to refer to these practices, and the variety of reference standards available for reporting.
- Identify upcoming trends in the role of CSR auditors.

Secondary objectives, Chapter 3. Corporate governance overview: understanding and trends.

- Introduce the understanding of corporate governance.
- Identify the current main challenges of corporate governance.
- Identify the main trends of corporate governance.

III. RESEARCH STRUCTURE AND METHODOLOGY

This thesis has been organized around six chapters. After the introduction, the first chapter serves as the basis for understanding the legal context of the following chapters, which are the second chapter, which offers an overview of CSR and the third chapter, which offers an overview of corporate governance. The fourth and fifth chapters study, through empirical analysis, the influence of compliance with GRI standards and corporate governance, respectively, as a determinant of the readability of CSR reports in Spanish. The sixth chapter closes with conclusions.

The **first chapter** of this thesis depicts how corporate governance and non-financial information are ruled in the Eurozone by examining the EU's corporate governance and non-financial information legal framework from both soft law and hard law perspectives. On soft law, it provides a study of the corporate governance codes issued and reviewed by EU countries from 1992 to 2019, considering the issuers of said codes. On hard law, it lists and summarises key policy developments and regulatory outputs on corporate governance and non-financial information in the EU. Finally, it provides an overview of the Spanish case. To add context, this chapter also includes an introduction to understanding the EU's corporate governance and non-financial information legal framework.

In terms of methodology, in soft law, this chapter has based its study on codes issued and reviewed by EU countries from 1992 to 2019. The information has been mostly gathered from the European Corporate Governance Institute (ECGI) and countries' stock exchanges or supervisors, as well as from different corporate governance reports published by the OECD and others. The results from this investigation have been contrasted with the studies done by ecoDa and Mazars (2015) and ecoDa and IFC (2015). In hard law, the EU summary of policy developments and regulatory outputs is based on information published by the CFA Institute (2016), and updated with information from the European Commission. Finally, the study of the Spanish case is our own elaboration based on information from the CNMV (Spanish regulator) and BOE (Spanish official journal). In terms of limitations to the study, in some cases sources differ on the adoption year or issuer of certain codes. The data gathered for 2019 is that which was available before June.

Second chapter approaches the CSR concept. CSR plays a predominant role in today's business world, having become an essential strategic priority for companies and boards of directors. This chapter provides an up-to-date document that summarises the state of, and the major trends within, CSR at a crucial time, two years after CSR reporting became enforceable by law for large companies in Europe with the enactment of European Directive 2014/95/UE. This chapter analyses the definition of CSR and similar terms and concepts, including 'non-financial information', 'corporate citizenship' and 'sustainability', to better aid our understanding of them, and looks into CSR reporting and standards, while underlining audit and assessment relevance. There is also a scrutiny of CSR from the view of its return to companies through marketing, employee commitment and economic outcomes.

In terms of methodology, after a literary review of the articles provided by the academic community on CSR and related terms, primary academic papers were revised and complemented with information from different sources, including the OECD, ICGN (investor-led organisation) and GRI, among others, to finally form the overview of the CSR concept within this chapter.

Third chapter provides an overview of the main theories and control mechanisms that have traditionally ruled corporate governance. Findings suggest how relevant new codes of corporate governance come to defy the classic internal and external control mechanisms, by including company culture, internal supervision and control and functions of the board as internal functions, and stakeholders as external. It also shows how the ‘apply and explain’ concept has come to defy soft law and how the concept of shareholder primacy in agency theory is challenged by the concept of corporation as a principal. It also identifies future trends, such as corporate governance for unlisted companies, or changes in corporate governance reporting.

This chapter defies and gives an overview of contemporary academic discussions on theories and control mechanisms, enriching them with complementary and updated information from institutions, as well as academic and non-academic research. This chapter provides an up-to-date document that summarises the state of the art within corporate governance.

In terms of methodology, this chapter forms the theoretical framework by reviewing relevant academic papers on corporate governance and contrasting them with recent papers, non-academic studies and prestigious documents of reference in the field.

Fourth chapter analyses the readability of Spanish-language communication from the board of directors, based on the study of narrative texts in the CSR reports of IBEX35 index companies, which includes the 35 largest listed companies in Spain given their market capitalization. It undertakes an empirical study with two purposes: first, to describe the readability scale of these texts, and second, to ascertain whether or not compliance on CSR influences the readability of disclosure. Findings suggest that these reports are difficult to read and that compliance with GRI standards could be related to low readability difficulty of reports, and non-compliance to high readability difficulty.

In terms of methodology, there is literary review of the articles provided by the academic community on readability and CSR reporting and related terms, which sets the basis for the following literary review. There is another literary review over the relationship between CSR report’s compliance with laws and regulation with readability.

Then a study is done on the narrative texts of six GRI data indices related to compliance with laws and regulations, included in 140 CSR reports of IBEX35 Spanish-listed companies in the period 2015-2018. The IBEX35 index unites the 35 largest listed companies in Spain given their market capitalization since, according to stakeholder theory, company size is linked to CSR disclosures (Roberts, 1992; Tagesson, Blank & Broberg, 2009; Tamimi & Sebastianelli, 2017). For this research, we manually collected the GRI data related to compliance with laws and regulation on anti-corruption, anti-competitive behaviour, environmental compliance, labeling, marketing and socioeconomic compliance, and classified it following KLD database criteria. Then readability was measured using two indices for Spanish language readability: the Fernandez-Huerta and the Inflesz indices. These indices are based on the Flesch Reading Ease formula for English narrative texts. After analysing descriptive statistics and employing a multivariate analysis, results show the rating on the readability of CSR narrative texts was 'high' for both indices, which means the texts are difficult to read. Other results, obtained by applying multiple regressions, suggest an association between compliance and readability.

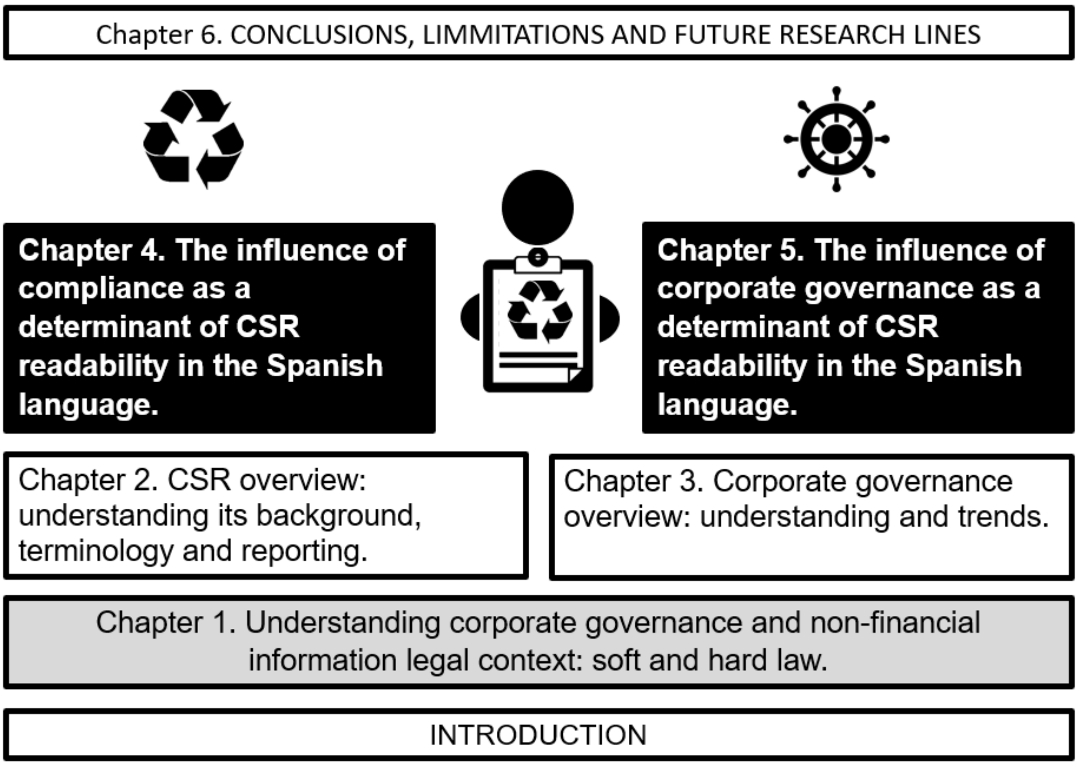
Fifth chapter's empirical study considers the influence of several internal corporate governance characteristics (board size, the proportion of independent directors and the proportion of female directors) on the readability of CSR reports in the Spanish language. It also considers how, since 2018, the hard regulation of non-financial information in Spain, and the use of integrated reports, influences CSR readability. Findings suggest that internal corporate governance variables do not affect CSR report readability per se. Likewise, readability is unaffected when disclosure of non-financial information is required by law or when CSR issues are presented in an integrated report. On the contrary, the study suggests that when firms follow GRI guidelines and report on more GRI indicators, the better the readability will be.

In terms of methodology, after defining the theorical framework, the study was carried out on 140 CSR or sustainability reports of IBEX35 Spanish-listed companies from the period 2015-2018 using the Fernandez-Huerta formula and the Inflesz index for Spanish language readability. We complemented previously gathered sustainability information from CSR reports of Spanish IBEX35 companies by manually collecting data from annual reports on corporate governance retrieved from companies' web pages. After applying descriptive and correlation analyses, we first employed the Mann-Whitney U and the Wilcoxon tests for significant differences in CSR readability, depending on corporate governance characteristics and type of report. Next, to test the research hypotheses, we analysed the influence of corporate governance characteristics, regulation and type of report on CSR readability by applying the random-effects panel data model, given that the Hausman test revealed potential autocorrelation between independent variables and the fixed effects.

Sixth chapter concludes the thesis with comments, limitations and recommendations, and suggests areas for further study.

An infographic that summarises the structure of the thesis can be seen on Figure 2.

Figure 2. Infographic summary of the structure of this thesis.



Source: By author using icons retrieved from the web page Freepng.es

IV. RESEARCH GAP

When searching for previous academic studies linked to the **readability of CSR report narrative texts in the Spanish language**, the most similar research we found was Moreno and Casasola (2016), who studied the readability of Spanish accounting narrative reports over two companies. In the English language, we found four studies. Smeuninx, Clerck and Aerts (2016) suggest that CSR reporting is a very difficult-to-read genre, sometimes being even more difficult than financial reporting. Farewell, Fisher and Daily (2014) concluded that reports had a low readability and would be difficult to read for stakeholders, and encouraged companies to simplify their language. Abu Bakar and Ameer (2011) found that CSR reporting of Malaysian companies was highly difficult to read and that it got even more difficult as company performance deteriorated. Wang, Hsiech and Sarkis (2018) found a significant positive relationship between CSR performance and the readability of CSR reports.

There are different **studies on the concept of readability** (DuBay, 2004; Klare, 1963; McLaughlin, 1969), or readability vs understandability (Smith & Taffler, 1992), since readability can be a powerful communication tool used by some companies to manipulate the understanding of disclosed information to their interest, making narrative more readable when the information given is positive and doing otherwise when negative (Kaymak & Bektas, 2017; Wang et al., 2018). This is what some scholars call the 'obfuscation hypothesis' (Courtis, 1998; Rutherford, 2003; Smeuninx et al., 2016). For example, studies by Adelberg (1979) and Li (2008) have suggested that the readability of company reports and their financial performance were negatively associated (Wang et al., 2018). 'Cho, Michelon, and Patten (2012) found that CSR reports, just like financial reports, show a preference for graphs that display positive trends' (Smeuninx et al., 2016, p. 53). Other authors have studied the consequences and costs associated with the readability of narrative-text financial disclosure and how it can influence the reaction of investors (Lehavy, Li & Merkley, 2011; Li, 2008; Rennekamp, 2012; Wang et al., 2018). Consequently, 'because of these variations, managers' decisions about narrative disclosures are not neutral (Bowen, Davis, & Matsumoto, 2005; Sydserff and Weetman, 1999)' (Wang et al., 2018, p.68) and managers might purposely manipulate readability to the companies' advantage (Amran et al., 2014; Boiral, 2013; Parsons & McKenna, 2005; Smeuninx et al., 2016). However, **measuring readability** has been a challenge. Rudolf Flesch (1948) is considered the father of readability numeric measuring techniques in the English language. Edgar Dale and Jeanne Chall (1948), Robert Gunning (1952) and Kincaid, Fishburne, Rogers and Chissom (1975) have also defined popular formulae still in use (Smeuninx et al., 2016). Spanish readability formulae are mostly inspired by English language ones (Moreno & Casasola, 2016).

Therefore, to the best of our knowledge, **no studies have been done on the readability of CSR reporting narrative texts in the Spanish language**. As a consequence, this is a **clear study gap.**

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CHAPTER 1. UNDERSTANDING CORPORATE GOVERNANCE AND NON-FINANCIAL INFORMATION LEGAL CONTEXT: SOFT AND HARD LAW

The first chapter of this thesis depicts how corporate governance and non-financial information are ruled in the Eurozone by examining the EU's corporate governance and non-financial information legal framework from both soft law and hard law perspectives. On soft law, it provides a study of the corporate governance codes issued and reviewed by EU countries from 1992 to 2019, considering the issuers of said codes. On hard law, it lists and summarises key policy developments and regulatory outputs on corporate governance and non-financial information in the EU. Finally, it provides an overview of the Spanish case. To add context, this chapter also includes an introduction to understanding the EU's corporate governance and non-financial information legal framework.

The objectives of this chapter are:

- Introduce the understanding of European Union policy regarding the legal framework for corporate governance and non-financial information.
- Introduce the understanding of why each country in the European Union has issued its own corporate governance codes, and whether or not the regulatory framework has influenced this process.
- Identify the criteria considered when a corporate governance recommendation moves from soft law to hard law.
- Define the Spanish legal context with respect to corporate governance and non-financial information.

1.1. INTRODUCTION

One of the main communications tools a company has is the disclosure of information through reporting. As business get increasingly complex and as companies' interest groups become more active, reporting gets growingly multifaceted. Currently investors and other stakeholders demand information, not only on financial information, but also on corporate governance and non-financial information. This complementary information allows them to complete the 'company's picture' and make better informed decisions. Starting with corporate governance, this chapter analysis the institutional context supporting corporate governance and non-financial information.

The application of corporate governance in the company through principles and legislation contributes to value creation, mitigates and prevents scandals and provides confidence in capital markets, among other benefits. Being of great relevance, the basis of today's companies could not be understood without it. But, how is corporate governance ruled?

Starting with an overview of the formal institutional environment in the EU, this chapter is an introduction to understanding the use of principles and codes (soft law), and provides a study of corporate governance codes issued and reviewed by EU member states from 1992 to 2019. The 28 EU countries issued a code or guideline from 1992 to 2013. The most intense period in code issuing was from 2000 to 2004 with 12 codes issued. 69% of the countries that have entered the EU from 2004 until 2019 have, at least once, reviewed or updated their code up until 2019. Only 3.6% of countries that entered the Eurozone before 2004 have not reviewed their code (1 country). Considering adoption and reviews or updates of corporate governance codes for listed EU companies, 120 documents have been issued from 1992 to 2019. That makes for an average of 4.3 codes per country. This chapter also considers issuers of codes comparing and complementing results of two previous studies on organisms that issued them by EU country. Finally, this parts ends emphasizing the liaison amongst codes and non-financial information and how non-financial information and the concepts of sustainability and long-term perspective have introduced themselves in corporate governance codes. These are the first steps towards a slow but radical change in the conceptual purpose of the company.

In its second part, this chapter looks at key policy developments and regulatory outputs (hard law) on corporate governance and non-financial information in the EU. It lists and summarises the main actions that have been taken by the EU in order to study, improve, recommend and regulate on corporate governance and non-financial information, with a consideration for the EU's peculiarities. Hard law on corporate governance and non-financial information in the EU includes 3 action plans, which have lead to 1 proposed directive, 14 directives, 2 amendments to directives, 2 regulation and 1 active green paper from 2002 to 2019. It also includes 6 recommendations/non-binding guidelines (soft law legislation).

It also looks at the situation of Spain regarding soft and hard law for corporate governance and non-financial information reporting. With four codes Spain is almost at the average of code issuing in the EU (EU average is 4.3) and introduced non-financial information by 2015's Good Corporate Governance Code. Its hard law has evolved with European demands. The most frequently used standard for IBEX35 companies in Spain is GRI.

In terms of methodology, in soft law, this chapter has based its study on codes issued and reviewed by EU countries from 1992 to 2019. The information has been mostly gathered from the European Corporate Governance Institute (ECGI) and countries' stock exchanges or supervisors, as well as from different corporate governance reports published by the OECD and others. The results from this investigation have been contrasted with the studies done by ecoDa and Mazars (2015) and ecoDa and IFC (2015). In hard law, the EU summary of policy developments and regulatory outputs is based on information published by the CFA Institute (2016), and updated with information from the European Commission. Finally, the study of the Spanish case is our own elaboration based on information from the CNMV (Spanish regulator) and BOE (Spanish official journal). In terms of limitations to the study, in some cases sources differ on the adoption year or issuer of certain codes. The data gathered for 2019 is that which was available before June.

This chapter is structured in three parts. The first part refers to soft law's formal institutional environment on corporate governance codes and non-financial information in the EU. Followed by a review on EU directives (hard law) and recommendations for corporate governance and non-financial information. There is a review of the situation in Spain for soft and hard law, including non-financial information. It ends with concluding remarks.

1.2. FORMAL INSTITUTIONAL CONTEXT. SOFT LAW: EU CORPORATE GOVERNANCE CODES AND NON-FINANCIAL INFORMATION

This section begins defining what corporate governance codes are, followed by a study on corporate governance codes adopters and issuers in EU countries, as well as code's reviews and updates up to June 2019. It ends emphasizing the liaison amongst codes and non-financial information.

Starting with corporate governance and, given that it could not be left in the hands of a product market competition (Shleifer & Vishny, 1997), since the 2003 Action Plan on corporate governance, the EU has considered corporate governance a relevant issue of debate as it contributes to create a common structure of company law among member states and sets the bases of minimum common listing requirements for companies (Hopt, 2011). These requirements attract international investors as they contribute to create trustworthy stock exchange markets. In addition to this, global corporate scandals have emphasized the role of corporate governance (Hopt, 2011) providing it with a more prominent position since it mitigates and prevents scandals, reduces reputational risk and, at the same time, helps to transmit confidence in capital markets.

Due to the variety of cultures and views on the roles of companies in EU Member States, EU High Level Group of Company Law Experts, in their Final Report (2002), adopted a set of principles based on a comply or explain (soft law) regime for member states supported by corporate governance codes, instead of an EU corporate governance common legislation (hard law). As a consequence, there are different corporate governance systems in the EU. The fact that there is not a common legislation framework may create uncertainty and costs for both issuers and investors. CFA Institute (2016) considers that this uncertainty needs to be addressed to promote an efficient integration of EU capital markets.

Since 2002 some of the principles that were under comply or explain have been legislated on and nowadays there is a combination of hard law (legislation) and soft law (corporate governance codes) at the corporate governance framework for listed companies in the European Union (ecoDa and IFC, 2015).

1.2.1. EU Corporate governance codes. Soft law

1.2.1.1. What are codes?

Among the different definitions of codes, we can find the following:

> Codes are a set of best practices designed to address deficiencies in the formal contracts and institutions by suggesting prescriptions on the preferred role and composition of the board of directors, relationships with shareholders and top management, auditing and information disclosure, and the remuneration and dismissal of directors (Haxhi & Aguilera, 2012). (Cited at Hatxi & Aguilera, 2017, p. 263).

Codes are considered an integral pillar for systems, mechanisms and regulations of corporate governance, as well as an essential tool to win investor trust since they provide necessary governance practice, even if sometimes governance practice is costly and there is a risk of over-governance. Codes are reported on ‘comply and explain’ bases and have a direct influence on corporate governance practise (Aguilera, Judge, & Terjesen, 2018; Haxhi & Aguilera, 2017).

Regarding the history of codes, we find the following statement 'Although some scholars consider the UK Cadbury Code (1992) as the milestone in codes, the first code was issued in 1978 in the US and was triggered by merger activities, managers' hostile takeover behaviour and the shareholder activism movement (Aguilera & Cuervo-Cazurra, 2004)' (Cited at Haxhi & Aguilera, 2017, p. 265). From that point on many countries introduced codes in their legal framework and in 2016 at least one code had been adopted by 92 countries in the world (European Corporate Governance Institute, ECGI, 2016; Haxhi & Aguilera, 2017).

Codes are of great relevance for many business actors and influencers. Haxhi and Aguilera (2017) emphasizes the effect of codes on manager, directors, investors, regulators and policymakers:

> **Managers** draw on them to reinforce firm compliance, benchmark corporate governance practices relative to peers, assess governance risks, and communicate their corporate governance mission to stakeholders. **Directors** rely on codes to implement good corporate governance and use them as a tool to resolve conflicting issues. **Investors** resort to codes 'to assess a portfolio company´s governance risk and responsiveness to shareowners in the context of trading decisions and/or to help guide voting and engagement´ (Haskovec, 2012, p. 12). **Regulators** employ codes to identify gaps in corporate governance standards and assess whether they need to regulate further, either by revising the code or enacting hard law within institutions such as the stock market. **Policymakers** use codes to attract FDI (Foreign Direct Investment), encourage higher firm transparency, minimize misconduct, and curb politically unpopular corporate behaviour such as high compensation schemes or unlimited board terms. To round off this non-exhaustive list, rating agencies, proxy advisors, and other firm related organizations employ codes as a source of information in making recommendations to their clients (ISS, 2012). (p. 265).

It is of relevance to underline that there are countries where it is not mandatory for all listed companies to apply governance codes and report based on them (Riskmetrics, 2009; ecoDa et al., 2015). The exceptions mostly refer to foreign companies, those without a full listing, or special situations (for example in the case of listed SMEs).

1.2.1.2. Corporate governance code adoption in EU Countries

As seen before in this chapter, in the Plan to Move Forward, EU (2003), the EU decided that, instead of developing a European corporate governance code, member states could choose an official code or allow for a free choice of reference code.

The survey on Corporate Governance Code for listed companies in different European countries of ecoDa and Mazars (2015) revealed that:

> The formal obligation, brought in by the European Directive (Directive 2006/46/EC) greatly helped the credibility of the 'national' governance code(s) and their reference bodies. Most countries have one main code of corporate governance for listed companies.[…] most of the European corporate governance codes for listed companies were originally developed in the 1990s to early 2000s. (ecoDa & Mazars, 2015, p. 14).

The first country in the EU to develop a guideline for listed companies based on comply or explain concept was the UK (Riskmetrics, 2009). This first UK guideline that was taken as a reference was the Cadbury Report, which focused on the Board of directors and set trends that would later be followed by code issuers in other countries. Table 1 represents the year of the adoption of Corporate Governance Guidance and Codes for listed companies in EU countries.

Table 1. Year of the adoption of corporate governance guidance and codes for listed companies in EU countries

	Austria	Belgium	Bulgaria	Croatia	Cyprus	Czechia	Denmark	Estonia	Finland	France	Germany	Greece	Hungary	Ireland	Italy	Latvia	Lithuania	Luxembourg	Malta	Netherlands	Poland	Portugal	Romania	Slovakia	Slovenia	Spain	Sweden	UK	Total
1992																												1	1
1995										1				1															2
1997									1																				1
1998																										1			1
1999															1							1							2
2001																			1								1		2
2002	1				1						1										1		1	1					6
2004		1				1							1												1				4
2005							1	1								1													3
2006																		1		1									2
2007			1	1																									2
2009																	1												1
2013												1																	1
																													28

Source: ecoDa and Mazars (2015) and by Author

The 28 Countries of the Eurozone have issued a guidance or code from 1992 to 2013. From 1992 to 1999 guidelines that set the bases for a corporate governance tradition were issued (Riskmetrics, 2009). The most intense period in code issuing was from 2000 to 2004 with 12 codes issued, followed by the period from 2005 to 2009 with 8 new codes issued, from 1995 to 1999 with 6 new codes issued and 1990 to 1994 or 2010 to 2014 with 1 new code issued in each of those periods.

Cuomo, Mallin and Zattoni (2016) stated that the increase in code issuing was influenced by the publication of the European Union Action Plan on Modernizing Company Law and Enhancing Corporate Governance in the EU, 2003, and the report by the High-Level Group on Financial Supervision in the EU, 2009. This study demonstrates that these two publications by themselves did not influence code issuing as much as expected, they might have consolidated a trend but a direct relation among these publications and code's adoptions cannot be found since the year before the 2003 Action Plan was published more codes were adopted (6 codes in 2002) than the year it was published, that no new codes were adopted; or the two years after (4 codes in 2004; 3 codes in 2005). The year before the 2009 report was published no new codes were adopted; the same year only one code was adopted, and there were no new codes adopted until 2013, when there was one code adoption.

As for limitations to the study, in some cases sources differ on the adoption year or issuer of certain codes. This happens with Estonia (date of code adoption differs on whether it was on 2004 or 2005), Denmark (date of code adoption differs on whether it was on 2004 or 2005) and Ireland (date of code adoption differs on whether it was on 1994 or 1995).

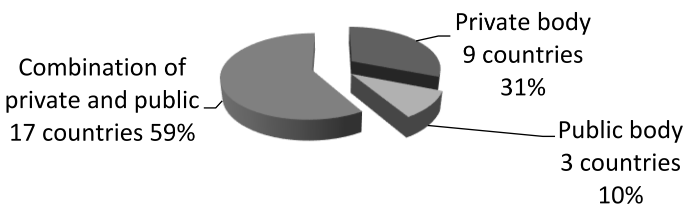
1.2.1.3. Corporate governance code issuers in EU countries

As this chapter shows, from 1992 to 2013 all European countries developed, at least, one code.

In Zattoni and Cuomo (2010) we can read that there are different corporate governance code issuers in Europe, from individual firms, to transnational institutions such as Pan-European, Commonwealth, OECD or institutional investors, such as ICGN. **International institutions** are very active (issued 13 out of 21 codes) and among them, OECD and ICGN were the most active issuing 8 out of 21 codes. OECD's code included the figure of the stakeholders as well as the engagement with investors (Stewardship Code). It is also relevant to mention that at a **national level**, in order to meet the established standards, institutions like the stock exchange, the government, investors or professional associations have been encouraged to issue codes. In some cases, the parties involved in the development and supervision of codes increased by means of including a wider range of stakeholders or by making official a private initiative (ecoDa & Mazars, 2015).

When we get down to the facts of who issued the codes in the different EU countries, the information is different depending on the source. While ecoDa and Mazars (2015), (figure 3), argues that codes have been mostly issued by the private sector and governments/regulators (combination of private and public), in table 2 of ecoDa and IFC (2015) on the main initiators of corporate governance changes, the mixed private and public sectors apply to less countries that the stock exchange, the stock exchange being that which has taken the most initiatives.

Figure 3. Who has been involved in the development of codes? (by number of countries)



Source: ecoDa and Mazars (2015)

Table 2. The main initiators of corporate governance changes

Entities Leading Change	Countries		
Stock Exchanges	Croatia Cyprus Hungary	Italy Latvia Malta	Luxembourg Romania Slovak Republic
Professional Associations	Austria Finland	Lithuania Poland	United Kingdom
Mixed Private Sector Leadership	Netherlands	Slovenia	Sweden
Public Sector	Czech Republic Denmark	Portugal **Spain**	
Mixed Private and Public Sectors	Belgium Estonia Bulgaria	France Germany Greece	Ireland

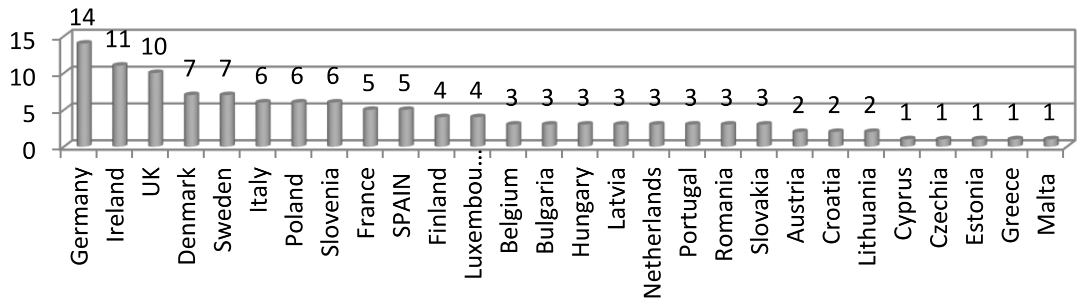
Source: Guide to Corporate Governance in EU, ecoDa and IFC (2015) ecoDa and Mazars (2015) considers different degrees of involvement of government/regulators. Besides the combined ‘private and public’ codes (used by 59% of the countries), which is the most frequent, the only ‘private’ initiative is also relevant, with 31%, followed by 10% of only a ‘public body’. On the other hand, the Guide to Corporate Governance in EU ecoDa and IFC (2015) considers a different degree of involvement of governments/regulators, and they classify countries in a different way, as we can see in table 2. While ecoDa and Mazars (2015) considers that in 9 countries the initiative to develop codes came from the private sector, ecoDa and IFC (2015) considers that in 8 countries the private sector (professional associations and mixed private sector leadership) was involved in the development of codes. Concerning the public body, figure 3 identified 3, versus 4 from table 2, with the combination of private and public being 17 in the first and 7 in the second. The Guide to Corporate Governance in EU, ecoDa and IFC (2015) considers Stock Exchanges as one independent classification.

Regarding the revision of codes, ecoDa and Mazars (2015) comes to the conclusion that revisions are normally done by the same bodies that issued the first edition, while the Guide to corporate governance in EU, ecoDa and IFC (2015) considers that changes in these corporate governance codes either have been initiated by the public sector or private sector or have been a mixed initiative, regardless of the code’s origin.

1.2.1.4. Corporate governance codes adoption, main reviews or updates in EU countries

After the Adoption of corporate governance codes for listed companies, most EU Countries have reviewed or updated their codes. In figure 4 is a study on the number of corporate governance codes for listed companies and main reviews by country in Europe from 1992-2019.

Figure 4. Number of corporate governance codes for listed companies’ adoption and main reviews or updates by country in Europe from 1992-2019



Note: includes adoption and reviews or updates

Source: By Author

As can be seen in figure 4, 72% of the 28 EU countries had reviewed their code by June 2019. There are only five countries (18%) that have not reviewed it, which are: Cyprus (adopted the code in 2002), Czechia (adopted the code in 2004), Estonia (date of code adoption differs depending on the source on whether it was in 2004 or 2005), Greece (adopted the code in 2004. Corporate governance law applies (Riskmetrics, 2009)) and Malta (adopted the code in 2004). Of these countries, four of them (Cyprus, Czechia, Estonia and Malta), entered the EU in 2004 and Greece in 1981.

Poland and Slovenia, which entered EU in 2004, have reviewed their codes 5 times, Hungary, Latvia or Slovakia twice and Lithuania once. Later admissions into the Eurozone such as Bulgaria and Romania in 2007 have reviewed their code twice and Croatia, 2013, once.

In conclusion, 69% of the countries that have entered the EU from 2004 until 2019 have, at least once, reviewed their code. Only 3,6% of the countries that entered the Eurozone before 2004 have not reviewed their code (1 country).

The countries more active in code reviews are Germany (has reviewed the code 13 times since its adoption) and the UK (has reviewed the code 9 times since its adoption). Ireland has adopted UK Codes and has complemented them with The Irish Corporate Governance Annex done by Euronext Dublin to adapt the application of UK Codes to their own companies' shareholders composition. Denmark and Sweden have reviewed the code 6 times, and the rest between 2 and 5 times.

Considering adoption and reviews or updates of corporate governance codes for listed EU companies, 120 documents have been issued from 1992 to 2019. That makes for an average of 4.3 codes per country.

This chapter also includes a study on the number of corporate governance codes or main reviews for Listed Companies in European Countries by years (see figure 5).

Figure 5. Number of corporate governance codes or main reviews for listed companies in European countries by years

Note: The information included for 2019 is up to the month of June

Source: By Author

The first guidance issued in 1992 was the Cadbury Report by the Financial Reporting Council in the UK. This guidance set trends that later went on to be followed by other countries (Riskmetrics, 2009). It is not until 2002 that the pace of codes issuing, reviews and updates starts to speed up. From 2002 to 2010 is a very active period with an average of 7.11 documents issued every year. From 2011 to 2015 is a less productive period with an average of 5 documents per year. In 2016 the production increases to 9 documents and from then on the number of documents is lower.

1.2.1.5. Trends and international scope in corporate governance codes

Although Governance Codes issued in the EU until now mostly apply to listed companies, there is a growing trend to issue codes for other types of companies, entities or financial institutions (Cuomo, et al., 2016) that could also take advantage of the benefits of good governance, as has been recognized by G20/OECD (2015). Among the most relevant initiatives are the codes for unlisted companies such as ecoDa's 'Corporate Governance Guidance and Principles for Unlisted Companies in Europe' which was presented to the European Parliament in March 2010, or, more recently, in December 2018, the set of corporate governance principles for large private companies in the UK called The Wates Corporate Governance Principles for Large Private Companies (FRCb, 2018). Italy and Belgium have also issued recent, 2017, corporate governance codes for unlisted companies.

Other codes of great relevance have been the stewardship codes, issued by different countries, for example, in 2017, by the Dutch (issued by Eumedio). There are also codes on Charity, by the UK and Ireland, in 2017 and 2016 (issued by the Charity Governance Code Steering Group and the Governance Code Working Group), others on Sports and Education issued in the UK in 2017 (issued by the Sports England/ UK Sports and the Scottish University Governance), among others (CNMV, 2017, 2016, 2015; ECGI, 2019).

In the international scene there is one code that has inspired corporate governance greatly, which is the King IV report on corporate governance for South Africa 2016 which introduces the ‘apply or explain’ concept (CNMV, 2016). Also, it is relevant to mention that the Organization for Economic Cooperation and Development (OECD), with the cooperation of the G20, presented in September 2015 a revision of its corporate governance principles (CNMV, 2015) and ICGN issued in 2016 its Global Stewardship Principles (ICGN, 2016).

1.2.2. The relationship between corporate governance codes and non-financial information

Non-financial information and the concept of long-term sustainability was introduced by soft law into companies’ strategies and policies. Though there are different views to the concept of soft law. We might find the classical view of soft law as generally understood, that is as voluntary and a form of self-regulation (Gatti, Vishwanath, Seele & Cottier, 2019), or hard-soft law.

The **classical** vehicles of **soft law** have low level of formalization, no certification and weak sanctions in case of non-compliance. Among them we find Corporate Governances Codes, which in latest years have introduced the concept of non-financial information. For example, looking into UK’s 2018 Corporate Governance Code (FRC, 2018a), it emphasizes how companies are linked to different interest groups and how these stakeholders and environment evolve rapidly. It mentions that the role of directors is to ‘build and maintain successful relationships with a wide range of stakeholders’ (p. 1) and it underlines how companies’ culture should be sensible to views of wider stakeholders. The concept of long-term sustainable success is also considered among the basic principles of the Code, and within it, Director’s remuneration policies. Engagement with shareholders and stakeholders, as contribution to a wider society, is accentuated. non-financial information disclosure is introduced through statements in the annual report on companies’ sustainability and key stakeholders’ view.

With regards to the term **hard-soft law** (Cominetti & Seele, 2016) it refers to voluntary non-financial information initiatives with 'high level of formalization and certification and weak sanctions in case of non-compliance' (Gatti,et al., 2019, p. 965). The Global Reporting Initiative (GRI) or United Nations (UN) Global Compact could be examples of hard-soft law since the only consequences of noncompliance with these standards is being excluded from the initiative.

But since some voluntary non-financial information guidelines and standards are bonded to law (for example ISO 26000 and ISO 14001 standards refer to law compliance (Gatti Vishwanath, and Seele, 2019)), and law refers to the use of guidelines and standards, sometimes the boundaries of voluntary (soft law) and mandatory (hard law) non-financial information is unclear.

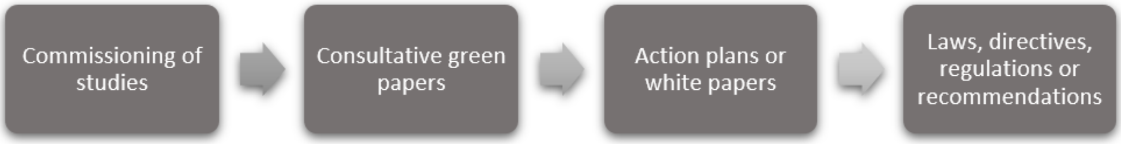
Further studies on how non-financial information standards actually behave concerning soft law, hard-soft law and hard law, Cominetti and Seele (2016) stated that 88.2% of non-financial information standards are based on soft law initiatives, being 67.6% classical soft law and 20.6% belonging to hard–soft law classification. Mandatory guidelines rise up to 11.7%.

1.3. FORMAL INSTITUTIONAL CONTEXT. HARD LAW: EU DIRECTIVES AND RECOMMENDATIONS FOR CORPORATE GOVERNANCE AND NON-FINANCIAL INFORMATION

1.3.1. EU law

With regard to EU directives and recommendations, the EU considered the convenience of having common rules on corporate governance that would contribute to create a common framework for companies in Europe, but, since Europe unites different cultures and business conducts difficult to classify on strict common rules, and also taking into consideration the investor opinion, the EU rejected the option of having a common code for all European companies and chose to define a set of general flexible rules that referred to national corporate governance codes or equivalents: Corporate governance principles. Since 2002 some corporate governance principles, because of their relevance, have turned into hard law through EU directives and new recommendations have been defined. In figure 6 is a summary of the typical process for key policy developments and regulatory outputs in the EU.

Figure 6. Typical process for key policy developments and regulatory outputs in the EU. Summary.



Source: Own elaboration based on CFA Institute (2016) and European Commission, Law Making Process.

When there is a key issue, the EU begins with a commissioning of studies that unites and analyses the subject, delivering conclusions that might make for a consultative ‘green paper’ which is open for debate. once comments to green papers are gathered, everything comes together taking the form of action plans or white papers that later might become laws (national), directives (EU, to be transposed in laws), regulations (binding across the EU) or recommendations (non-binding guidelines) (Eur-Lex, 2019).

Table 3 gathers a timeline of key policy developments and regulatory outputs concerning corporate governance, and lists and summarises the main actions that have been taken by the EU in order to study, improve, recommend and regulate on corporate governance with a consideration for the EU’s peculiarities. This figure includes: 3 action plans, which have led to 1 proposed directive, 14 directives, 2 amendments to directives, 2 regulation and 1 green paper from 2002 to 2019. it also includes 6 recommendations/non-binding guidelines (soft law legislation).

Table 3. Timeline of key policy developments and timeline of key regulatory outputs

YEAR	TYPE OF DOCUMENT	TITLE	CONTENT SUMMARY
2019 DRAFT	DRAFT - Non-binding Guidelines	Guidelines on the standardised presentation of the remuneration report.	The aim is to help companies disclose clear, understandable, comprehensive and comparable information on individual directors’ remuneration which meets the requirements of the Directive (EU) 2017/828.
2018	Action Plan	Commission action plan on financing sustainable growth.	3 main objectives: reorient capital flows towards sustainable investment, in order to achieve sustainable and inclusive growth; manage financial risks stemming from climate change, environmental degradation and social issues; and foster transparency and long-termism in financial and economic activity.

Table 3 (continued).

YEAR	TYPE OF DOCUMENT	TITLE	CONTENT SUMMARY
2018	Proposal for a Directive	Company Law Package - Proposal for a Directive amending Directive (EU) 2017/1132 as regards the use of digital tools and processes in company law.	Proposed to revise and upgrade this Directive by introducing rules on digital tools and processes in company law and on cross-border conversions, mergers and divisions.
2018	Public consultation (Green Paper)	Public consultation on institutional investors and asset managers' duties regarding sustainability.	The aim is to collect views and opinions to clarify that the fiduciary duties (duties of loyalty and prudence) of institutional investors and asset managers explicitly integrate material environmental, social and governance (ESG) factors and long-term sustainability.
2018	Regulation 2018/1212	Shareholder identification, the transmission of information and the facilitation of the exercise of shareholders right.	Laying down minimum requirements implementing the provisions of Directive 2007/36/EC as regards shareholder identification, the transmission of information and the facilitation of the exercise of shareholders right.
2017	**Directive 2017/828/EU**	**Shareholders' rights directive Encouragement of long-term shareholder engagement.**	**The aim is to contribute to the long-term sustainability of the EU companies, enhance the efficiency of the chain of intermediaries and to encourage long-term shareholder engagement.** **Main changes are: Stronger shareholders' rights and facilitation of cross-border voting, long-term engagement of institutional investors and asset managers, more transparency of proxy advisors, shareholders will have a 'say on pay', related party transactions. This Directive amends Directive 2007/36/EC.**
2017	**Directive 2017/1132/EU**	**General provisions and the establishment and functioning of limited liability companies.**	**The aim is to coordinate safeguards in respect of the formation of public limited liability companies and the maintenance and alteration of their capital, and for the protection of the interests of members and third parties in respect of disclosure, the validity of obligations entered into by, and the nullity of, companies limited by shares or otherwise having limited liability. Mergers, and division of public limited liability companies.**
2017	Non-binding Guidelines	Guidelines on non-financial reporting.	Guidelines on the disclosure of environmental and social information. These guidelines will help companies to disclose relevant non-financial information in a consistent and more comparable manner. The aim is to boost corporate transparency and performance, as well as encourage companies to embrace a more sustainable approach.

Table 3 (continued).

YEAR	TYPE OF DOCUMENT	TITLE	CONTENT SUMMARY
2014	**Directive 2014/95/EU**	**Disclosure of non-financial and diversity information by certain large undertakings and groups.**	**Lays down the rules on disclosure of non-financial and diversity information by large companies. This directive amends the accounting directive 2013/34/EU. Companies are required to include non-financial statements in their annual reports from 2018 onwards.**
2014	**Commission Recommendation**	**Corporate Governance reporting.**	**Quality of corporate governance reporting (comply or explain).**
2014	**Directive 2014/56/EU**	**Statutory audits of annual accounts and consolidated accounts.**	**The aim is to further harmonise the rules set Directive 2006/43/EC in order to allow for greater transparency and predictability of the requirements applying to persons that carry out statutory audits and to enhance their independence and objectivity in the performance of their tasks.**
2014	**Regulation 537**	**Statutory Audit of Public-Interest Entities.**	**Addresses non-audit fees, audit reporting, auditor independence, and a 10–20 year mandatory rotation.**
2014	**Directive Amendment**	**Accounting.**	**Disclosures Focus on non-financial statement disclosures, including information relating to ESG issues, sustainability, and disclosure of diversity policies.**
2013	**Directive The corporate governance and remuneration provisions for financial institutions are included in the Capital Requirements Directive IV (Directive 2013/36/EU or CRD IV),**	**Capital Requirements (CRD IV).**	**Prescriptive governance measures focussing on remuneration, including pay caps, for financial institutions.**
2013	**Directive 2013/34/EU**	**Accounting.**	**Directive Covers governance-related provisions, including the requirement for a corporate governance statement that includes comply-or-explain relative to a given code, prudential reporting, audit reporting, and country-by-country reporting (extractive companies).**
2013	**Directive 2013/50/EU**	**Transparency.**	**Reduces reporting burden for SMEs, abolishes quarterly reporting, and requires disclosure of major holdings.**
2012	**Directive 2012/17/EU**	**Business Registers.**	**Interconnection of central, commercial and companies' registers.**
2012	Action Plan	Corporate Governance.	A 14-point plan focussing on bolstering corporate transparency, engaging shareholders, and law harmonization.

Table 3 (continued).

YEAR	TYPE OF DOCUMENT	TITLE	CONTENT SUMMARY
2009	**Recommendations**	**Remuneration.**	**Builds from the 2005 Recommendations and provides greater guidance on the balance between long-term and short-term criteria, deferred pay, minimum vesting periods, and executive share retention, as well as the governance of remuneration.**
2007	**Directive 2007/36/EC**	**Shareholder Rights.**	**Focus on access to annual general meeting information and proxy voting.**
2006	**Directive 2006/46/EC**	**Statutory Audit of Annual and Consolidated Accounts.**	**Focus on auditor quality and the audit process, including auditor appointment and audit committees.**
2006	**Directive 2006/43/EC**	**Statutory Audit of Annual and Consolidated Accounts.**	**High-level harmonisation of statutory audit requirements.**
2005	**Directive 2005/56/EC**	**10th Company Law.**	**Cross-Border Mergers Focus on facilitating cross-border mergers of limited liability companies in the European Union.**
2005	**Amendments to Directives**	**4th and 7th Company Law.**	**Provides updated guidance for annual corporate governance statements, disclosure on risk management, and material RPTs.**
2005	**Recommendation**	**Boards.**	**Focus on board independence and committees.**
2004	**Recommendations**	**Remuneration.**	**Focus on long-term, performance-based pay; public disclosure; remuneration committee; and shareholders' roles.**
2004	**Directive 2004/25/EC**	**Takeover Bids.**	**Focus on minimum standards for takeover bids and protecting minority shareholders and employees.**
2004	**Directive 2004/109/EC**	**Transparency Requirements for Listed Issuers.**	**Harmonises transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market.**
2003	Action Plan	Corporate Governance.	Avoids the adoption of a Europe-wide code; focus on corporate governance disclosure, strengthening shareholders' rights, and modernising the board of directors.
2002	Experts Report	High Level Group of Company Law.	Establishes a framework for modernising European law and corporate governance on issues that include improved corporate disclosures, shareholder rights and voting, board effectiveness, remuneration, audit quality, and the responsibilities of institutional investors.

Most relevant regulatory outputs or recommendations in **bold** letters.

With grey background regulatory outputs or recommendations on non-financial information.

Source: Own elaboration based on CFA Institute (2016) and EU information.

1.3.2. Context and hard law on corporate governance

The application of corporate governance in the company through principles and regulation contributes to value creation, mitigates and prevents scandals and provides confidence in the capital markets, among other benefits. Being of great relevance, the basis of today's companies could not be understood without it. But, what is the real purpose of corporate governance? Corporate governance's purpose is to direct and control companies. To be successful in this undertaking, it is essential to rule the interests and relations among the drivers of the company, which are mainly shareholders, directors and management.

The first corporate governance code dates from 1978 in the United States (Aguilera & Cuervo-Cazurra, 2004). It was the first relevant document that gave a deep consideration to corporate governance. Since then, the concept has evolved along with companies and business development and many of the most relevant principles of corporate governance have been regulated.

As of 2004 two directives ruled on transparency requirements for listed companies and minimum standards for takeover bids and protecting minority shareholders and employees. 2006 was the year of auditing with two directives, among which the appointment of audit committees and auditors, and a focus on auditor quality were defined. 2007 focused on access to annual general meeting information and proxy voting. 2013 and 2014 were very active years. 2013 strengthened the concept of transparency and reduced reporting burden for SMEs, also Directive 2013/34/EU was enforced which covered governance-related provisions, enclosing requirement for a corporate governance statement that includes comply-or-explain relative to a given code, prudential reporting, audit reporting, and country-by-country reporting (extractive companies). Finally, CRD IV settled prescriptive governance measures focusing on remuneration, including pay caps, for financial institutions. 2014 aimed to further harmonize the rules set by Directive 2006/43/EC in order to allow for greater transparency and predictability of the requirements applying to persons that carry out statutory audits and to enhance their independence and objectivity in the performance of their tasks. As of 2017 it amends Directive 2007/36/EC by regulating to contribute to long-term sustainability of EU companies, enhance the efficiency of the chain of intermediaries and to encourage long-term shareholder engagement. Main changes were: Stronger shareholders' rights and facilitation of cross-border voting, long-term engagement of institutional investors and asset managers, more transparency of proxy advisors, shareholders will have a 'say on pay', related party transactions.

1.3.3 Context and hard law on non-financial information

Investors and other stakeholders were first to demand non-financial information disclosure from companies to determine if they were aiming to long-term sustainable growth and were behaving as 'good corporate citizens' (Plessis, 2016). In 2005 ICGN, emphasized the importance of disclosure on non-financial information 'to enable shareowners and investors to make informed investment decisions' (ICGN, 2005, p. 4) and in 2008 it defined a guidance on non-financial information business reporting for better understanding by companies of investors needs on non-financial information disclosure. Likewise, at OECD Principles' objectives (2015), companies where encouraged to report on non-financial information policies and performance. Therefore, reporting on sustainability and non-financial information initially developed on voluntary basis and soft law within corporate governance codes, and, in Europe, shifted to hard law through the European directives to be applied by large companies.

It is not until 2014th European Directive 2014/95/UE that hard law was introduced making non-financial information disclosure mandatory for companies with more than 500 employees, becoming of application on 2018 reports. Prior to this Directive no attention had been made to the disclosure of non-financial information, with the exception of Directive 2003/51 (EU 2003) (Sierra, L., García Benau, M., & Bollas Araya, H. M., 2018) that states:

> The information should not be restricted to the financial aspects of the company's business. It is expected that, where appropriate, this should lead to an analysis of environmental and social aspects necessary for an understanding of the company's development, performance or position. This is consistent also with Commission Recommendation 2001/453/EC of 30 May 2001 on the recognition, measurement and disclosure of environmental issues in the annual accounts and annual reports of companies. However, taking into account the evolving nature of this area of financial reporting and having regard to the potential burden placed on undertakings below certain sizes, Member States may choose to waive the obligation to provide non-financial information in the case of the annual report of such undertakings. (EU Directive 2003/51 (EU 2003), 2003. Official Journal of the European Union L 178/17).

Currently, Directive 2014/95/EU requests for company reports to include a statement related, at least, with environmental and social issues, personal, respect for human rights, and fight against corruption and bribery. This statement must cover a description of applied policies as well as risks related to these matters and control measures taken. Its scope includes companies' supply chain and outsourcing.

OECD (2015) finds that European Directive's issues to report on non-financial information are common internationally. Though some countries also encourage disclosure on donations for political purposes and additional information might be requested to large companies such as net turnover figures or payments made to governments. ICGN considers that 'Non-financial business reporting should seek to reflect the complexities inherent in a contemporary business' (ICGN, 2008). Hence it should contribute to understanding of past, present and future company performance, as well as main objectives and strategies for achieving them. On table 4 is a list of ICGN's examples to illustrate reporting quality guidelines for non-financial information.

Table 4. Example of ICGN's non-financial information quality guidelines

- be genuinely informative and include forward-looking elements where this will enhance understanding;
- be material, relevant and timely;
- describe the company's strategy, and associated risks and opportunities, and explain the board's role in assessing and overseeing strategy and the management of risks and opportunities;
- be accessible and appropriately integrated with other information that enables investors to obtain a whole picture of the company;
- use key performance indicators that are linked to strategy and facilitate comparisons;
- use objective metrics where they apply and evidence-based estimates where they do not;
- be strengthened where possible by independent assurance that is carried out having regard to established disclosure standards applicable to non-financial business reporting, such as those issued by the IASB.

Source: ICGN (2008)

Consequently, it is of great relevance for a company financial and non-financial reporting to be coherent and integrated as a whole, including objectives, policies, performance, risk evaluation and control, due to their impact on sustainability and long-term performance. The leadership of the board of directors is determinant to define the tone-from-the-top on non-financial information disclosure and quality of its reporting.

European Directive 2014/95/UE allows for non-financial information to be included within the management report or as a separate piece. OECD (2015) mentions that typically non-financial information disclosure is included within management reports. If until the 1990s CSR reports were usually an independent piece of information, on the 2000s the use of integrated reporting on non-financial initiatives became more frequent (Alonso-Almeida, Llach & Marimon, 2014). A study of 112 UK companies from 2005 to 2007 on the types of reports used for CSR disclosure observed that stand-alone reports frequently provided more information, but not of a better quality, than CSR information at annual reports (Michelon, Pilonato & Ricceri, 2015).

Concerning non-financial information reporting frameworks, guidelines or standards (terms usually used as synonyms), the EU's Directive, instead of providing a common guideline for reporting on environmental matters, social and employee-related matters, respect for human rights, anti-corruption and bribery matters, it listed different national frameworks, union-based frameworks or recognized international frameworks on which companies could rely on to report.

In this sense OECD Principles (2015) mention that 'Information should be prepared and disclosed in accordance with high quality standards of accounting and financial and non-financial reporting' (p. 42) Reports content should be relevant, reliable and comparable within sectors and eventually across sectors. Since the 1990s, different multi-stakeholder initiatives have taken place to provide with a reference reporting framework. These initiatives have been classified by Tanimoto (2019) as single organizational, -when is led by a NGO, industrial organization or government-, or inter-organizational -when they are single-sector or cross-sectors collaborations-. Hence think tanks, governments, nongovernmental organizations (NGOs) as well as institutions and business entities, among others, have designed guidelines and norms for voluntary and mandatory disclosure and to facilitate CSR reporting and comparison (Alonso-Almeida et al., 2014; Prado-Lorenzo, Gallego-Alvarez & Garcia-Sanchez, 2009; Tanimoto, 2019). Best standards were defined after an independent and open process involving different parties (OECD, 2015). Among the guidelines we find Integrated Reporting Framework (IRF, created in 2013), Social Accountability International (SAI), Forest Stewardship Council (FSC), ISO 26000 (Guidance on Social Responsibility, created in 2010), Sustainability Accounting Standards Board (SABS, created in 2012), and Global Reporting Initiative (GRI, created in 1997), among others (OECD, 2015; Tanimoto, 2019). IRF focuses on how a company creates value overtime. It is based on principles and concepts that remain coherent in the integrated report which covers strategy, governance, performance and prospects. SAI is an ISO standard which can be audited focused on social aspects. FSC certification documents the steward on biological diversity of forests with a view on community, workers and sustainability. ISO 26000 is a guidance for social and environmental responsibility. SASB issued American Standards for different sectors with a focus towards investors in Environmental, Social and Governance issues (OECD, 2015). GRI has been identified as the most broadly used standard for non-financial information reporting worldwide and as the most appropriate ground for creating CSR reports (Brown, Jong & Levy, 2009; Christofi, Christofi & Sisaye, 2012; García-Sánchez, Goméz-Miranda, David & Rodríguez-Ariza, 2019; Lopez, García & Rodríguez, 2007; Marimon, Alonso-Almeida & Rodriguez, 2012; Prado-Lorenzo et al., 2009) having become mandatory in some countries (Ioannou & Serafeim, 2011; Nikolaeva & Bicho, 2011).

Reporting on non-financial information has many different names, for example: CSR reporting, ESG reporting, governance reporting, triple bottom line, (financial, social and environmental), among others (Plessis, 2016). Reports are publicly shared with stakeholders through companies' corporate websites. Specific studies on CSR information on corporate websites can be found, such as Capriotti and Moreno (2007a).

As a summary, non-financial information institutional framework is following corporate governance steps having begun with voluntary disclosure and becoming mandatory due to the relevance that is gaining and the recognition to its contribution to the understanding of companies' purpose and future long-term sustainability. Besides the classical institutional context of codes, laws, OECD and others, non-financial information has brought in new players on CSR reporting which are the issuers of guidelines and frameworks. Currently a great effort is being done to try to define common definitions on non-financial information and common standards that might allow for comparable indices. This is quite a challenge due to the particularities of metrics across countries and industries, and to the possible arisen of new players.

1.4. SOFT AND HARD LAW IN SPAIN

1.4.1. Soft law in Spain

Spain issued its first code in 1998. The Code of Good Governance, (also known by Olivencia Code), was based on comply or explain and it focused on boards of director operations to break with Spanish traditional one-tier boards (Gutierrez & Surroca, 2014). This code was followed in 2003 by the Aldama Report which gathered the conclusions of a commission for the promotion of transparency and security on markets and on listed companies. On 2006 the Unified Good Governance Code for Listed Companies (Conthe Code), was released. This code came to unite and update the previous governance documents to be applied to all listed companies, no matter their size and market capitalization. It also introduced binding definitions, even though the evaluation of compliance with explanations was left to the market (Gutierrez & Surroca, 2014). Spain's 2015's Unified Good Governance Code for Listed Companies (Rodríguez Code) which raised corporate governance in Spain to the most demanding international standards, has been recently revised (on June 2020). Spain also issued in 2016 a Guide for the Application of the Comply and Explain Principle.

As of 2015's Unified Good Governance Code for Listed Companies (Rodríguez Code), it followed 2013 National Reform Plan objectives to broaden the current framework of good corporate governance in Spain in order to contribute to improve efficiency and accountability of Spanish firms' governance and to ensure the alignment of national standards with international best practices. A Committee of Experts on corporate governance received the command to revise 2006 Unified Good Governance Code recommendations that had not yet been legislated. With a new format based on 25 principles and 64 recommendations, the updates included in the 2015 Good Governance Code were mainly on corporate social responsibility (non-financial information), having become one of the main reasons for this revision. Particularly on this matter, Principle 24 was introduced in the code with the following affirmation 'The company should deploy an appropriate corporate social responsibility policy, as a non-delegable board power, and report transparently and in sufficient detail on its development, application and results' (CNMV, 2015, p. 40), followed by recommendations 54 and 55 which define the minimum scope of companies' commitments with stakeholders, as well as the recommendation to report under an international standard. Nevertheless, most of Spanish IBEX35 companies already reported on voluntary basis on non-financial information before 2015's Spanish Code. The revision of the code on June 2020 maintained the previous structure of 25 principles and 64 recommendations, and was also mainly on corporate social responsibility (non-financial information). Particularly on this matter, revisions aimed towards promotion of the presence of women in the board of directors, greater relevance of non-financial information and sustainability, more attention to reputational risks and, in general, to non-financial risks, and clarification of aspects related to the remuneration board directors.

Thus, in the Spanish case, 2015th Good Corporate Governance Code for Quoted Companies and its revision introduced specific recommendations on non-financial information (referred to at the code as corporate social responsibility, CSR), its policies, operation and results. Basics-for-business should now include openness and awareness to stakeholders, as well as a sense of community, innovation and long-term view. It gives a new perspective to corporate purpose introducing the concept of long-term sustainability as well as emphasizing how an effort should be done to harmonize corporate purpose and interest groups motivations, as well as companies' activity social and environmental impact.

CSR policies should consider stewardship, control and risk evaluation over shareholders, employees, clients, suppliers, social matters, environment, diversity, fiscal responsibility, respect to human rights and prevention of illegal behaviors. It should also include engagement with interest groups. The code suggests changes on directors remuneration by introducing measurable non-financial indicators that could encourage long term sustainability and profitability.

The Code recommends for CSR and corporate governance to be assigned to a specific commission for a more intense and compromised stewardship. Regarding CSR, this commission should safeguard on the orientation to value creation of CSR's policies, on compliance over CSR's strategies and practices, and engagement on interests' groups. It should consider non-financial information risks, such as operational, technological, legal, social, environmental, political and reputational risks. And should coordinate transparent non-financial information and diversity reporting. Companies should report on non-financial information on a separate report, or within the management report, using for this purpose internationally accepted frameworks.

1.4.2. Hard law in Spain

The main bylaws on corporate governance for listed companies in Spain are **Law 11/2018**, of December 28, amending the Commercial Code; the revised Capital Companies Law approved by Legislative Royal Decree 1/2010, of July 2, 2010; and Audit Law 22/2015, of July 20, 2015, as regards non-financial information and diversity; the Organic **Law1/2015**, of 30 March, amending the Organic Law 10/1995 of 23 November of the Criminal Code; **Act 31/2014** of 3 December which modified the Capital Companies Law for the improvement of corporate governance and made certain provisions binding; and Organic **Law 1/2019**, of February 20, which modifies the Organic Law 10/1995, of

November 23, of the Penal Code, to transpose European Union Directives in the financial and terrorism fields, and address issues of an international nature.

Regarding **reporting on corporate governence**, it is important to emphasize that listed companies, savings banks and other are obliged to provide an annual corporate governance report, an annual report on remuneration and other information documents based on the indications given in the Order ECC/461/2013, of 20 March.

Concerning **non-financial information**, the first landmark of government action on CSR issues in Spain took place in June 2006 with the White Book on CSR (Libro Blanco de la RSC en España, 2006). In 2008, the Government Committee on CSR (Consejo Estatal de RSC – CERSE) was created with the objective to promote best CSR practice. In 2011, the Law for Sustainable Economy, (Act 2/2011, of 4 Marzo), came through encouraging the voluntary disclosure of CSR indices based on international standards. In 2014, the European Directive 2014/95/UE as regards disclosure of non-financial and diversity information by certain large undertakings and groups came through and its transposition to Spanish law by the Real Decreto-ley 18/2017, (24 November 2017), concerning the disclosure of non-financial information and diversity of large listed companies is applicable in Spain since 2018. The Spanish transposition was very aligned with EU Directive and was mandatory for public limited companies – PIEs - which, according to the Spanish Instituto de Contabilidad y Auditoría de Cuentas, ICAC, (2018), accounts for 1415 entities. Before European directive, in 2013, a study from the Spanish CSR observatory revealed that 29 of IBEX 35 companies (Index of top companies in Spain by capitalization) already voluntarily reported on CSR (Pucheta-Martínez, Bel-Oms & Lima Rodrigues, 2018). Currently, the most frequently used standard for IBEX35 companies in Spain is the GRI.

1.5. CONCLUSIONS

The objective of this chapter was to present an overview of the legal context (soft law and hard law) of corporate governance and non-financial information in EU and Spain. We have gathered the following conclusions:

The European Union is very aware of the advantages that corporate governance has in preventing scandals and attracting investment. The EU endeavours to safeguard the particularities of each member state while is active in maintaining a robust legal framework to support best governance practices, and encourages its member states to do so with soft and hard law.

Hence, the EU rejected the option of a common code for all European companies and chose to mostly base their policy on a set of general flexible rules (**soft law**) that referred to national corporate governance codes or equivalents. These rules were set on the European Directive 2006/46/EC which compels the use of a corporate governance code, either national or otherwise. Results from the study of corporate governance codes issued and reviewed by EU member states from 1992 to 2019 suggest that the period in which these codes were issued is from 1992 to 2013. They also suggest that the publication of the European Union Action Plan on Modernizing Company Law and Enhancing Corporate Governance in the EU, 2003 and the report by the High-Level Group on Financial Supervision in the EU, 2009, did not directly influence the initiation of code issuing given that the number of codes issued doesn't support this argument since plenty of codes were issued before these publications. Hence, we conclude that the regulatory framework did not influence as much as expected the issuance of codes and that code issuing was possibly motivated by the demands of international investors. Regarding the entities that issue codes, they are classified as: International (institutions or transnational, with international institutions such as the OECD and ICGN being the more active in issuing codes), and National (among the national ones, they are classified in terms of whether codes are issued by private or public entities. All countries of the European Union preferred to issue their own code for it to consider cultural and business particularities, as codes issued by international reference entities (for example, OECD or ICGN) are country crosswise. As for codes reviews, all countries, except one, had reviewed or updated their initial codes by 2019. In the EU, 120 corporate governance codes and reviews/updates for listed companies have been issued from 1992 to 2019, making for an average of 4.3 codes per country, with Germany and the UK being the countries with more codes issued. The period 2002 to 2010 is the more active, with an average of 7.11 documents issued every year. Concerning issuers, there are those that argue that revisions of codes are mostly made by the entities that first developed the code, and others consider that they have been initiated by the public sector or private sector or have been a mixed initiative, regardless of the code's origin. Codes for unlisted companies and others are also being issued.

With regard to **hard law,** it is concluded that the EU Directives on corporate governance turn into hard law corporate governance criteria, normally included in the principles of good governance (soft law), which are considered to be of necessary application by all member states. Since 2002 some principles (or recommendations) have increased their relevance and have finally become law (mandatory rules). In this chapter we have seen that in the EU, the key policy developments and of key regulatory outputs from 2002 to 2019 have been: 3 action plans, which have led to 1 proposed directive, 14 directives, 2 amendments to directives, 2 regulation and 1 green paper. it also includes 6 recommendations/non-binding guidelines (soft law legislation).

On **non-financial information**, the EU is trying to keep the disclosure pace demanded by investors and other stakeholders. European Directive 2014/95/UE is a landmark for non-financial information reporting, but there is still a lot to achieve for non-financial information reporting to better enable analysis and comparison of non-financial information concepts and indices. This is quite a challenge, due to the particularities of metrics across countries and industries.

Concerning soft law, with four codes **Spain** is almost at the average of code issuing in the EU (EU average is 4.3). Its hard law has evolved with the European demands and has widened some of its applications to entities of public interest (EPIs). Regarding non-financial information it was introduced through soft law by 2015's Good Corporate Governance Code. Non-financial information reporting is currently ruled by European Directive 2014/95/UE and its Spanish transposition, Real Decreto-ley 18/2017, applicable since 2018. Most of Spanish IBEX35 companies reported voluntarily on non-financial information before it was introduced. The most frequently used standard for IBEX35 companies in Spain is GRI.

1.6. REFERENCES

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CHAPTER 2. CORPORATE SOCIAL RESPONSIBILITY OVERVIEW: UNDERSTANDING ITS BACKGROUND, TERMINOLOGY AND REPORTING

Chapter two approaches the CSR concept. CSR plays a predominant role in today's business world, having become an essential strategic priority for companies and boards of directors. This chapter provides an up-to-date document that summarises the state of, and the major trends within CSR at a crucial time, two years after CSR reporting became enforceable by law for large companies in Europe with the enactment of European Directive 2014/95/UE. This chapter analyses the definition of CSR and similar terms and concepts, including 'non-financial information', 'corporate citizenship' and 'sustainability', to better aid our understanding of them, and looks into CSR reporting and standards, while underlining audit and assessment relevance. There is also a scrutiny of CSR from the view of its return to companies through marketing, employee commitment and economic outcomes.

The objectives of this chapter are:

- Introduce the understanding of the CSR phenomenon and the motivations of its detractors.
- Identify the role of the board of directors in CSR.
- Introduce two issues on CSR: the variety of terms used to refer to these practices, and the variety of reference standards available for reporting.
- Identify upcoming trends in the role of CSR auditors.

2.1. INTRODUCTION

The Corporate Social Responsibility (CSR) context has undergone relevant changes in recent years. The enforcement of mandatory CSR reporting in the EU under European Directive 2014/95/UE, with regard to disclosure of non-financial and diversity information by certain large companies and other, has become a new challenge for firms. Further, businesses operating in a globalised world, corporate scandals and stakeholder pressure are at the centre of companies' assumption of their responsibility to report not only on economic matters, but also on their social and environmental impacts, transparency and ethical conduct, and prevision of non-financial risks (Berger-Walliser & Scott, 2018; Michelon & Rodrigue, 2015). These practices have taken on a predominant role in today's business world and are becoming an essential strategic priority (Asgary & Li, 2016; Berger-Walliser & Scott, 2018; Nave & Ferreira, 2019). Companies' civic behavior is being observed, they are being judged by it, and they know it (Capriotti & Moreno, 2007b). However, the lack of a clear CSR definition and framework is generating confusion for stakeholders and companies. Many companies have taken voluntary actions to respond to this demand by designing CSR programmes, committing to codes of conduct or reporting voluntarily, and governments have taken the lead on the regulation of CSR in many parts of the world, implanting laws and guidelines on CSR behaviour and disclosure. These measures are meant to prevent misconduct, strengthen positive conduct and support long-term commitments (Berger-Walliser & Scott, 2018) while reinforcing the relationships between companies and their stakeholders (Asgary & Li, 2016; Nave & Ferreira, 2019). In this sense, non-financial information (as CSR is referred to in by-laws) is moving from soft law, formerly explicit in corporate governance codes, to hard law.

The purpose of this chapter is to provide an overview of CSR and its major trends. It analyses the definition of CSR and aims to strengthen understanding of similar terms and concepts, such as non-financial information, corporate citizenship and sustainability. It looks into CSR reporting evolution and standards, and underlines audit and assessment relevance. There is also a scrutiny of CSR from the point of view of its return to companies through marketing, employee commitment and economic outcomes.

There is some confusion around the concept and scope of CSR, and other terms that are used synonymously. This confusion is negative for CSR, since the lack of a common concept makes CSR more difficult to understand, standardise and study (Banerjee, 2008; Christensen, Morsing & Thyssen, 2013; Woolfson & Beck, 2005). In this sense, this chapter looks at the variety of CSR definitions and some of the terms used as alternatives, such as non-financial information (used in legal terminology), corporate citizenship (refers to which stakeholders in particular corporations are responsible to), and sustainable development (used in reporting terminology). Moreover, independently of the 'term' used to refer to CSR, there is no doubt that one of its main communication tools is CSR or sustainability reports, which have been used by companies, previously on a voluntary basis but now as mandatory, to provide transparency on non-financial information topics of great interest for stakeholders, including human rights protection, climate change, corporate governance and others (García-Sánchez, Gómez-Miranda, David, & Rodríguez-Ariza, 2019). For this reporting, both stakeholders and companies need standardised frameworks or guidelines (terms used as synonyms) to be able to analyse, on equal terms, indices of peer companies, and companies need them to ensure they can provide information that is of interest to stakeholders, as well as to benchmark against other industry firms. While there is regulation for financial information reporting, with clear accounting rules, non-financial information lacks an established framework. Therefore, numerous initiatives have proliferated to set reference frameworks and guidelines for companies to use (Dobers, 2009; Erkens, Paugam, & Stolowy, 2015). Another objective of this chapter, therefore, is to reason on the variety of standards, and to look into today's most frequently used framework, the Global Reporting Initiative (García-Sánchez et al., 2019; Lopez, García & Rodríguez, 2007).

Auditors play a relevant role in legal compliance and standards reporting. Legislation stipulates that the delivery of non-financial information is verified by auditors, yet some companies are going further and are procuring the services of audit and consultancy firms to design and audit CSR reports (Andrew & Baker, 2020; Simnett, Vanstraelen & Chua, 2009). Auditing has been found to be a positive influence on CSR reporting, since it encourages quality reporting and improves CSR disclosure (Pucheta-Martínez, Bel-Oms, & Rodrigues, 2018). This chapter looks into the challenges of auditing and provides suggestions for effecting reporting. Finally, there is one question that is often asked when studying CSR, which is, does CSR pay? This chapter looks into the three main areas of study on CSR outcomes: marketing and corporate image (Cho et al., 2012; Michelon et al., 2015; Moneva et al., 2006), employee commitment and, as a consequence, economic return (Maignan, Ferrell & Hult, 1999). This objective also looks at the critics of CSR, who consider it only as a tool for managing corporate image (Cho, Michelon & Patten, 2012; Michelon, Pilonato & Ricceri, 2015; Moneva, Archel & Correa, 2006) and accuse companies of 'greenwashing' (Marquis & Toffel, 2014).

In summary, this chapter aims to provide the academic community with a thorough overview of current CSR initiatives and its main drivers. It clarifies the main concepts, including the definition of CSR, and emphasises the main issues of discussion in this field. More specifically regarding definitions, this chapter establishes that even though each of the terms used has its singularity, the one that is used most frequently is CSR. Regarding standards and frameworks, the variety of factors on which to report on is confusing for stakeholders and damaging to CSR, and there is an outcry for the establishment of a common standard. This chapter also looks at the role played by auditors in checking the delivery of CSR information, and asks if their role might increase in relevance in the coming years. Finally, it is argued that whether or not CSR pays, it is essential that it is applied under ethical principles.

In terms of methodology, after a literary review of the articles provided by the academic community on CSR and related terms, primary academic papers were revised and complemented with information from different sources, including the OECD, ICGN (investor-led organisation) and GRI, among others, to finally form the overview of the CSR concept within this chapter.

This chapter is structured in the following way. First, there is an overview of the theoretical background of CSR. This is followed by a definition of CSR and other associated concepts. Then there is an analysis of CSR reports and standards, together with an audit and assessment review, as well as a scrutiny of CSR from the point of view of its return to companies. The chapter finishes with conclusions and suggests areas for further research.

2.2. THEORETICAL BACKGROUND

There are different classifications of CSR theories. Garriga and Melé (2004) identified four types of theory: instrumental theories – those focused on achieving economic aims through social activities, which contemplates maximisation of shareholder value and cause-related marketing; political theories – those related to a responsible use of business power in the political area, which reflects the corporate constitutionalism and corporate citizenship; integrative theories –those related to the integration of social demands, which considers public responsibility, stakeholder management and corporate social performance; and ethical theories – those related to contributing towards a good society, which contemplates universal rights, sustainable development and the common good (as cited by Nave & Ferreira, 2019, p. 886).

Frynas and Yamahaki (2016) classified CSR's theories by its two main drivers: external and internal. Stakeholder theory, institutional theory, legitimacy theory and dependence theory were included among external drivers, and resource-based view (RBV) and agency theory among internal drivers. We will follow the second classification, since it is a simple classification with a clear view on the CSR theoretical background. Next, we will look into external and internal theories.

2.2.1. External theories

External drivers (stakeholder theory, institutional theory, legitimacy theory and dependence theory) currently dominate the drive for CSR (Frynas & Yamahaki, 2016).

Under **stakeholder theory**, the concept of the stakeholder refers to a flexible and diverse group of individuals within the scope of a company's activities, who design a network of relationships based on whether they influence, or are influenced by, the company, either positively or negatively (Clarkson, 1995; Evan & Freeman, 1993; Maignan & Ferrell, 2004). Among primary stakeholders we find investors, strategic partners, employees, managers, customers, suppliers and public groups (government and community). Secondary stakeholders include media or special interest groups, who are not vital for the company's existence (Clarkson, 1995; Maignan et al., 1999). Another classification of stakeholder is based on their active involvement in the company. These are stakeholders such as employees or managers who are directly engaged in vital productive activities and with influence over the survival and development of a company. Others, such as investors or strategic partners, either indirectly or partially support a company's activities and share the costs and risks. The final group of stakeholders refers to customers, government, lobby groups and the community situated within the limits of the company and eventually affected by the company's operations? (Kao, Chen, Wu & Yang, 2014; Maignan & Ferrell, 2004; Nave & Ferreira, 2019).

As Maignan and Ferrell (2004) state, based on Agle, Mitchell and Sonnenfeld (1999) and Berman, Wicks, Kotha and Jones (1999), stakeholder theory postulates that a company's conduct settles on the nature of its different stakeholders, on the 'right' or 'wrong' concepts assumed by stakeholders (ethics), and on the degrees of influence on the company that these stakeholders have. These postulates are reasoned by an instrumental justification, since stakeholders are needed to supply resources, and by a moral justification, whereby the legitimate interests of all stakeholders are equally relevant (Donaldson & Preston, 1995). Further, these postulates are quite similar to Edward Freeman's (1984) view on stakeholder theory, which links capitalism and ethics in the pursuit of value creation for stakeholders (Nave & Ferreira, 2019). Stakeholder theory has advanced over time by trying to understand how a company generates wealth, the role of ethics and sustainability on a capitalist economy, and the current and future role of managers (Freeman, Harrison, Wicks, Parmar & de Colle, 2010; Nave & Ferreira, 2019). Maignan and Ferrell (2004) concluded that, 'The stakeholder perspective implies that business acts in a socially responsible manner when its decisions and actions account for, and balance, diverse stakeholder interests,' (p. 5) and that, by doing so, corporations are attending to their moral obligation to all stakeholders (Gibson, 2000; Matten, Crane & Chapple, 2003). Stakeholder theory complements CSR by legitimising and giving priority to the influence of stakeholders on corporate decisions (Matten et al., 2003).

Institutional theory helps to explain how CSR activities are influenced by a company's institutional environments, and contributes to our understanding of the different pressures around companies and their contexts (Nave & Ferreira, 2019; Ozdora-Aksak & Atakan-Duma, 2016; Scott, 2008). One perspective of institutional theory is the normative perspective. The normative perspective emphasises the pressures felt by companies to follow internal and external rules and norms (Nave & Ferreira, 2019; Zucker, 1987). Sometimes these rules and norms are based merely on tradition (Scott, 2001). An interesting concept within institutional theory is 'institutional isomorphism', which describes how firms facing comparable institutional pressures will come up with similar strategies to counter them (Frynas & Yamahaki, 2016). There are abundant academic studies on how institutional theory has influenced CSR (Frynas & Yamahaki, 2016). Further, there are numerous studies on the differences in CSR according to a company's local context (Jamali & Neville, 2011; Matten & Moon, 2008), and others examining how companies cope amid various institutional environments and pressures (Frynas & Yamahaki, 2016; Jamali, 2010).

Under the **legitimacy perspective**, a company's actions are judged by social norms, values and expectations (Oliver, 1996; Palazzo & Scherer, 2006). Legitimacy implies that there is a social contract between companies and society (Frynas & Yamahaki, 2016), which allows for the supply of essential resources while being necessary for a company's existence (Parsons, 1960; Pfeffer & Salancik, 1978). If companies fail to live up to society's expectations, they will lose that society's trust and, as a consequence, lose social legitimacy and power (Nave & Ferreira, 2019; Porter & Kramer, 2006). As Frynas and Yamahaki (2016) state, in legitimacy theory, 'firms are inseparable from society and they have no inherent right to exist – they exist only as far as society confers legitimacy upon them' (Frynas & Yamahaki, 2016, p. 267).

The legitimacy of companies might, therefore, be challenged by conflicts with civil society. Civil society questions a firm's societal role (Sethi, 2002) and actively scrutinises them (Spar & La Mure, 2003; Waddock, 2000). As a consequence, legitimacy has become critical for companies (Palazzo & Scherer, 2006) who define specific strategies to address it. Legitimacy is conversant with resource dependence theories (Sonpar, Pazzaglia & Kornijenko, 2010) and has 'overlapping perspectives' with stakeholder theory (Frynas & Yamahaki, 2016) and institutional theory.

Finally, the **resource dependence theory** proffered by Pfeffer and Salancik (1978) argues that companies depend on their environment for resources that are crucial to their existence. Companies must, therefore, address the requests and prioritise the demands of the suppliers of these crucial resources (Frynas & Yamahaki, 2016; Oliver, 1991; Pfeffer & Salancik, 1978). Resource dependence theory considers that the board of directors plays a crucial role in guaranteeing a company's supply of critical resources (Frynas & Yamahaki, 2016).

2.2.2. Internal theories

Among internal theories, we find the resource-based view of the firm, and the agency theory.

The **resource-based view** focuses on a firm's quest for a competitive advantage based on strategic and resource endowments (Penrose, 1959; Lockett & Thompson, 2004), and not on adaptation to the external environment, as other theories imply. As Barney (1997) suggests, in order to gain a competitive advantage, a firm's resources must be VRIO: Valuable, Rare, difficult to Imitate, and able to be exploited by the Organisation (Frynas & Yamahaki, 2016). The resource-based view perspective within CSR allows for a company to distinguish itself and improve performance by investing in their capabilities on social and environmental issues (Frynas & Yamahaki, 2016).

The **agency theory** reasons on the interests and power relations of shareholders/investors (called 'principals', and meaning those who employ another party to accomplish a specific work), and directors/managers/employees (called 'agents', and meaning the party employed to accomplish a specific work). Agency theory argues that since the principals own the company, they are entitled to control it and prioritise their own interests (Nwanji & Howell, 2007; Ross & Crossan, 2012). This argument confronts agency conflict Type 1, since agents might pursue their own interests, which might not be aligned with those of the principals (Rodriguez-Fernandez, 2016; Villalonga & Amit, 2016). These diverting interests can be aligned with incentives (Jensen & Meckling, 1976) or by other means, and principals have different mechanisms, such as control, to monitor agency (Eisenhardt, 1985; Frynas & Yamahaki, 2016; Jensen & Meckling, 1976). Back in 1962, Friedman argued that managers (agent) generated lower profits for shareholders (principal) since they were pursuing environmental and social objectives. This perspective solidified one of the first notions of CSR (Frynas & Yamahaki, 2016). Agency theory needs other theories to give a holistic picture of CSR. As Eisenhardt (1989) argued, 'agency theory presents a partial view of the world that, although it is valid, also ignores a good bit of the complexity of organisations' (p. 71).

In summary, CSR has grown as a concept over the years. A variety of theories have arisen around the phenomenon: the concept of stakeholder theory refers to a flexible and diverse group of individuals within the scope of a company's activities, who design a network of relationships based on whether they influence, or are influenced by, the company, either positively or negatively (Clarkson, 1995; Evan & Freeman, 1993; Maignan & Ferrell, 2004). The concept of institutional theory focuses on how activities are influenced by a company's institutional environments and contributes to our understanding of the different pressures concerning companies and their contexts (Nave & Ferreira, 2019; Ozdora-Aksak & Atakan-Duma, 2016; Scott, 2008). Within corporate legitimacy, a company's actions are judged according to social norms, values and expectations (Oliver, 1996; Palazzo & Scherer, 2006). Resource dependence theory, by Pfeffer and Salancik (1978), argues that companies depend on their environment for resources that are crucial to their existence. The resource-based view (RBV) settles on a firm's quest for competitive advantage based on strategic and resource endowments (Penrose, 1959; Lockett & Thompson, 2004). And finally, agency theory reasons on the interests and power relations of shareholders/investors ('principal'), and directors/managers/employees ('agents'). Agency theory argues that since principals own the company, they are entitled to control it and prioritise their own interests (Nwanji & Howell, 2007; Ross & Crossan, 2012). These are just a few of many CSR theories suggested.

2.3. CSR OVERVIEW: DEFINITIONAL ISSUES, TYPES OF REPORTS, STANDARDS AND GUIDELINES, AUDIT AND ASSESMENT, AND OUTCOMES

2.3.1. Definitional issues

Since there is confusion around the concept and scope of CSR and other terms that are used synonymously, this chapter looks into the variety of CSR definitions and some of the terms used as alternatives, including non-financial information, corporate citizenship and sustainable development.

There is no common definition for **Corporate Social Responsibility (CSR)** (Bice, 2017; Guthey & Morsing, 2011; Matten & Moon, 2008; McWilliams & Siegel, 2001). Authors such as Dahlsrud (2008) have studied CSR definitions and come to the conclusion that there are five dimensions of CSR: environmental dimension, social dimension, economic dimension, stakeholder dimension, and voluntariness dimension. Aguinis and Glavas

(2012) argue that the differences in definitions often go ‘beyond semantics to deeper construct-level differences… from philanthropy to ethics to safety issues to more composite measures assessed by external rating agencies…’ (p. 942). As a matter of fact, different names are used for similar practices (Melé, 2008). Terms such as social performance (Carroll, 1979), stakeholder management (Donaldson & Preston, 1995; Freeman, 1984), corporate governance (Freeman & Evan, 1990), business ethics (Solomon, 1993), social contract (Donaldson & Dunfee, 2002), sustainable development, corporate citizenship (Matten & Crane, 2005), corporate social performance (CSP) or non-financial information are used as alternatives, creating confusion about CSR as a concept and even damaging CSR efforts, since this diversity complicates empirical studies, as well as CSR initiatives (Berger-Walliser & Scott, 2018; Bice, 2017). Carroll (1999), Wartick and Cochran (1985), and Waddock (2004) argue that this lack of a precise definition and the proliferation of different terms could be caused by the continuous evolution of the concept of corporate responsibility during the past 50 years (Capriotti & Moreno, 2007a), influenced by different interpretations, corporations, legislators and others (Christensen & Cheney, 2011; Christensen, et al., 2013).

In 1953, Bowen defined CSR as ‘the obligations and duties of companies beyond the realm of generating a financial return for shareholders’ (cited by Andrew & Baker, 2020, p. 35). Since then, other authors such as Davis (1960) have come up with diverse definitions (Andrew & Baker, 2020) that attempt to answer the question, ‘What is a business responsible for?’ (Maignan, Ferrell & Hult, 1999, p. 457). A more in-depth CSR debate began in the late 1970s with Carrolls’ (1979) four-part model of CSR. As previously stated, in this model firms have up to four types of responsibility: economic, to be profitable; legal, to comply with law; ethical, to do what is right; and philanthropic (Matten & Crane, 2005; Matten et al., 2003). More recent CSR definitions from the past 20 years are cited as examples. The European Commission, for example, ‘has defined CSR as the responsibility of enterprises for their impact on society and, therefore, it should be company led. Companies can become socially responsible by integrating social, environmental, ethical, consumer, and human rights concerns into their business strategy and operations; and by following the law.’ McWilliams and Siegel (2001) provide a view on the ‘goodness’ of the company: ’actions that appear to further some social good, beyond the interests of the firm and that which is required by law’ (p. 117). Rupp, Ganapathi, Aguilera and Williams (2006, p. 537) add the concept of social change: ‘activities, decisions, or policies that organisations engage in to effect positive social change and environmental sustainability’.

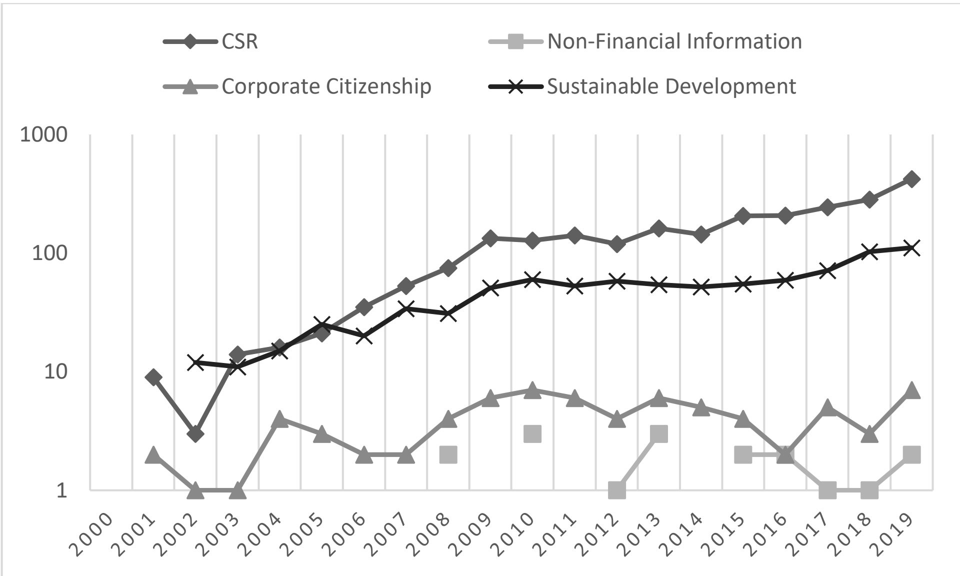
Another concept of interest, since legislation refers to it, is **non-financial information**, in contrast to financial information. As with CSR, there are different definitions of non-financial information, such that it can be suggested there is no definition at all. Some authors, such as Erkens, Paugam, and Stolowy (2015), attribute this to the fussiness of the concept. They also affirm that even though there might not be a definition, the concept is situated in the contexts of environmental, social, CSR and others. As a matter of fact, even if Spanish laws 18/2017 (November 24, 2017) and 11/2018 (December 28, 2017) use the term non-financial information, it refers to corporate social responsibility and states that it contributes towards measuring, monitoring and managing the performance of companies and their impact on society. Non-financial information is considered essential to managing the transition to a sustainable global economy that combines long-term profitability with social justice and environmental protection.

Also aligned with CSR is the concept of **corporate citizenship**. A first understanding of corporate citizenship declares that when CSR includes a global focus with a specific approach to the stakeholder theory, and tries to respond to the question of which stakeholders in particular corporations are responsible to, we arrive at the concept of corporate citizenship (Capriotti & Moreno, 2007a; Matten & Crane, 2005; Waddock, 2004). Other explanations suggest that the industry came up with a new term because it didn't feel comfortable with having the word 'responsibility' within CSR, since it might lead to the assumption that businesses are not responsible, or might even be against it (Matten et al., 2003). On the other hand, being 'citizens' implies that companies are part of a community, with rights and responsibilities, and are mutually dependent (Waddell, 2000). This statement is challenged by authors such as Carroll (1998) and others who define both concepts the same way, using them synonymously (Lewin, Sakano, Stevens, & Victor, 1995; Pinkston & Carroll, 1994), and considering corporate citizenship as a means to make CSR more accessible or relaunch its previous ideas (Matten & Crane, 2005). A possible definition of corporate citizenship is, 'the strategies and operating practices a company develops in operationalising its relationships with and impacts on stakeholders and the natural environment' (Waddock, 2004, p. 9).

Regarding the concept of **sustainable development**, this is a term much used nowadays to address CSR reports (Herrmann, 2004). Molleda and Moreno (2004) consider it to be a wider notion of CSR that combines long-term profitability with social justice and environmental protection, as mentioned in Spanish law 18/2017 (November 24, 2017), and which companies are beginning to approach.

To better understand the growth and evolution of the different terms that referrer to CSR, figure 7 represents a graphic of the articles published by year, with each term in the articles' title. The categories selected for the study were: business, business finance, communications, economics, ethics and management, according to the Web Of Science (WOS) database. Publications on these topics begin in 2001, and the term that has been most widely adopted is Corporate Social Responsibility (CSR) with 2,413 articles and a steady growth, followed by sustainable development with 875 articles but a very flat curve. Non-financial information has been used in the title of 17 articles, which differs from the findings of Erkens, Paugam, and Stolowy (2015), who stated that in the late 1990s and early 2000s, the research on non-financial information attained some maturity. Corporate citizenship has been used in the titles of 74 articles.

Figure 7. Evolution of CSR term and alternatives



(Logarithmic scale on base 10)

Source: By Author

In summary, even though there is no common definition of CSR, and other terms are used synonymously, it could be suggested that the essence of at least several of the five dimensions of Dahlsrud's (2008) CSR definition can be found in all the different terms. The concept has evolved over the past 50 years and new terms have arisen, emphasising some CSR dimensions or underlining the point of view of the company or of some stakeholders. Articles most frequently use CSR and, at a distance, Sustainable Development when referring to these matters.

2.3.2. The evolution of CSR reporting

Next there is a review of non-financial information disclosure, from being non-existent, to voluntary, to mandatory. This includes a revision of the influences that have brought the disclosure of this type of information to where it is currently, mentions the type of reports used to disclose the information, and looks at the benefits and flaws of reporting.

Not too long ago, investors had to base their decisions on only financial indicators, but reporting of purely financial data didn't provide enough information for them to take properly informed decisions, and investors began demanding other types of information. The so-called non-financial information came to fill this gap, providing data on critical areas that could determine the short and long-term survival of the company, as well as its performance (García-Sánchez et al., 2019; Hálek, Borkovcová & Hašek, 2020). But non-financial information is not focused only on investors. In the 1980s and 1990s, companies began to provide information to stakeholders about social and environmental issues in order to build trust between companies and stakeholders and as a means of responding to social pressures (Alonso-Almeida, 2009; Alonso-Almeida et al. 2014; Andrew & Baker, 2020; Ioannou & Serafeim, 2011).

CSR or sustainability reports have been used by companies previously on a voluntary basis (soft law), and now as mandatory (hard law), to provide transparency on non-financial information topics of great interest to stakeholders, among which we can find human rights protection, climate change, corporate governance and others (García-Sánchez et al., 2019). As a matter of fact, the involvement of stakeholders in strategies and operations has contributed to the integration of sustainability into corporate strategy (Banerjee & Bonnefous, 2011; Christofi, Christofi & Sisaye, 2012) and has also contributed to preventing destructive economic decisions and social imbalances (Alonso-Almeida, 2009; Melé, Debeljuh & Arruda, 2006). Alonso-Almeida, Llach, & Marimon's (2014) summary on the evolution of voluntary non-financial information disclosure can be found in table 5.

Table 5. Evolution of the voluntary disclosure of non-financial information

Period	Indicators	Stakeholders	Diffusion method
1960-1979	. Human resource tools	. Employees	. Internal
	. Philanthropic programmes	. Community where the organisation is located	. External, through marketing actions
1980s	. Structural transformation of the organisation	. Consumers . Shareholders and investors	. Specialised departments . Communicated in the financial report
	. Behavioural codes	. Society . Government	
1990s	. Environmental indexes	. Shareholders and investors	. Communicated in the financial report
	. Social indexes	. Society . Lobbies	. Environmental report . Social report
2000-present	. Development of environmental and social indexes	. Shareholders and investors	. Environmental report . Social report . GRI . AA1000 . ISO26000
	. Standardised and certified international systems		

Source: Alonso-Almeida, Llach and Marimon (2014)

As can be seen indicators have evolved from human resources tools to standardised systems as demands from stakeholders evolve from employees to shareholders and investors. If, until the 1990s, CSR reports were usually an independent piece of information, in the 2000s the use of integrated reporting on non-financial initiatives became more frequent (Alonso-Almeida et al., 2014). A study of 112 UK companies from 2005 to 2007, on the types of reports used for CSR disclosure, observed that standalone reports frequently provided more information, but not of a better quality, than CSR information contained within annual reports (Michelon et al., 2015). Reports are publicly shared with stakeholders through a company's corporate website. Specific studies on CSR information on corporate websites can be found, including that undertaken by Capriotti and Moreno (2007a).

As a consequence of its evolution, Directive 2014/95/EU, request that CSR reports include, at the least, a statement related to environmental and social issues, employees and human rights, and the company's stance against corruption and bribery. This statement must cover a description of applied policies, as well as risks related to these matters, and the control measures being taken. Its scope includes a company's supply chain and outsourcing.

Some studies have analysed the effects of CSR disclosure and concluded that CSR reports contribute towards identifying a company's weaknesses and strengthen capacities, since it raises managers' social responsibility, elevates the priority of sustainable development, increases the supervision over management, and prevents the loss of company credibility (García-Sánchez et al., 2019; Ioannou & Serafeim, 2011). Disclosure also contributes towards preventing destructive economic decisions and social imbalances (Alonso-Almeida, 2009; Melé et al., 2006). Lozano and Huisingh (2011) and Prado-Lorenzo, Gallego-Alvarez and Garcia-Sanchez (2009) came to the conclusion that CSR reports have become guidelines to communicate with stakeholders, as well as a way to appraise a company and disclose information widely (Alonso-Almeida et al., 2014). However, some authors observed that CSR reporting doesn't always provide information that is helpful for stakeholders (García-Sánchez et al., 2019; Kolsi & Attayah, 2018; Solomon & Solomon, 2006), since the information reported is often scarce, and either insufficient or not reliable enough to interact with companies and improve business practices, if needed (Boiral, 2013; Sankara, Patten & Lindberg, 2019).

2.3.3. CSR Standards

Now we will look at a description of non-financial information and the role played by managers in defining the information to be disclosed, based on the different frameworks available and supported by law. Among these frameworks there is a more thorough detail on GRI standards, as well as an example of the simultaneous use of complementing guidelines.

There is a wide variety of non-financial indicators in CSR reporting, and managers are usually the ones who determine which indicators will be disclosed. Frequently these indicators can't be explicit on currency units, they are complex, might be subjective, are often difficult or impossible to measure, and focus on short timescales (Hálek et al., 2020; Režňáková, Karas & Strnadová, 2017). Even as short-term indicators, non-financial indicators should show a connection with long-term goals, strategy and performance (Choong, 2013). A company's managers might select which indicators to report, and how, depending on whether the results are positive or negative, in what is called the 'obfuscation hypothesis' (Hálek et al., 2020; Smeuninx, De Clerck & Aerts, 2016). A survey by Calu in 2015 concluded that 53% of companies shared positive information, against 33% that shared the negative (Calu, Negrei, Calu & Viorel, 2016).

There are different classifications of non-financial indicators. Hálek (2016) and Hálek, Borkovcová and Hašek (2020) suggest they can be classified as one of two types: hard (easy to measure) and soft (difficult to measure, measured by surveys). In either case, indicators should provide a clear judgement of their evolution over time (Costa & Torrecchia, 2018; Hálek et al., 2020) and should sometimes be represented in a balanced scorecard – a tool used in the disclosure of financial and non-financial indicators – since the information it provides can be beneficial for CSR (Asiaei & Bontis, 2019; Gavurova, 2011; Hálek et al., 2020).

In 2014, the European Commission legislated on non-financial information disclosure by companies with more than 500 employees[2] (European Directive 2014/95/UE). The legislation identified the following matters to be reported on: environmental, social and employee-related, respect for human rights, anti-corruption and anti-bribery. But instead of giving a common guideline for all, it listed different national frameworks, union-based frameworks or recognised international frameworks that companies could rely on to report.

Due to the difficulty of CSR reporting, since the 1990s different multi-stakeholder initiatives have taken place to provide a reference framework for reporting. These initiatives have been classified by Tanimono (2019) as single-organisational – when led by an NGO, industrial organisation or government – or inter-organizational, such as when they are single-sector or cross-sector collaborations. Hence think tanks, governments, non-governmental organisations (NGOs), institutions and business entities, among others, have designed guidelines and norms for voluntary and mandatory disclosure and to facilitate CSR reporting and comparison (Alonso-Almeida et al., 2014; Prado-Lorenzo, et al., 2009; Tanimoto, 2019). Among these guidelines we find the Integrated Reporting Framework (IRF), created in 2013, the Social Accountability International (SAI), the Forest Stewardship Council (FSC), ISO 26000 (Guidance on Social Responsibility, created in 2010), and the Global Reporting Initiative (GRI) created in 1997, among others

[2] Firms under this rule are entities of public interest, companies with 500 employees as average in the year, and companies classified as “big companies” for two years in a row. (Big companies are those that meet two of these criteria: 20 million euros in assets, 40 million euros in annual turnover, and 250 employees on average). It also includes banks and insurance companies, among others.

(Tanimoto, 2019). IRF focuses on how a company creates value over time. It is based on principles and concepts that remain coherent in an integrated report that covers strategy, governance, performance and prospects. SAI is an ISO standard, which can be audited and which focuses on social aspects. FSC certification documents the steward on biological diversity of forests, with a focus on sustainability, community and workers. ISO 26000 is a guidance for social and environmental responsibility. GRI has been identified as the most broadly used standard for non-financial information reporting worldwide, and as the most appropriate basis for creating CSR reports (Brown, Jong, & Levy, 2009; Christofi et al., 2012; García-Sánchez et al., 2019; Levy, Brown & Jong, 2010; Lopez et al., 2007; Marimon, Alonso-Almeida, Rodriguez, & Cortez, 2012; Prado-Lorenzo et al., 2009) having become mandatory in some countries (Ioannou & Serafeim, 2011; Nikolaeva & Bicho, 2011).

GRI guidelines were created in 1997 by a US non-profit organization, the Global Reporting Initiative. Based on Financial Accounting Standards Board (FASB), a model established by the US financial reporting system (Brown et al., 2009), the GRI guidelines have been defined as helping create 'a report published by a company or organization about the economic, environmental and social impacts caused by its everyday activities' (Erkens et al., 2015, p. 17). Findings show how pressures from competition and media, as well as visibility and publicity efforts, were relevant to the acceptance of GRI. GRI is constantly evolving to adapt to the new information needs of stakeholders, to increase consistency, comparison, auditability and general acceptance (Alonso-Almeida et al., 2014; Nikolaeva & Bicho, 2011). GRI began with environmental reporting and evolved to 'triple bottom line,' which includes social performance, economic performance/impact and environmental performance (Elkington, 1994, 1998). There are 36 GRI standards in the 2018 edition. They are listed in table 6.

Table 6. GRI standards in 2018 edition

GRI 101: Foundation 2016
GRI 102: General Disclosures 2016
GRI 103: Management Approach 2016
GRI 201: Economic Performance 2016
GRI 202: Market Presence 2016
GRI 203: Indirect Economic Impacts 2016
GRI 204: Procurement Practices 2016
GRI 205: Anti-corruption 2016
GRI 206: Anti-competitive Behavior 2016
GRI 301: Materials 2016
GRI 302: Energy 2016
GRI 303: Water and Effluents 2018
GRI 304: Biodiversity 2016
GRI 305: Emissions 2016
GRI 306: Effluents and Waste 2016
GRI 307: Environmental Compliance 2016
GRI 308: Supplier Environmental Assessment 2016
GRI 401: Employment 2016
GRI 402: Labor/Management Relations 2016
GRI 403: Occupational Health and Safety 2018
GRI 404: Training and Education 2016
GRI 405: Diversity and Equal Opportunity 2016
GRI 406: Non-discrimination 2016
GRI 407: Freedom of Association and Collective Bargaining 2016
GRI 408: Child Labor 2016
GRI 409: Forced or Compulsory Labor 2016
GRI 410: Security Practices 2016
GRI 411: Rights of Indigenous Peoples 2016
GRI 412: Human Rights Assessment 2016
GRI 413: Local Communities 2016
GRI 414: Supplier Social Assessment 2016
GRI 415: Public Policy 2016
GRI 416: Customer Health and Safety 2016
GRI 417: Marketing and Labeling 2016
GRI 418: Customer Privacy 2016
GRI 419: Socioeconomic Compliance 2016

Source: GRI Standards Glossary (2018)

As the Global Sustainability Standards Board states, there are some common areas covered by both the GRI standards and the European Directive 2014/95/UE, such as: the relevance of materiality (to define which indices to report on), impacts in the value chain (must also report on the impact companies might have through suppliers, customers or others), exceptions and omissions (identify omitted information and reason for omission), external assurance (recommended) and continuous improvement.

But there are also some critics of GRI reporting. Gjølberg (2009) emphasises how GRI was designed to provide information on measurable criteria and argues this is not always possible. Goel (2005) states that GRI reporting was very general, some indices were not used by firms, and it missed out some relevant CSR indicators (Toppinen, Li, Tuppura & Xiong, 2012). Also, GRI has not been able to integrate the different reporting methods, and accordingly some companies have not been attracted to them (Levy et al., 2010; Nikolaeva & Bicho, 2011) and investors and other stakeholders still demand a reliable standard that is common to companies worldwide (Lozano & Huisingh, 2011). Nevertheless, Asif, Searcy, Zutshi and Fisscher (2011) have identified GRI reporting as a 'good starting point for reporting on sustainability initiatives, making sustainable measurement more systematic and allowing for the comparison of different companies in sectors that use the same set of indicators' (cited in Alonso-Almeida et al., 2014, p. 321).

Some companies that want to be thorough in their CSR reports and look towards strategically differentiating themselves have chosen to report under two guidelines: GRI and International Finance Corporation (IFC) performance standards (GRI-IFC disclosure strategy) (García-Sánchez et al., 2019). The International Finance Corporation approach complements GRI guidelines by reinforcing management commitments, engaging the organisation in the sustainability strategy, defining targets, and allowing for the execution of plans and following of results. Therefore, together they provide high-quality non-financial information reports that might help investors and stakeholders in their analysis of a company compared with its peers within a country or sector. At the same time, it reduces information asymmetries between managers and investors (García-Sánchez et al., 2019). García-Sánchez, Gómez-Miranda, David, and Rodríguez-Ariza (2019) studied 750 international companies located in 19 countries and operating within 22 business sectors during the years 2011-2016, all of which had adopted the GRI-IFC disclosure strategy. The result of the study showed that, 'use of this strategy, and the resulting increase in coverage, has a positive impact on the accuracy of analysts' forecasts'

(García-Sánchez et al., 2019, p. 1,392). But the use of this strategy might have a high cost (Li, Gong, Zhang & Koh, 2018) from an economic point of view, as well as concerning the sensitive nature of disclosed information (García-Sánchez & Martínez-Ferrero, 2017).

2.3.4. Audit and assessment

Next there is a review of the role of auditing in non-financial information, from the point of view of mandatory and voluntary disclosure and assessment.

Auditing is meant to reduce information asymmetry, therefore it reduces agency conflict (Jensen & Meckling, 1976), monitors the disclosure of CSR activities (Fernandez-Feijoo, Romero & Ruiz, 2014; Martínez-Ferrero, Ruiz-Cano & García- Sánchez, 2015), and improves credibility and transparency (Fernandez-Feijoo et al., 2014; Ravlic & Yarnold, 2015). Accordingly, it can be stated that auditing practices encourage quality CSR reporting and improve CSR disclosure (Pucheta-Martínez, et al., 2018).

European Directive 2014/95/UE and Spanish law 18/2017 of November 24 2017, which modifies the Commercial Code, the revised text of the Capital Companies Law approved by Royal Legislative Decree 1/2010 of July 2, and Law 22/2015, of July 20, on auditing of accounts regarding non-financial information and diversity, regulate that non-financial information statement provision should be audited, it not currently being mandatory. It also regulates that the information supplied in non-financial information statements should be audited. Nonetheless, some companies are going further than that and are voluntarily hiring external audit and consultancy firms to design and audit CSR report information (Andrew & Baker, 2020; Simnett et al., 2009). Many authors have studied the influence of auditing on CSR voluntary disclosure, and Ahmad, Hassan and Mohammad (2003), Biaek-Jaworska and Matusiewicz (2015), and Dechow, Ge and Schrand (2010), among others, have found it to be a positive influence (Pucheta-Martínez et al., 2018). But CSR auditing is not an easy task, since, as previously mentioned, there is no common definition of CSR, some CSR indices are difficult to measure, and 'tick-box' approaches can't be properly used since answers can't be explained (Morimoto, Ash & Hope, 2005).

Morimoto, Ash and Hope (2005, p.320) propose six elements that should be integrated in CSR auditing for effective reporting: 'good stakeholder management, good corporate leadership, greater priority for CSR at board level, the integration of CSR into corporate policy, regulation at national and international level, and the active involvement of, and good coordination between, government, business, NGOs and civil society.'

2.3.5. CSR outcomes: marketing, employees' commitment and economic results

Next there is an overview of CSR outcomes from the point of view of marketing, employees and economic results. This overview also provides the perspective of those critical to CSR disclosure, since they consider it a tool for 'greenwashing', among other negative aspects.

There are plenty of academic studies on the return to companies of CSR investment, and this is generally referred to as the business case for CSR. These studies demonstrate how companies that engage in CSR activities are recompensed by stakeholders (Bhattacharya, Korschun & Sen, 2009). Some examples can be found in the work of Sen and Bhattacharya (2001), who documented how CSR activities positively influenced companies' evaluation and the purchase motivation of consumers. It also has a positive influence on job seeking and job-related effort (Greening & Turban, 2000; Turban and Greening, 1997). There is also evidence of its positive influence on investor decisions (Bhattacharya & Korschun, 2006; Domini, 1992). But even with all this evidence, the return on CSR investment is not guaranteed and there is a need to better understand the motivations for those returns in order to more accurately estimate potential outcomes (Bhattacharya et al., 2009). Hence Bhattacharya, Korschun and Sen (2009) argue that for companies to gain a return from their CSR initiatives, they must provide a return to individual stakeholders.

There are three main areas of study in terms of CSR return: marketing and corporate image (Cho et al., 2012; Michelon et al., 2015; Moneva et al., 2006), employee commitment, and, as a consequence, economic return (Maignan et al., 1999).

CSR is considered to be a **marketing** tool, since it responds to stakeholders' communication demands (Capriotti & Moreno, 2007b; Sweeney & Coughlan, 2008), it influences reputation management, brand protection and image (Arora & Cason, 1995; Brown, et al., 2009; Ioannou & Serafeim, 2011), it contributes to a company's dialogue with stakeholders and hence to its reputation through public relations, as well as to the way companies are perceived by capital markets (Capriotti & Moreno, 2007a; Nikolaeva & Bicho, 2011), and it reinforces customer loyalty and motivates positive word of mouth (Belch, 1981; Maignan et al., 1999). Customers are willing to support companies with proactive CSR because of the direct benefits they draw from them and because of the common values they share. By buying from them, customers can demonstrate that they value the CSR efforts taken by companies, in what is called ‘ethical consumerism’ (Asgary & Li, 2016; Nave & Ferreira, 2019), which has led to an increased attention on CSR from the view of commercial practice (Kotler & Lee, 2005). But the use of marketing tools for CSR purposes also has negative consequences, since it reinforces accusations of ‘greenwashing’ (Marquis & Toffel, 2014).

Findings demonstrate there is a positive correlation between a company’s humanistic orientation and **employee** turnover, job satisfaction and motivation, suggesting it fosters a bond with the company and contributes to their **commitment** to it (Maignan et al., 1999; Pritchard & Karasick, 1973). A study by Farooq, Payaud, Merunka and Valette-Florence (2014) demonstrates how the strongest mechanism between CSR and efective organisation commitment activates when CSR is focused towards employees, followed by a focus on community. A survey conducted in 1996 revealed that 88% of consumers were more likely to purchase from a socially responsible company (Smith, 1996) and 76% would change their buying habits in favour of those sensible to community needs (Jones, 1997; Maignan et al., 1999).

Positive outcomes previously mentioned within marketing concepts and employee commitment may improve a company’s competitive position and contribute towards explaining positive associations between CSR and **business performance**, which materialises as an improvement in financial measures such as return on assets, return on investments, profit growth and sales growth (Maignan et al., 1999). This supports those who argue that companies should implement CSR practices for ethical reasons as well as for potential profits (Charlo, Moya & Muñoz, 2017; Nave & Ferreira, 2019). To measure the business performance of companies engaged with CSR practices, there is a wide variety of sustainability ratings. They are used to orientate investors and market participants on responsible funds and other products. Among sustainability ratings we find FTSE4Good, STOXX Global ESG Leaders index, ISS ESG Corporate Rating, Dow Jones Sustainability Index and Euronext Vigeo’s World 120, Eurozone 120 and Europe 120, to name just a few of a list that grows by the day.

The perspective of CSR’s positive outcomes on marketing, employee commitment and economic results has provided arguments to those who consider CSR only as tool to manage corporate image (Cho et al., 2012; Michelon et al., 2015; Moneva et al., 2006) and has reinforced the accusation of ‘greenwashing’ that many stakeholders use against companies, mainly following corporate scandals (Marquis & Toffel, 2014) that have raised questions about a company's motivations and ethics (Bice, 2017; Joyner & Payne, 2002). Corporate scandals have resulted in stakeholder trust in a company's behaviour being betrayed, giving the impression that CSR is a shallow and untruthful marketing tool (Christensen et al., 2013; Laufer, 2003). Stakeholders demand consistency with a company's words and actions, and this has led to improvements in CSR, with companies adopting holistic approaches and using aspirational talk (Christensen & Cornelissen, 2011; Christensen et al., 2013). Christensen, Morsing, & Thyssen (2013) define aspirational talk as 'such communication, which announces ideals and intentions rather than reflects actual behaviors' (p. 2). Indeed, companies might choose to move to a less demanding CSR environment or try to manipulate social expectation through lobbying or other actions (Maignan et al., 1999). Actually, the effort to provide an economic justification for CSR activities might be in itself against the notion of CSR as an ethical responsibility (Berger-Walliser & Scott, 2018).

In summary, there are plenty of academic studies that demonstrate how companies that engage in CSR activities are recompensed by stakeholders. From the marketing point of view, CSR responds to stakeholders' communication demands, influences reputation management and branding, contributes to a company's dialogue with stakeholders and reinforces customer loyalty and prescription, among others. From the employees' point of view, it provides job satisfaction and motivation, creates bonds with the company, and stimulates commitment, among others. These two outcomes contribute to a positive association between CSR and business performance, which materialises as an improvement in financial data. But these positive outcomes, together with corporate scandals, have triggered insinuations of 'greenwashing', hence consistency has become relevant for CSR disclosure.

2.4. CONCLUSIONS

The objective of this chapter was to provide a CSR overview with emphasis on its background, terminology and reporting.

Since CSR unites the interests of the different actors that surround a company, as well as the company itself, many of the relevant management theories have come together as a whole around this complex concept. The influence of stakeholders has been the determining factor for the relevance that CSR has acquired. Furthermore, the involvement of stakeholders in strategies and operations has contributed to the integration of sustainability into corporate strategy and has also contributed to preventing destructive economic decisions and social imbalances. Hence, the legislation surrounding the disclosure of information through CSR reporting has taken this information one step further by elevating it to the level of financial and corporate governance information.

Concerning **positive CSR outcomes**, there are plenty of academic studies that demonstrate how companies that engage in CSR activities are recompensed by stakeholders from a marketing point of view, from an employee point of view and, as a consequence, from a business performance point of view, among others. The positive outcomes of CSR disclosure, together with corporate scandals, have triggered insinuations of ‘greenwashing’, hence consistency has become relevant for CSR disclosure, and a holistic approach to CSR, which is led by the board of directors and embedded in the company culture, has become crucial for ensuring a company’s credibility in the eyes of its stakeholders. That is why CSR is currently one of the biggest concerns for boards of directors, due to its relevance to a company’s strategic definition and to the lack of clear knowledge about what is really demanded from them. A company's CSR strategic approach should become an essential part of the company culture and should be reflected in all its actions.

After studying **CSR as a term**, we conclude that there is no single definition of CSR. It is also observed that, since the concept has evolved over the past 50 years, new terms have arisen and are used interchangeably, such as non-financial information, corporate citizenship and sustainability. These new terms emphasize some dimensions of CSR or underline the point of view of the company or some stakeholders, while creating confusion about the concept and making empirical studies difficult. Based on its evolution, and considering it is a very wide concept, the scope of which is still being defined, it seems reasonable for CSR to continue evolving, even though there is a demand and an expectation for consensus on the main issues represented by the concept. Further legislation could contribute to clarifying the boundaries of the term.

Concerning **CSR reporting evolution**, CSR or sustainability reports have been used by companies previously on a voluntary basis (soft law), and now as mandatory (hard law), to provide transparency on non-financial information topics of great interest to stakeholders. As a matter of fact, the involvement of stakeholders in strategies and operations has contributed to the integration of sustainability into corporate strategy and has also contributed to preventing destructive economic decisions and social imbalances. Since the 1960s indicators of CSR reporting have evolved from human resources tools to standardised international systems as the demanding source evolve from employees to shareholders/investors and, currently, to stakeholders. Next step would be to improve standard's indicators to allow for cross company comparisons. If, until the 1990s, CSR reports were usually an independent piece of information, in the 2000s the use of integrated reporting on non-financial initiatives became more frequent.

When it comes to **standards of CSR reporting**, the wide variety of frameworks allowed by regulation as a basis for reporting is causing some confusion. Nonetheless, there are some standards, such as the GRI standards, that stand out from the rest in Europe and are widely used by European companies. Currently, the call for action is focused on the demand by stakeholders, mostly investors, for a common guideline or framework with unambiguous criteria as a reference for international reporting. This demand is very difficult to meet, since stakeholders, sectors, companies, cultures and governments may differ in their claims and in the way they are interpreted and reproduced. Therefore, different institutions, such as the International Organization of Securities Commissions (IOSCO), a global regulatory body, are addressing this issue, with the purpose of harmonising rules and frameworks.

With reference to the **role of auditors**, this will probably become more relevant over time and could even be further legislated on, since there will be a need not only to assess whether information is given, but also to verify its truthfulness. Furthermore, some companies are going one step ahead of the regulations on auditing in CSR by auditing truthfulness of the data provided as a way to standout before investors and stakeholders. Additionally, ESG ratings' supervisory practices and policies will be further scrutinised and it will be increasingly valued to go one step ahead of the regulations on auditing in CSR.

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CHAPTER 3. CORPORATE GOVERNANCE OVERVIEW: UNDERSTANDING AND TRENDS

Chapter three provides an overview of the main theories and control mechanisms that have traditionally ruled corporate governance. Findings suggest how relevant new codes of corporate governance come to defy the classic internal and external control mechanisms, by including company culture, internal supervision and control and functions of the board as internal functions, and stakeholders as external. It also shows how the 'apply and explain' concept has come to defy soft law and how the concept of shareholder primacy in agency theory is challenged by the concept of corporation as a principal. It also identifies future trends, such as corporate governance for unlisted companies, or changes in corporate governance reporting.

This chapter gives an overview of contemporary academic discussions on theories and control mechanisms, enriching them with complementary and updated information from institutions, as well as academic and non-academic research. This chapter provides an up-to-date document that summarises the state of the art within corporate governance.

The objectives of this chapter are:

- Introduce the understanding of corporate governance.
- Identify the current main challenges of corporate governance.
- Identify the main trends of corporate governance.

3.1. INTRODUCTION

This chapter provides a description of the main theories and control mechanisms that have traditionally ruled corporate governance, giving a new and updated perspective and at the same time providing a thorough overview with three areas of study: From challenging agency theory's concept of corporation as a principal; to a critical view of institutional theory's hard and soft law (comply or explain / apply and explain). From analysing internal mechanisms and challenging the traditional functions of the board against the new 2018 UK Corporate Governance Code (FRC, 2018a); to analysing external mechanisms and emphasizing the role of clients, media and society. From future trends such as how corporate governance is reaching unlisted companies; to how corporate governance reporting is complemented by non-financial information.

The application of corporate governance in the company through principles and regulation contributes to value creation, mitigates and prevents scandals and provides confidence in the capital markets, among other benefits. Being of great relevance, the basis of today's companies could not be understood without it. But, what is the real purpose of corporate governance? Corporate governance's purpose is to direct and control companies. To be successful in this undertaking, it is essential to rule the interests and relations among the drivers of the company, which are mainly shareholders, directors and management.

The first corporate governance code dates from 1978 in the United States (Aguilera & Cuervo-Cazurra, 2004). It was the first relevant document that gave a deep consideration to corporate governance. Since then, the concept has evolved along with companies and business development and has been the focus of significant studies, theories and statements which have become references in the field.

In its first part, this chapter confronts agency theory with the concept of corporation as principal, arguing, against it, that when shareholders acquire shares, they buy the shares and the right to vote at the General Assembly, but they are not buying the company. As a result of the previous statement, directors appointed by shareholders, in the decisions they take, must ensure the interests of the company and not the interests of the shareholders that appointed them (Heracleous & Lan, 2012). We also look at the problem of monitoring managers and argue why it is lower in family companies (Villalonga & Amit, 2016).

Regarding a critical view of the institutional theory, this chapter emphasizes the relevance of legal systems and questions whether hard or soft law are more effective in institutionalizing norms. It also puts on the table the critiques of the comply or explain concept and how and why apply and explain instead is gaining relevance, reflecting over the difficulty of finding the right blend between soft and hard law.

The second part contrasts Gutierrez and Surroca's (2014) internal/external control mechanisms classification with a study of the control mechanisms applied to the functions of the 2018 UK Corporate Governance Code (FRC, 2018a). As a result of this contrast, this chapter emphasizes a perspective which includes essential company concepts, such as company culture and internal supervision and control, among others. This chapter also outlines and emphasizes the relevance of external mechanisms such as clients and the media.

In its last part, there are relevant trends. Among them we find arguments that prove the will to provide corporate governance principles to unlisted companies and how reporting is getting more complex with the report on non–financial information.

As for methodology, this chapter forms the theoretical framework by reviewing relevant academic papers on corporate governance and contrasting them with recent papers, non-academic studies and prestigious documents of reference in the field.

3.2. THEORETICAL BACKGROUND

3.2.1. Agency theory and corporate governance

3.2.1.1. Fundamentals of agency theory

Agency theory (Jensen and Meckling, 1976) comes to organize the relations of interests and power of three main and necessary figures within the company: shareholders/investors, directors and managers. The theory of the agency, based on the theory of shareholders, is supported by the concept that shareholders (principal) own the company and, because they are owners, they are entitled to control it (Ross & Crossan, 2012; Nwanji & Howell, 2007) and have the right to take strategic decisions that concern the company based on their own interests. This concept is challenged by different authors who defend that company interest should come above the principal's interests. However, agency theory goes further than the theory of shareholders since it also came to satisfy the need of companies to govern the relations between the shareholders (principal) and directors (agent), as well as the relations between directors and management (both agents) in what is called the principal-agent problem (Ross & Crossan, 2012). Principal mainly refers to shareholders, but it can also include investors or outsiders, whereas agent refers to director, manager, entrepreneur, employee or insider (Gutierrez & Surroca, 2014).

Gutierrez and Surroca (2014) emphasizes the traditional domination of corporate governance by the agency theory as well as the significance of separating ownership and control. They also point to the fact that the principal delegates decision-marking responsibilities and the management of their investments or assets to an agent in return for compensation. However, the agent's actions might not pursue principal interest since agents have their own interest to pursue (Rodriguez-Fernandez, 2016). These interests can be aligned with incentives (Jensen & Merckling, 1976) or by other means. Fama (1980) solves the separation problem among risk assumption or security ownership from control by making managers aware of the wage revision process's weight. Fama and

Jensen (1983) settles that claims are reduced and limited when management and control are assumed by few agents. This agency conflict is what Villalonga and Amit (2016) calls Agency Conflict Type One.

As mentioned, agency theory comes to organize the relations of interests and power of shareholders/investors, directors and managers. Therefore, it is reasonable to find different views on this theory depending on the company characteristics. For example, a family business necessarily has a different relation between these three figures (shareholders/investors, directors and managers) than a multinational or a small company, where the three figures can be represented by the same person. Also the type of shareholders, (large or minority investors), can influence these relations. This is what is called the Agency Conflict Type Two, which points to the type of shareholders within the company. As Villalonga and Amit (2016) conclude in their study, large institutional shareholders at companies may use their strength to pursue their own interests at the expense of small shareholders (expropriation) and will be poorly incentivized to monitor managers. If the large shareholder is an individual or a family, their incentives for expropriation remain but they will monitor managers more closely. This leads to the conclusion that the classic agency problem of monitoring managers is lower at family companies and, as a consequence, they might trade at a premium compared to other firms. In the case of listed companies with minority investors Ross and Cross (2012) emphasize how they lack of the capacity to influence the board. This provides managers with a strong position of which they take advantage on their own interest.

Regarding the significance of agency theory, not all scholars share the same opinion over its relevance: While Zattoni and Cuomo (2010) consider the agency problem as universal with great effect on code research, Heracleous and Lan (2012) is of the opinion that agency theory is not as universal as supposed and Stout (2003, 2002) finds documented studies on the faults of the shareholder primacy model and a lack of empirical evidence of its accuracy. This last argument is consistent with a number of meta-analyses of empirical findings on this topic in the management field as Dalton, Daily, Certo & Roengpitya (2003) emphasizes.

3.2.1.2. Challenges to the Agency Theory

Agency theory faces many challenges. One of the main being the concept of the corporation as a principal. This concept by Heracleous and Lan (2012) argues that when shareholders buy shares, they are not buying the company and should not enjoy primacy over other stakeholders. As a result, directors appointed by shareholders, in the decisions they take, must ensure the interests of the company and not the interests of the shareholders that appointed them.

As seen before, agency theory identifies shareholders as the principal, but some authors not only question this concept, they also discuss the role given to directors by agency theory. Heracleous and Lan (2012) argues against the concept of shareholders as principals with a view that reduces the influence of shareholders within the company. The views of Heracleous and Lan (2012) reduce the influence of shareholders by the personification of the corporation, considering it (corporation) as principal and by considering directors as autonomous fiduciaries. By considering corporation as principal, shareholders own shares and voting rights, but not the company, since the company is an autonomous legal person, which means that 'the corporation is liable for its own debts, and can hold property, participate in commercial transactions, and engage in legal proceedings in its own name without engaging the shareholders' (Heracleous & Lan, 2012, p. 230). Legal systems of the United States and United Kingdom support this concept since they point to corporation as principal, instead of shareholders. Directors as autonomous fiduciaries argue that directors should be able to manage the company without restraints. Even if directors might be elected by shareholders, they should be independent of shareholder interest and behave as autonomous fiduciaries balancing the claims of stakeholders on company resources. A fiduciary individual is 'someone who is entrusted with the management of property or with the power to act on behalf of and for the benefit of another. One key feature of a fiduciary is their internalized trustworthiness' (Heracleous & Lan, 2012, p. 231).

On the other hand, agency theory assumes that managers use corporate resources for their own benefit without considering shareholders' interests, arguing that shareholder's interests are not always aligned with management's interests. A very clear example is the alternative myopic model of corporate governance, where managers pursue short term results just because it contributes to preserve their jobs (Ross & Crossan, 2012; Charkham, 1994a, 1994b; Sykes, 1994).

There are authors that are critical of agency theory, for example Heracleous and Lan (2012) and Lubatkin (2005) argue against the limited understanding of the complexity of real-world organization that is found in agency theory.

Also, there are different views as to when agency theory is needed. While some scholars such as Gutierrez and Surroca (2014), find it necessary to contribute to the best performance of the relationships between shareholders, board of directors and managers, others such as Castañer and Kavadis (2013) only find it useful when there is a conflict between chief executive officers (CEOs) and shareholders over financial resources: ‘When CEOs have financial resources at their disposal, CEOs can return them to shareholders (through dividends or share repurchases) or use them to fund new projects to increase their utility (employment risk reduction, increased compensation, and prestige)’ (Castañer & Kavadis, 2013, p. 864).

3.2.2. Institutional theory and corporate governance

Institutional theory is among the most used theories in corporate governance. Institutional theory, analyses corporate governance from the perspective of legal systems used and on whether the laws applied are based on recommendations or on mandatory rules. Legal Systems are influenced by the geographic region—Anglo-Saxon and Communitarian—or by jurisprudence—common law and civil law.

The Anglo-Saxon region refers to USA, Canada and UK. In these countries company ownership is widely dispersed and the basic conflict of interests arises between managers and shareholders. The Communitarian region refers to countries of Continental Europe. In continental Europe, company ownership is concentrated in fewer hands, causing different types of conflicts of interests between companies, banks and owners, with governments taking a more active role in economic and social affairs (Garcia-Meca & Sanchez-Ballesta, 2010).

Legal systems (Common Law and Civil Law) greatly influence the basic institutions and the environment in which a country settles. Company law, judicial independence, industrial relation, etc. will be affected by the legal system, and these will have an influence on unemployment rates, the stock market or corporate governance (Kock & Min, 2016). There are two main legal traditions that design the law systems: Anglo-Saxon style common law and a variety of civil law systems. Anglo-Saxon style common law is based on dispute resolution with low codification and it is much aligned with the shareholder primacy model. On the other hand, civil law system codification is very strong and it is supported by Roman, French, German and Scandinavian law traditions. Civil law is oriented towards the stakeholder.

Referring to the origins of law and to rights and responsibilities Haxhi and Aguilera (2017) and Hopt (2011) classify two normative approaches: hard law and soft law. Hard law, such as the Oxley Act 2002, refers to a set of mandatory rules applied to all companies without distinction; not complying with these rules results in being penalized. There are those that defend that the most effective way to institutionalize norms is through hard law but, as Zattoni and Cuomo (2010) underlines, the costs of compliance with regulation is high, as it happens with small or poorly performing listed companies in the US, but said costs can be compensated by the benefits of being listed in the US stock exchange. On the other hand, soft law is based on non-legally binding principles of best practices which are ruled by the concept of comply or explain. According to the comply or explain approach, companies must either follow the principles of best practices or explain the reasons for deviation. Principles are most frequently represented in codes of corporate governance. Haxhi and Aguilera (2017) and Aguilera, Desender, Bednar and Lee (2015) state that there are those, such as institutional sociologists, that argue that the most effective way to institutionalize norms is through soft law, since said norms become truly internalized. But soft law has it particular challenges: On one side Haxhi and Aguilera (2014) and Zattoni and Cuomo (2010) state that there are some scholars that cast doubt on its effectiveness since soft law is not able to promote the adoption of universal best governance practices because it leaves to each company the decision on its compliance. On the other, the compliance of some companies is superficial and the explanations given are very weak (ecoDa & IFC, 2015). As a matter of fact, this has led to the concept introduced by the King IV Code (2016) of apply and explain, where companies must apply and also explain how the application has been performed. The purpose of this new concept is for companies to internalize and adapt corporate governance to the organization, instead of just implementing a mindless compliance. ecoDa and IFC (2015) also mention how some essential concepts defined by soft law tend to migrate to hard law over the years. Finding the right blend between soft and hard law is a real challenge.

3.3. CORPORATE GOVERNANCE: DEFINITION, CONTROL MECHANISMS AND FUNCTIONS

3.3.1. Definition

The Cadbury Report (1992) defines corporate governance as 'the system by which companies are directed and controlled.' (point 2.5 Introduction). For the OECD, (2015), 'Good corporate governance is not an end in itself. It is a means to create market confidence and business integrity, which in turn is essential for companies that need access to equity capital for long term investment' (p. 3) and OECD, (2015) 'Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined.' (p. 9). Others state that corporate governance is 'the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment' (Shleifer & Vishny, 1997, p. 737).

So, corporate governance essentially focuses on company direction, acts on the problems that arise from the separation of ownership and control, and addresses, in particular, the principal-agent conflict between shareholders, directors and managers. Some widen this scope to include stakeholders.

3.3.2. Control mechanisms

The use of control measures is essential in corporate governance as the solution to conflicts among directors and managers in the implementation of strategies. Since control is necessary to align their different interests, there are many studies on how that control is implemented in the company. Castañer and Kavadis (2013), Garcia-Meca and Sanchez-Ballesta (2010), Gutierrez and Surroca (2014) and Page and Spira (2016) are authors of great interest on these topics. Some scholars such as Gutierrez and Surruca (2014) and Shleifer and Vishny (1997), have classified control mechanisms as internal and external, whether they apply to tools that can be internally defined by the company, or to mechanisms that are part of the ecosystem in which the company performs. If we look into Gutierrez and Surroca (2014) there are **internal** mechanisms to prevent manager misbehaviour, such as managerial incentives (stock options; performance-based payment and shares) and control structure (board of directors; nomination, compensation and audit committees; ownership concentration and banks and other large creditors) —these mechanisms are more frequent in a Continental Europe or Japanese institutional context—and **external** mechanisms of corporate governance towards managers, such as market for corporate control, executive labour market, product market and shareholders—these mechanisms are more frequent in an Anglo-American institutional context.

3.3.2.1. Internal mechanisms

Board of director functions are among the main corporate governance internal mechanisms used to control and align the interests of the different parties (shareholders, directors and managers) within a company.

If we look into the functions of corporate governance, there are different criteria on the functions assigned to the board. Shaukat and Trojanowski (2017) states that board functions should be focused on the independence of the board, from avoiding CEO-Chair duality to monitoring committees, while Page and Spira (2016) classify board activities into conformance with a past/present focus, such as accountability (outward looking) and supervising executive activities (inward looking) and performance activities with a future focus, such as strategy formulation (outward looking) and policy making (inward looking).

Due to the UK's corporate governance tradition, this chapter also takes as a reference the functions of the UK Corporate Governance Code, which cover board independence, but go much further than just that. The FRC (2016) in the first version of the UK Corporate Governance Code (the Code), defined the different roles of the governance bodies within the company. A board of directors main responsibility is to govern the company and the shareholder role is to appoint directors and auditors. Board responsibilities include defining the strategy, providing leadership to implement the strategy, supervising business management and reporting to shareholders. The actions of the board must comply with laws and regulations and are under supervision of the general meeting.

The board functions recently included in the new UK Corporate Governance Code, FRC (2018a), one of the most recently published codes, are: to lead; to promote long-term sustainable success for the company; to generate value for shareholders (by contributing to a wider society, engaging with them and encouraging their participation); to define company's purpose, values and strategy; to assure culture alignment (lead by example, workforce and remuneration policies and practices, and formal and transparent procedures for developing policies on remuneration—executive, director and senior management); to ensure that the company has the resources it needs to meet objectives and measure performance; and to establish a framework of prudent and effective controls (with audit policies and procedures, proper risk assessment, and internal control).

Among these recent functions, this chapter emphasizes the relevance given to long-term view, contribution to a wider society, and presence of non-investor stakeholders as one of the bodies companies are responsible for.

If, as Page and Spira (2016) does, this chapter classifies the functions of the Code in past/present focus and internal or external, it results in the following table 7. The FRC (2018) Code emphasizes long-term perspective of companies and gives a predominant role to non-investor stakeholders, as well as to shareholders. Culture alignment is greatly supported on remuneration design and procedure, and Control is viewed via three different angles: audit, risk and internal control.

Table 7. Classification of boards of directors' activities – view and focus

Past/Present Focus	**Future Focus**
Lead (INTERNAL)	Long-term (INTERNAL)
Company's purpose, values & strategy (INTERNAL)	Value for shareholders (EXTERNAL)
Culture alignment (INTERNAL)	Value for non-investor stakeholders (EXTERNAL)
Resources (INTERNAL)	External risks – (Control) (EXTERNAL)
Internal control & audit - (Control) (INTERNAL)	

Source: By author, based on FRC (2018) and Page and Spira (2016)

3.3.2.2. External mechanisms

In additional to the external mechanisms mentioned by Gutierrez and Surroca (2014), Berle and Gardiner in 1932, already stated that 'the modern corporation serve not alone the owners or the control but all society' (Berle & Gardiner, 1932, pp. 355-6), Cornell and Shapiro (1987) emphasize how non-investor stakeholders influence corporate strategy and finance even more that investors and managers. This chapter considers that non-investor stakeholders, as external mechanisms, are increasing their control power beyond the explicit contractual claims (remunerated contracts and product warranties) and the implicit claims (promise of service continuity and job stability) (Cornell & Shapiro, 1987). The line that separates the private role of companies from their public role is blurring. Since the assumed link between the maximization of shareholder value and social welfare is weakening (Schneider & Scherer, 2015) companies are demanded to be committed to future prosperity of communities and society, and corporate governance's new task is to moderate the interests of individuals, corporations, and society. Employees are raising their voice with their opinions on company purpose and this is just the beginning. In a survey conducted by Deloitte (2018), 63% more millennials answered that the purpose of business should be 'to improve society' than 'to generate profit.' These millennials will soon take decisions as future top executives, investors and clients, giving great relevance to environmental, social, and governance issues (Fink, 2019).

Turning our attention now towards the media, one sees that the media has acquired a social arbiter role in the evaluation of firms and leaders as it legitimates them by disseminating information on beliefs, values, and rules concerning appropriate firm behaviour (Bernard, 2012; Pollock & Rindova, 2003; Scott, 2008; Wiesenfeld, Wurthmann, & Hambrick, 2008).

The sensitivity of the media, employees and society to how companies behave has significantly increased and the communication means and future roles that these non-investor stakeholders have make of them a control mechanism to be seriously considered.

3.3.2.3. Update of the corporate governance mechanisms

After reviewing the functions of the UK Corporate Governance Code, FRC (2018a) and the external mechanisms, this chapter updates Gutierrez and Surroca (2014) classification to table 8, adding two corporate governance internal mechanisms considered of great relevance which are: company culture and internal supervision and control. A company's culture that stimulates corporate governance, has a clear view of its purpose, values and strategies and is transparent and long-term focused, it is a very powerful internal mechanism. Internal supervision and control is also a mechanism to emphasize since it is key in aligning director and management interests as well as control structure, where, as can be seen in table 8, we update Gutierrez and Surroca (2014) by specifying how board director functions have a relevant role in the control structure.

Considering external mechanisms this chapter has included non-investor stakeholders due to the relevance that their roles and opinions are gaining and the influence that they have on companies.

Table 8. Classification of corporate governance mechanisms

Corporate governance mechanisms	
Internal mechanisms	*External mechanisms*
Company culture	
Managerial incentives: - Stock options - Performance-based payment - Shares	Market for corporate control Executive labour market Product market
Internal supervision and control	Shareholders
Control structure: - Board of directors: **functions and others** - Nomination, compensation and audit committees - Ownership concentration - Banks and other large creditors	**Non-investor stakeholders (employees, clients, media, society…)**

New concepts appear in **bold**.

Source: By author based on Gutierrez and Surroca. (2014)

3.4. TRENDS IN CORPORATE GOVERNANCE

3.4.1. Code for unlisted companies

Until now, just a few initiatives have been taken concerning the application of corporate governance recommendations for unlisted companies. At a European level, the most relevant was the presentation at the European Parliament of ecoDa's 'Corporate Governance Guidance and Principles for Unlisted Companies in Europe' in March 2010. More recently, in December 2018, the UK developed and delivered a set of corporate governance principles for large private companies called The Wates Corporate Governance Principles for Large Private Companies (FRC, 2018b). These principles aimed to promote reporting, transparency, corporate culture and integrity, consideration of the workforce and stakeholders, a long-term view of the investor, lender and creditor and productivity improvement. The Wates Principles are a landmark of corporate governance for unlisted companies and will definitely define a new trend that entities such as the G20/OECD (2015) had already started when they recognized the usefulness of improving corporate governance for unlisted companies and encouraged policy-makers to take action.

3.4.2. Corporate governance reporting

How soft law is applied by companies is one of the greatest challenges to corporate governance since companies look to compliance as a purpose, when the purpose is to apply and internalize corporate governance in the organization. This is one of the reasons why soft law is moving towards an apply and explain approach, where companies must apply and also explain how and why the application has been performed.

Moreover, corporate governance is undergoing a change that is widening its scope and now covers issues of concern on environmental, social and public matters (McBarnet, 2007), as well as 'issues related to ethics, accountability, and disclosure (Lerach, 2002)' (Kaymak & Bektas, 2017, p. 556). This was foreseen in some corporate governance definitions that introduced the concept of stakeholders, such as OECD´s (2015, p. 9), which suggests that 'Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders.' Accordingly, traditional sustainability issues such as non-financial reporting practices, codes of conduct, stakeholder engagement, etc., are now being addressed by corporate governance practices (Rahim & Alam, 2013; Kaymak & Bektas, 2017).

Another trend refers to how listed companies in Europe must comply with reporting requirements demanded by shareholders and investors and ruled by law. Reporting is becoming more complex every day. Not too long ago, the only information delivered by companies was financial. Financial information had to be disclosed on a quarterly basis and was thoroughly analysed by shareholders and investors. Then the obligation to include corporate governance information in the annual reporting was a first step towards adding a new perspective to reporting. This initiative came to fulfil a demand from shareholders and investors to receive a wider scope of information that could help them take better informed investment decisions in a worldwide map of opportunities. So, nowadays, the demand for information goes further still. Non-financial information (environmental ratios, diversity, anti-corruption measures…) is being requested, not only by shareholders and investors, but also by non-investor stakeholders such as clients, the media, society or the government. As a consequence, a non-financial information report has recently been added to the mandatory information requested from some companies in the EU and has become a great new field of study. This is the Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014, and it is just the beginning.

3.5. CONCLUSIONS

This chapter objective was to present an overview of the main theories on corporate governance, control mechanisms, challenges and future trends. Main conclusions are the following:

Even though there is a great variety of theories that have influenced corporate governance, **agency theory** is among those that have had the most influence. Within this theory, the concept of shareholders as the only important principal has been greatly defied by the concept of the **corporation as a principal**. This concept argues that when shareholders acquire shares, they own those shares and the voting right at the General Assembly, but they do not own the company and should not enjoy primacy over other non-investor stakeholders. As a result of the previous statement, directors appointed by shareholders, in the decisions they make, must ensure company interests and not the interests of the shareholders that appointed them. On the other hand, we might find that the interests of directors are not always aligned with the interests of management (Heracleous & Lan, 2012) and board's monitory function becomes essential. This chapter also emphasized that the classic agency problem of monitoring managers is lower at family companies and, as a consequence, they might trade at a premium compared to other firms.

How soft law is applied by companies is one of the greatest challenges to corporate governance since companies look to compliance as a purpose, when the purpose is to apply and internalize corporate governance in the organization. This is one of the reasons why soft law is moving from a **comply or explain approach towards an apply and explain approach**, where companies must apply and also explain how and why the application has been performed.

Another debate on this issue is the **hard law vs soft law conflict**; finding the right blend between them; which of them is more effective in the application of good corporate governance practices; and which is more likely to achieve a natural and in-depth transformation of the company towards corporate governance standards.

Regarding **control mechanisms**, we point to how new corporate governance codes come to challenge classic mechanisms of internal and external control by including the company culture, supervision and internal control, as well as the functions of the board of directors as internal functions, interest groups being external. Among them there are non-investor stakeholders such as the media, society and millennials—as futures executives, investors and clients—The sensitivity of the media, millennials and society on how companies behave has significantly increased. This, coupled with the communication means that these non-investor stakeholders currently have, makes for a control mechanism to be seriously considered.

Finally, there are still many **challenges and trends** ahead for corporate governance, among which we emphasize: the trend to provide corporate governance principles for unlisted companies, consolidated with the 2018 UK Wates Principles. How corporate governance is increasing its scope and complexity, for example, by including non-financial information in its scope. It is also relevant to highlight the trend from "comply or explain" to "apply and explain", as well as the focus on company long-term contribution, sustainability and transparency. About legislative issues, the transition from recommendations to compliance is a trend, and from the point of view of the stakeholders, it is observed how companies transition from giving relevance, almost exclusively, to investors and shareholders, to considering other stakeholders.

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CHAPTER 4. THE INFLUENCE OF GRI COMPLIANCE AS A DETERMINANT OF CORPORATE SOCIAL RESPONSIBILITY READABILITY IN SPANISH LANGUAGE

Chapter four's objective is twofold. First, to ascertain the rating of CSR reports' narrative texts on the readability scale, and second, to consider whether compliance on sustainability standards (GRI) influences the readability of Spanish-language CSR disclosure. Therefore, the primary objectives of this chapter are:

Determining readability difficulty levels of CSR reports' narrative texts in Spanish, of the largest listed companies in Spain.

Determining whether or not the readability of Spanish-language narrative texts in CSR reports of the largest listed companies in Spain, are influenced by compliance with non-financial information standards.

The study was carried out on the narrative texts of six GRI data indices related to compliance with laws and regulations, included in 140 CSR reports of IBEX35, which includes the 35 largest listed companies in Spain given their market capitalization, in the period 2015-2018.

Readability was measured using two indices for Spanish language readability: the Fernandez-Huerta and the Inflesz indices. These indices are based on the Flesch Reading Ease formula for English narrative texts. Findings suggest that communication from the board concerning CSR reports needs improvement, since, in general, these reports are difficult to read. Findings also suggest that compliance with GRI standards could be related to low readability difficulty of reports, and non-compliance to high readability difficulty.

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4.1. INTRODUCTION

The external community and capital markets, where we can find individual shareholders, institutional investors, governments, local communities, clients, employees and suppliers, among others, have become greatly interested in sustainability (CSR) issues in recent years (Arena, Bozzolan, & Michelon, 2015; Boiral, Heras-Saizarbitoria & Testa, 2017; Cormier & Magnan, 2013; Dhaliwal, Li, Tsang, & Yong, 2011; Escrig-Olmedo, Muñoz-Torres, & Fernández Izquierdo, 2013; Hill, Ainscough, Shank, & Manullang, 2007; Reverte, 2012). In fact, consumers are increasingly considering environmental criteria in their purchase decisions and there has been an increase in investments under ethical and socially responsible criteria (Clarkson, Richardson & Vasvari, 2008). Consequently, companies have increased CSR reported information because of the business interests and moral responsibility they recognize in this practice (Adams & Zutshi 2004; Amran, Lee & Devi, 2014; Crowther, 2000) and are becoming aware that CSR reports should represent the interests of all their stakeholders (Sacconi, 2004; Smeuninx, Clerck & Aerts, 2016).

In the communication between companies and stakeholders, CSR reporting is an important tool that contributes to engagement with stakeholders and attends to their demands for more information on sustainability policies, strategies, performance and impacts (ACCA & NetBalance, 2007; Gray, Kouhy & Lavers, 1995; Hahn & Kühnen, 2013; Marín, Rubio & Ruiz de Maya, 2012), as well as on transparency and effective governance (Amran et al., 2014; Lungu, Caraiani & Dascălu, 2011; Subramaniam, Hodge & Ratnatunga, 2006). It also provides investors with information about the company on ecological, economic and social data (Clarkson et al., 2008), and, furthermore it increases accountability to stakeholders, instead of being a purely public relations tool (Boiral et al., 2017; Cho, Michelon & Pattern, 2012; Fonseca, McAllister & Fitzpatrick, 2014; Hahn & Kühnen, 2013; Junior, Best & Cotter, 2014; Perego & Kolk, 2012). CSR Reporting appeals to a wider audience than financial or corporate governance reporting (see, for example, GRI, 2013; Smeuninx et al., 2016), being of interest to stakeholders in the wider sense of the concept of stakeholders, which, as such theory stands, would include those who could be positively or negatively affected by corporate operations, even if they don't participate directly in them (Sacconi, 2004; Smeuninx et al., 2016). Studies have confirmed an increase in environmental and social performance reporting (Morhardt, Baird & Freeman, 2002; O'Dwyer & Owen, 2005), which is becoming a mainstream global business practice (Kolk, 2010; Van Wensen, Broer, Klein & Knopf, 2011). In 2017, The Governance and Accountability Institute indicated that more than 82% of the companies listed at the Standard & Poor's 500 index (S&P 500) had published a CSR Report, whereas only 53% S&P 500 companies published one in 2012 (Pei-yi Yu, Qian Gou & Van Luu, 2018). In 2017, KPMG's Survey of Corporate Responsibility Reporting signified that 78% of companies issuing reports worldwide had included corporate responsibility information in their annual financial reporting. In 2011, that figure was a 44%. There is, however, some confusion over how to name these reports. Amran, Lee and Devi (2014) states that '[the term] 'Sustainability report' is used interchangeably with various reporting methods such as corporate responsibility reporting, social and environment reporting, etc. (Brundtland & Khalid, 1987).' (p. 218 footnote) The content of the report is based on the concept of sustainable development, which implies preserving resources for present and future generations (Amran et al., 2014).

If we look at the Townsend, Bartels and Renaut (2010) Readers and Reporters of Sustainability Reporting Survey, we find that the main motivation of readers of CSR reports is 'informing decisions on use of the organization's products/services,' closely followed by 'informing investment/ divestment decisions' (Smeuninx et al., 2016, p. 60). Findings in the survey emphasize that, although the average reader reads three reports, the top 5% reads between 10 and 20 reports per year; it's important to underline that most readers in the sample are nonexpert (Smeuninx et al., 2016). Another fact to emphasize from Townsend, Bartels and Renault (2010) is that the audience for reports has become more diverse, being 48% company-internal, 16% investors, 14% company-external value chain, and 22% '`Civil Society,' entailing media, labor unions, public institutions, academics and other experts, and concerned citizens and consumers' (Smeuninx et al., 2016, p. 60). Due to this diversity, it would be reasonable for companies to adapt their communication to these new receptors by improving the narrative texts' readability, among others (Smeuninx et al., 2016).

Harris and Hodges (1995) declare that readability refers to the ease of reading and understanding a written text. This chapter will adopt the statement from Smeuninx, Clerck and Aerts (2016) that 'when a text's features make it easier for the reader to extract desired information it is more readable' (p. 55). Readability can be a powerful communication tool used by some companies to manipulate the understanding of the disclosed information on their interest, making the narrative more readable when the information given is positive, and doing otherwise when negative (Wang, Hsiech & Sarkis, 2018). So, determining the readability difficulty level of CSR narrative texts in Spanish, as well as whether or not compliance on CSR information is influenced by readability, will be explored in this chapter.

This study was done on 140 CSR reports of IBEX35 Spanish-listed companies in the period 2015-2018. The IBEX35 index unites the 35 largest listed companies in Spain given their market capitalization. According to stakeholder theory, company size is linked to CSR disclosures (Baumann-Pauly, Wickert, Spence & Scherer, 2013; Boesso & Kumar, 2007; Li, 2008; Neu, Warsame & Pedwell, 1998; Roberts, 1992; Tagesson, Blank, Broberg & Collins, 2009; Tamimi & Sebastianelli, 2017).

As far as we know, this is the first study to consider the readability of sustainability activities through the CSR report and relates it to compliance with GRI standards. Moreover, it adds evidence to the scant literature concerning readability in the Spanish language.

In terms of methodology, there is a literary review of the articles provided by the academic community on readability and CSR reporting and related terms, which sets the basis for the following literary review. There is another literary review over the relationship between CSR report's compliance with laws and regulation with readability. Then a study is done on 140 CSR reports of IBEX35 Spanish-listed companies in the period 2015-2018. We manually collected the GRI data related to compliance with laws and regulation on anti-corruption, anti-competitive behaviour, environmental compliance, labeling, marketing and socioeconomic compliance, and classified it following KLD database criteria. Then the Fernandez-Huerta and the Inflesz Spanish readability indices were applied. The outcoming data was analysed with descriptive statistics, employing a multivariate analysis, and multiple regressions.

Results show the rating on the readability of CSR narrative texts was 'high' for both indices, which means the texts are difficult to read. Other results, obtained by applying multiple regressions, suggest an association between compliance and readability.

This chapter is organized as follows. There is a review of relevant literature, as well as a theoretical framework containing the questions and hypotheses of this study. Then the methodology is described, which includes reference to the readability indices used. Lastly, there is the discussion, conclusions to be drawn from the study, and recommendations.

4.2. LITERATURE REVIEW, THEORETICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

4.2.1. Literature review on CSR disclosure and readability

This study began with a review of the articles the academic community had provided on terms related to the purpose of this study.

Table 9 presents the results of the literature review on articles related to communication readability on CSR reports, that is CSR disclosure, with a special focus on those articles in the Spanish language. The results were obtained using Web of Science (WOS). The terms listed below were searched for using the ‘key words’ and ‘title’ article fields, from a date range of 1900 to December 2019, in social science and juridical magazines with content on management, business and communication. Following completion of the research, a manual review was done, looking for those articles that were closer to the research topic and giving priority to articles that studied communication, as well as reporting. The next step was to dismiss those articles that were repeated in the researches, and this left us with 64 unique articles. Among those 64 articles, the ones that were even closer to our study gap, because they specifically studied reporting on sustainability or readability or both, were identified, bringing the number of articles down to 36. The research terms and the number of articles found and selected were as follows (number of articles found/number of articles selected): readability & reports (38/4); readability & reports & Spanish (3/1); formal & communication & investors (9/0); formal & disclosure & investors (16/0); sustainability & reporting (721/22); sustainability & disclosure (359/11); accessibility & sustainability (16/0); accessibility & disclosure (14/0); access & GRI & information (3/0); transparency & sustainability (118/26).

Table 9 shows a literature review of articles related with disclosure, quality and readability of CSR reports, with a special interest on the Spanish language.

Table 9. Literature review on disclosure, quality and readability of CSR reports

				Main Issues Covered (*)					
Authors	**Article**	**Sample**	**Findings**	**1**	**2**	**3**	**4**	**5**	**6**
Abu Bakar, & Ameer (2011)	Readability of corporate social responsibility communication in Malaysia.	333 listed companies in Malaysia, representing six industry sectors. Financial year-end fell on 31 December 2007	Finds readability rating varies from very difficult to fairly difficult. Relationship between the readability and companies' performance. Findings imply that management of poorly performing companies deliberately choose difficult language in CSR communication. Supports obfuscation hypothesis.	X	X	X	X		
Amran, Lee, & Devi (2014)	The Influence of Governance Structure and Strategic Corporate Social Responsibility Toward Sustainability Reporting Quality (SQR)	113 companies studied in Asia Pacific	Weak role of the board of directors in upholding the sustainable development agenda through the reporting process. The value of CSR anchored in the vision and/or mission statement and strategic alliances fostered with NGOs are positively associated with SRQ.		X		X	X	X
Arena, Bozzolan, & Michelon, 2015 (2015)	Environmental Reporting: Transparency to Stakeholders or Stakeholder Manipulation? An Analysis of Disclosure Tone and the Role of the Board of Directors	288 US oil and gas firms from 2008-2010	Stakeholder orientation of the board plays a transparency role in communicating the firm's superior performance. The bias towards positive language does not reflect purely opportunistic managerial reasons, but rather is a transparency tool to signal future environmental performance.		X	X	X	X	
Boiral, Heras-Saizarbitoria, & Brotherton (2019)	Assessing and Improving the Quality of Sustainability Reports: The Auditors' Perspective	301 reports. Assurance statements for sustainability reports from mining and energy companies in Asia and Europe	Assurance providers. With the exception of the materiality of reports and, to a lesser extent, the accuracy of information, GRI principles are rarely explicitly taken into account in assurance statements.		X		X		X
Cha, Watson, & Woodliff (2014)	Corporate Governance Quality and CSR Disclosures	222 listed companies	Firms providing more CSR information: have better corporate governance ratings; are larger; belong to higher profile industries, and; are more highly leveraged.		X				X

Table 9 (continued).

				Main Issues Covered (*)					
Authors	**Article**	**Sample**	**Findings**	**1**	**2**	**3**	**4**	**5**	**6**
Farewell, Fisher, & Daily (2014)	The lexical footprint of sustainability reports: A pilot study of readability.		A pilot study on readability an sustainability reports concluded that reports had a low readability and would be difficult to read for stakeholders, and encouraged companies to simplify their language	X			X		
Kaymak, & Bektas (2017)	Corporate Social Responsibility and Governance: Information Disclosure in Multinational Corporations	Bloomberg's businessweek.com for the 80 non-financial multinational corporations	The results indicate that board independence and board size are strongly and positively related to several CSR practices. In addition, extractive industries have a significant and positive impact on the level of CSR activities.		X		X	X	X
Moratis, & Brandt (2017)	Corporate stakeholder responsiveness? Exploring the state and quality of GRI-based stakeholder engagement disclosures of European firms	55 sustainability reports from 15 countries, 18 industries that used GRI G4 Guidelines	Many firms are failing to provide full disclosure on how stakeholders have been engaged in defining report content. Firms are increasingly engaging in a multi-way SE with their stakeholders and are increasingly aiming to incorporate their perspectives into the decision-making.		X		X		
Moreno, & Casasola (2016)	A Readability Evolution of Narratives in Annual Reports: A Longitudinal Study of Two Spanish Companies	Accounting narratives of two companies. CEPSA's President letter from 1930 to 2012 and Alcazar's Management Reports from 1928 to 1992	Readability evolution of annual report (accounting narratives) written in Spanish. Adapted version of Flesch readability formula. The results confirm that the reports are difficult to read, but show an improvement in readability over the years.	X		X	X	X	
Odriozola, & Baraibar-Diez (2017)	Is Corporate Reputation Associated with Quality of CSR Reporting? Evidence from Spain	IBEX35 companies for the period 2006-2011	The quality of sustainability reporting increases the likelihood of having a more positive corporate reputation.		X		X		X

Table 9 (continued).

Authors	Article	Sample	Findings	Main Issues Covered (*) 1	2	3	4	5	6
Smeuninx, De Clerck, & Aerts (2016)	Measuring the Readability of Sustainability Reports: A Corpus-Based Analysis through Standard Formulae and NLP	2,75 million words, representing five language varieties and four industries, totaling 470 texts	Sustainability reporting remains a very difficult to read genre. There is little industry impact on readability, and region does prove an important variable, with NLP-based variables more strongly affected than formulae.	X	X		X		
Tamimi,& Sebastianelli (2017)	Transparency among S&P 500 companies: an analysis of ESG disclosure scores	Bloomberg financial analysis of environment al, social and governance function for companies comprising the S&P 500 index	Level of disclosure across ESG: highest level of transparency is found on governance and the lowest on environmental.		X	X	X		
Wang, Hsieh, & Sarkis (2018)	CSR Performance and the Readability of CSR Reports: Too Good to be True?	331 CSR reports issued by US public companies	A significant positive relationship between CSR performance and the readability of CSR reports, indicating that companies with stronger CSR performance are more likely to have CSR reports with higher readability.	X	X		X		

(*) Main issues covered: (1) Readability, (2) CSR/Sustainability, (3) Communication; (4) Reporting; (5) Corporate Governance; (6) Reporting Quality.

Source: By Author

Articles have been classified based on the main issues they cover, which include the following: (1) Readability, (2) CSR/Sustainability, (3) Communication; (4) Reporting; (5) Corporate Governance; (6) Reporting Quality.

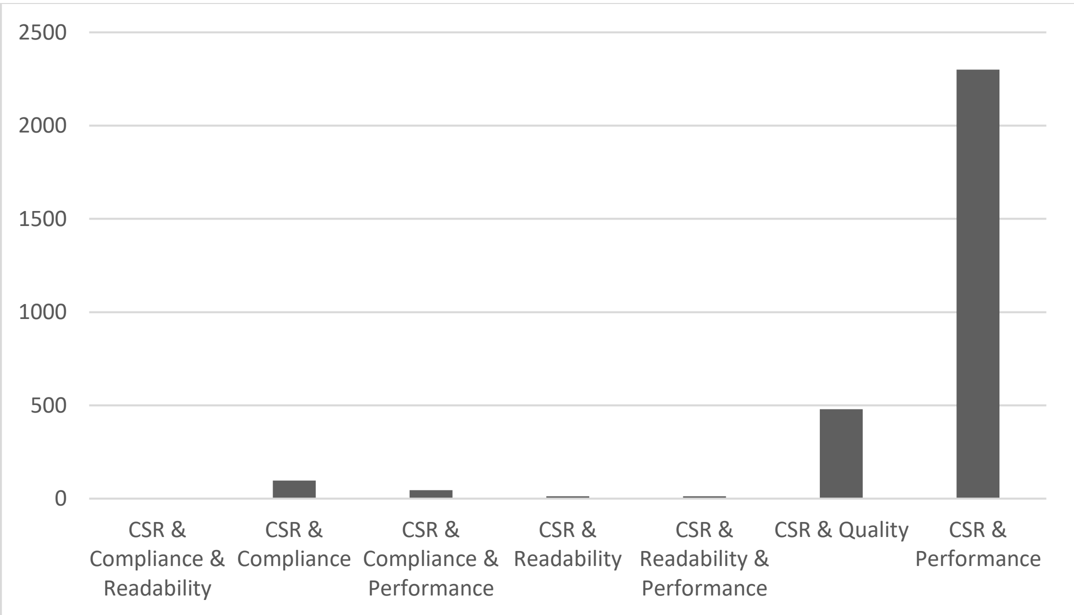
The studies carried out by the academic community between 1900 and December 2019 have focused much on CSR/ Sustainability (11 studies) and reporting (12 studies). Additionally, 4 of them focused on communication, 4 of them on Sustainability and Corporate Governance, and 5 on reporting quality. Only 5 articles have studied the readability of the information provided, and only one of those focused on reports written in the Spanish language. Based on this information, we came to the conclusion that there is a clear research gap that we aim to fill with this study.

To the best of our knowledge, no studies have been done on the readability of CSR reporting narrative texts in the Spanish language. Moreno and Casasola (2016) have studied the readability of Spanish accounting narrative reports (not CSR reports), but over only two companies. Results confirmed that the reports were difficult to read, but had improved their readability over the years. In the English language, we find four studies: Smeuninx, Clerck and Aerts (2016) suggests CSR reporting is a very difficult-to-read genre, sometimes being even more difficult than financial reporting. Farewell, Fisher, and Daily (2014) concluded that reports had a low readability and would be difficult to read for stakeholders, and encouraged companies to simplify their language. Abu Bakar and Ameer (2011) found that CSR reporting of Malaysian companies was highly difficult to read and that it got even more difficult as company performance deteriorated. Wang, Hsieh, and Sarkis (2018) found a significant positive relationship between CSR performance and the readability of CSR reports.

4.2.2. Literature review on CSR compliance and readability

To provide a background of the relationship between CSR report's compliance with laws and regulation with readability, an analysis has been done on previous academic studies with the results that can be found on figure 8.

Figure 8. Articles on Web of Science (WOS) under CSR: readability, compliance, performance and quality keywords



Source: By Author

When searching for previous articles on Web of Science (WOS) and Scopus regarding the relationship between compliance with CSR (non-financial information) laws and regulations, with readability or legibility of CSR reports, (keywords: 'compliance', 'CSR' or 'non-financial information' and 'readability' or 'legibility') we find that there are no previous publications on these topics, neither on CSR reports written in English or in Spanish.

Searching only under the keywords 'CSR' and 'compliance', (excluding the keywords 'readability' or 'legibility'), on business, management, business finance or communication journals, provides a result of 96 articles, half of which study company's performance (46). Searching under the keywords 'CSR' and 'readability' (excluding 'compliance') on the same topics provides a result of 13 articles, among these articles, all of them, except for one, study company's performance. Other keywords such as 'CSR' and 'quality' provide a result of 476 articles or 'CSR' and 'performance' 2.300 articles.

As has been demonstrated CSR has been briefly researched under 'compliance' or 'readability' concepts, and there are no studies which liaison these concepts, so hereby a study gap has been found to research on the relationship between compliance with laws and regulations on CSR (non-financial information) and the readability of CSR reports.

4.2.3. Theoretical framework: GRI compliance as a determinant factor of CSR readability

There are many complementary or overlapping theories that have been used in previous studies to define CSR disclosure framework (Chan, Watson & Woodliff, 2014; Chen & Roberts, 2010; Cormier & Magnan, 1999; Elijido-Ten, Kloot & Clarkson, 2010; Freeman, 1983; Gray et al., 1995; Hackston & Milne, 1996; Holder-Webb, Cohen, Nath & Wood, 2009; Jensen & Meckling, 1976; Martínez-Ferrero, Ruiz-Cano & García-Sánchez, 2015; Odriozola & Baraibar-Diez, 2017; Reverte, 2009; Snider, Hill & Martin, 2003; Tamimi & Sebastianelli, 2017). Given that stakeholder theory and legitimate theory are frequently used to examine sustainability disclosure (Chan et al., 2014; Freeman, 1984), and that agency theory approach for corporate governance is connected with stakeholder theory (Jensen & Meckling, 1976; Kaymak & Bektas, 2017), these three theories will be briefly reviewed in this chapter to build the theoretical framework.

Stakeholder theory has been frequently used by scholars as a key conceptual framework for evaluation studies on CSR reporting, and to explain CSR disclosure (Snider et al., 2003; Tamimi & Sebastianelli, 2017). This might be due to the fact that it unites the constructive aspects of agency theory with legitimacy's theory normative features (Garriga & Melé, 2004; Odriozola & Baraibar-Diez, 2017). 'Stakeholder theory is based on the idea that a firm's success depends on the alignment of firm and stakeholder interests, implying the importance of firms to listen to, understand, and respond to stakeholder demands and expectations (Clarkson, 1995; Tullberg, 2013)' (Moratis & Brandt, 2017, p. 313). This alignment is more than just maximizing shareholder benefits (Mitchell, Agle & Wood., 1997; Odriozola & Baraibar-Diez, 2017; Phillips, Freeman & Wicks, 2003; Tamimi & Sebastianelli, 2017). It also involves managing the conflicting and complex relationships companies have with them (Ansoff, 1965; Chan et al., 2014; Tamimi & Sebastianelli, 2017) since this might contribute to a company achieving its objectives (Clarkson, 1995; Chan et al., 2014), to its long-term survival (Chan et al., 2014; van der Laan Smith, Adhikari & Tondkar, 2005), and to enhancing company reputation (Chan et al., 2014; Tamimi & Sebastianelli, 2017), among others. Furthermore, stakeholder theory emphasizes the relevance of considering the interests of all stakeholders in a wider sense, whether they affect the company or are affected by it (Bucholz & Rosenthal, 2005; Jensen, 2001; Moratis & Brandt, 2017; Mitchell et al., 1997; Odriozola & Baraibar-Diez, 2017) and whether they are shareholders, employees, customers, public interest groups, creditors, environment, board of directors, competitors, governmental bodies, the community, NGOs or the media, besides others (Kaymak & Bektas, 2017; Tamimi & Sebastianelli, 2017). Managers play a relevant role in stakeholder theory since 'managers develop CSR grams to simultaneously fulfill their moral, ethical, and social duties, while also addressing shareholder expectations regarding financial goals' (Kaymak & Bektas, 2017). Also, managers might withhold information to delay the market's supervision of their performance (Amran et al., 2014; Karamanou & Vafeas, 2005). In this sense, managers will disclosure CSR information to satisfy stakeholder demands as Martínez-Ferrero, Ruiz-Cano, and García-Sánchez (2015) state, one of the mechanisms used to cover the demands of stakeholders is CSR information disclosure (Odriozola & Baraibar-Diez, 2017). For this disclosure to be effective, stakeholders must give credibility to the disclosed information and it must be quality information (Gray, 2000; Martínez-Ferrero et al., 2015; Odriozola & Baraibar-Diez, 2017). Practices such as being more willing to disclose information when performance is good and overlooking bad information (Clarkson et al., 2008; Mermod & Idowu, 2013; Wang et al., 2018), instead of being transparent and accountable to stakeholders (Amran et al., 2014), or reporting only when there is pressure (Bewley & Li, 2000; Wang et al., 2018), should be avoided, since these practices could reduce credibility and adequacy of CSR Reports (Corporate Register, 2013; Luo, Meier & Obeerholzer-Gee, 2012; O'Dwyer, Unerman & Hession, 2005; Wang et al., 2018). Reducing credibility accentuates the 'credibility gap', which is defined as 'a situation in which the things that someone says are not believed or trusted because of the difference between what is said and what seems to be true (Merriam Webster Online, 2013)' (Odriozola & Baraibar-Diez, 2017, p. 123). Moreover, Lehavy, Li, and Merkley (2011) show how investors will 'rely more heavily on expert analysis as a company's reporting becomes less readable' (Smeuninx et al., 2016, p. 53).

Legitimacy theory has been frequently used by scholars as their conceptual framework for CSR disclosure studies (Chan et al., 2014; Cormier and Gordon, 2001; Deegan, 2002; Haniffa & Cooke, 2005; O'Donovan, 2002). Aerts and Cormier (2009, p. 2) state that 'environmental legitimacy is significantly and positively affected by the extent and quality of annual report environmental disclosures.' Legitimate theory is based on the concept of a social contract whereby the company compromises to be a good corporate citizen (Chan et al., 2014) and pursues moral legitimacy given by social agents (Branco & Rodrigues, 2006; Scherer & Palazzo, 2011; Wang et al., 2018) by 'maintaining socially responsible business strategies and operations (Scherer & Palazzo, 2011)' (Wang et al., 2018, p. 66). If society considers that a company is legitimate by being socially and environmentally responsible (Gray et al., 1995; Reverte, 2009; Odriozola & Baraibar-Diez, 2017; Wang et al., 2018), it will be able to exist and use community resources (Chan et al., 2014; Holder-Webb et al., 2009). If it's not socially and environmentally responsible, its reputation will be damaged (Amran et al., 2014; Branco & Rodrigues, 2008) and society will threaten that company's existence by limiting its resources, such as consumer and labor-supply boycotting, reducing financial capital, lobbying on tax increases, fines or prohibiting laws on activities that are not considered legitimate by society (Chan et al., 2014; Tamimi & Sebastianelli, 2017). Considering these circumstances, and the benefits that CSR disclosures provides, 'legitimacy theory relies on the assumption that managers will adopt strategies to demonstrate to society that the organization is attempting to comply with society's expectations' (Chan et al., 2014, p. 61). To maintain their legitimacy, managers will need to disclose their efforts and achievements to social agents and will be motivated to do it (Wang et al., 2018). For this purpose, they will use an effective communication channel such as CSR reporting (Chan et al., 2014; Dyllick & Hockerts, 2002; Wheeler & Elkington, 2001). But information disclosure is not homogeneous. Some companies are very rigorous, while others might be pointed out for doing 'greenwashing' or 'window-dressing' activities (Kim, Park & Wjer, 2012; Schons & Steinmeier, 2016; Wang et al., 2018). These activities aim for the benefits of CSR disclosure without honestly addressing sustainability issues (Wang et al., 2018). Moreover, within legitimacy theory, firms that report on CSR can use community resources (Chan et al., 2014; Holder-Webb et al., 2009) and 'have better corporate governance ratings; are larger; belong to higher profile industries; and are more highly leveraged' (Chan et al, 2014, p. 59). Also, the most talented employees are attracted by morally responsible companies (Adams & Zutshi, 2004; Chan et al., 2014) and just the process of giving thought to social and environmental issues for reporting contributes to improved decision-making processes and control systems (Chan et al., 2014). Reports may also improve corporate reputation and image (Adams & Zutshi, 2004; Chan et al., 2014; Clarke & Gibson-Sweet, 1999; Kaymak & Bektas, 2017; Melo & Garrido-Morgado, 2012; Odriozola & Baraibar-Diez, 2017; Wang et al., 2018), corporate relations with stakeholders (Adams & Zutshi, 2004; Chan et al., 2014) and financial returns (Adams & Zutshi, 2004; Chan et al., 2014; Flammer, 2013; Torugsa & O'Donohue, 2012; Wang et al., 2018), as well as potentially reducing a capital market's information uncertainty (Cormier & Magnan, 2015; Martínez- Ferrero et al., 2016; Wang et al., 2018).

Agency theory has been frequently used by scholars as part of the conceptual framework for CSR studies. Agency theory came to document the need of companies to govern the relations between the shareholders (principal) and directors (agent), as well as the relations between directors and management (both agents). 'Principal' refers mainly to shareholders, but it can also include investors or outsiders, whereas 'agent' refers to director, manager, entrepreneur, employee or insider (Gutierrez & Surroca, 2014). The principal delegates decision-making responsibilities and the management of their investments or assets to an agent in return for compensation (Gutierrez & Surroca, 2014; Kaymak & Bektas, 2017). However, the agent's actions might not pursue principal interest, since agents have their own interest to pursue (Rodriguez-Fernandez, 2016; Mitchell et al., 1997; Jensen & Meckling, 1976; Tamimi & Sebastianelly, 2017). This agency conflict is what Villalonga and Amit (2016) call Agency Conflict Type One.

There are different views on reporting within agency theory. Some scholars suggest that managers are not economically incentivized towards opportunistic reporting since the market might identify it and punish the company with share-price reduction (Clarkson et al., 2008). Furthermore, managers might use CSR narrative for reports as a communication tool to provide relevant information and reduce information asymmetries (which means managers have more information than stakeholders) between the company and the different stakeholders (Arena et al., 2015; Brown & Hillegeist, 2007; Clarkson et al., 2008; Martínez-Ferrero et al., 2015; Odriozola & Baraibar-Diez, 2017; Reverte 2012; Verrecchia, 1983). Other studies suggest that managers might apply communication tactics (IM hypothesis) to influence share prices to their advantage, as the market is not able to assess short-term reporting (Clatworthy & Jones, 2001). So managers will try to conceal failures and enhance successes 'to improve their reputation and compensation, or alter users' perceptions of corporate achievements in an attempt to convince stakeholders to accept the management's view of society (Merkl-Davies & Brennan, 2007)' (Arena et al. 2015, p. 348). IM perspective for CSR disclosure has been frequently used (Joutsenvirta, 2009).

Based on all these arguments, managers (through the communication of non-financial information from the board of directors) will tend to disclosure more CSR information when company performance is good. They will also improve CSR information to gain legitimacy in front of the society or the stakeholders or will use CSR reporting to provide relevant information and reduce information asymmetries between the company and the different stakeholders.

In order to delimitate the content of CSR information to be disclosed, compliance with GRI standards is one of the multiple choices for firms (see Chapter 2). CSR reporting with GRI standards determine whether companies comply or not with certain rules and regulations.

Managers will be willing to disclose information when performance is good, overlooking bad information (Clarkson et al., 2008; Mermod & Idowu, 2013; Wang et al., 2018). This is related with the obfuscating hypothesis, particularly Wang, Hsiech and Sarkis (2018)'s statement on readability that states 'manipulating readability may serve as a tool for companies to obfuscate inferior CSR information in comprehensive CSR narrative disclosures' (p. 67). Consequently, un-compliance with rules and regulations required by GRI standards might be obfuscated by the manipulation of readability difficulty levels on CSR report's narrative texts.

Readability can be a powerful communication tool used by some companies to manipulate the understanding of the disclosed information in their interest (DuBay, 2004; Klare, 1963; McLaughlin, 1969), making narrative more readable when the information given is positive, and doing otherwise when negative (Kaymak & Bektas, 2017; Wang et al., 2018). This is what some scholars call 'obfuscation hypothesis' (Courtis, 1998;

Rutherford, 2003; Smeuninx et al., 2016). For example, studies by Adelberg (1979) and Li (2008) have suggested that readability of company reports and financial performance were negatively associated (Wang et al. 2018); 'Cho, Michelon, and Patten (2012) found that CSR reports, just like financial reports, show a preference for graphs that display positive trends' (Smeuninx et al., 2016, p. 53). Other authors have studied the consequences and costs associated with the readability of narrative-text financial disclosure, and how it can influence the reaction of investors (Lehavy, Li & Merkley 2011; Li, 2008; Rennekamp, 2012; Wang et al., 2018). Consequently 'because of these variations, managers' decisions about narrative disclosures are not neutral (Bowen et al., 2005; Sydserff & Weetman, 1999)' (Wang et al., 2018, p. 68) and managers might purposely manipulate readability to the companies' advantage (Amran et al., 2014; Boiral, 2013; Parsons & McKenna, 2005; Smeuninx et al., 2016).

Considering these arguments, we propose the following hypothesis of this study:

Regulatory compliance with GRI standards is positively associated with readability.

4.3. METHODOLOGY

4.3.1. Sample and sources

This study is based on the universe of CSR reports from 2015 to 2018 of companies included on the Spanish IBEX35 in October 2019. This universe is of 140 reports. Due to the voluntary nature of CSR reporting (non-financial statements) until 2018 (Directive 2014/95/EU Disclosure of non-financial and diversity information by certain large undertakings and groups), to the fact that some companies only partially reported the information, and to the fact that some of the information was too brief to run the readability test on, or it was in English, the number of CSR reports used was 116, that being the total number of observations. These reports were issued between 2015 and 2018 by the 35 largest quoted companies in Spain as of October 2019.

CSR information is sometimes reported as an independent piece, and other times within the Annual Report or by Integrated Reporting. The detailed CSR information has been manually extracted from the different reports and taken to an Access database.

4.3.2. Variables

4.3.2.1. Dependent variables: Readability measures

Measuring readability has been a challenge. Rudolf Flesch (1948) is considered the father of readability numeric measuring techniques in the English language. Edgar Dale and Jeanne Chall (1948), Robert Gunning (1952) and Kincaid, Fishburne, Rogers and Chissom (1975) have also defined popular formulae still in use (Smeuninx et al., 2016). Spanish readability formulae are mostly inspired by English language ones (Moreno & Casasola, 2016). As far as we know, no previous readability studies on CSR reports in Spanish have been found. Readability studies using the English language (Adelberg, 1979; Courtis, 1998; Laksmana, Tietz & Yang, 2012; Lehavy et al., 2011; Li, 2008; Sydserff & Weetman, 1999; Wang et al., 2018) have mostly applied the Fog, Kincaid, and Flesch indices to measure readability of narrative disclosure in annual and CSR reports. The Flesch Reading Ease Formula takes into consideration word and sentence length, as can be seen in table 10. The score obtained varies from 0-100, and ranks the text on a scale of reading difficulty. Since the Flesch formula was designed for English narrative texts, it could not be directly applied to Spanish narrative texts. The English language uses shorter sentences and words, so a direct application to Spanish texts would result in distorted low scores. Consequently, the formula has been adjusted for Spanish texts (Moreno & Casasola, 2016). Two readability indices for Spanish have been used on this study, both of them based on the Flesch formula (Flesch, 1948); these are the Fernández Huerta Index (Fernández, 1959) and the Inflesz Index by Barrio (2008). This last one was inspired by Szigriszt Pazos (1993).

Table 10. Flesch formula scores and their correlation with levels of reading ease, typical magazine

Score	Description of Style	Type of text
0-30	Very difficult	Scientific
30-50	Difficult	Academic
50-60	Fairly difficult	Quality
60-70	Standard	Digest
70-80	Fairly easy	Slick fiction
80-90	Easy	Pulp fiction
90-100	Very easy	Comics

Source: The content is from public domain. Extracted from Moreno and Casasola (2016)

The Fernández Huerta Index (FH) is based on the following formula:

$$FH = 206.84 - 0.60P - 1.20F$$

where FH is the readability; P, the average of syllables per word; F, the average of words per sentence.

The Inflesz Index (BI) is based on the following formula:

$$BI = 206.835 - \left(62.3\frac{S}{P}\right) - (\frac{P}{F})$$

where BI is the Inflesz scale; S, the total syllables per word; P, the number of words; F, the number of sentences.

In both cases, results are measured on a scale to 100, where low results indicate more difficulty to understand the text, and high results indicate the opposite. To apply the formulas, the texts extracted from the CSR reports were run through the legible.es program and the results given were registered. The legible.es program is a Python script licensed by the General Public License 3.

Since some companies did not report on all the CSR studied variables, and some variables gave insufficient information to perform the readability test (the narrative text supplied was too short to study), the data recorded for the study is the average among those reported and suitable for being subjected to the test.

4.3.2.2. Independent variable: Measures of CSR compliance

The compliance data on CSR was gathered directly from the companies' published CSR reports, collected from the firms' websites. The assessment has been based on the CSR reporting standard used by Spanish IBEX35 index companies, which is the Global Reporting Initiative (GRI), using both the recent GRI Sustainability Reporting Standards, as well as the previous GRI4 Guidelines. The GRI Sustainability Reporting Standards were officially launch on 19 October 2016, and reports published on or after 1 July 2018 were required to use them to be considered as such. The GRI Standards are based on the GRI4 Guidelines and there is a Mapping (GRI, 2018) that links both, so the use of one or the other has not been a limitation to this study (GRI, 2020).

The GRI standards considered in this study are those with a high impact in the Bloomberg ESG database (Bloomberg, 2020). Bloomberg ESG is frequently used in academic ESG studies, for example by Pei-yi Yu, Qian Gou and Van Luu (2018) or Tamimi and Sebastianelli (2017). The Bloomberg ESG high impact GRI standards studied are those related to compliance on laws and regulation, since compliance is a function of the board. Specifically, the GRI studied are: 205/G4-SO5 Confirmed incidents of corruption; 206/G4-SO7 Legal actions for anti-competitive behavior; 307/G4-EN29 Non-compliance with environmental laws and regulations; 417-2/G4-PR4 Incidents of non-compliance concerning product and service information and labeling; 417-3/G4-PR7 Incidents of non-compliance concerning marketing communications and 419/G4-SO8 and PR9 Non-compliance with laws and regulations in the social and economic area.

We have identified and classified them using a binary score (1-0) for each, with 1 being compliance and 0 being non-compliance. The binary score follows KLD database criterion. The KLD database is often used to research on sustainability performance (Arena et al., 2015; Chatterji, Levine & Toffel, 2007; Cho & Patten, 2007). It was developed by Kinder, Lydenberg, Domini Research and Analytics (Kaymak & Bektas, 2017). Since some companies did not report on all six of the studied GRI, the data recorded for SCOMPL is the total average among the reported ones, to allow for a regression to be run. As mentioned, compliance was recorded with a 1 and non-compliance with 0. The highest value of SCOMPL is 0.50 and it is achieved when the 6 GRI studied are reported and complied with and the lowest is 0. The higher the score, the more compliance. Formulae for calculating the reporting with these six GRI indicators was a total percentage (A/(A+B)): *(binary GRI 205 + binary GRI 206 + binary GRI 307 + binary GRI 417-2 + binary GRI 417-3 + binary GRI 419) / ((binary GRI 205 + binary GRI 206 + binary GRI 307 + binary GRI 417-2 + binary GRI 417-3 + binary GRI 419) + Number of GRI indicators reported by firm).* (e.g. a company reports on three indicators, it complies with two and doesn't comply with one; the formulae would be: (1+1+0)/((1+1+0)+3) = 0.40, meaning that it complies with 0.40 – out of 1 – of reported indicators).

4.3.2.3. Control variables

The control variables used in this study are an overall company performance measure, EBITDA (variable CEBITDA), company assets (variable CASSETS), leverage as total assets divided by total debt (variable CLEVERAGE), as well as the size of the board (GSIZE). Table 11 shows variables included in the analysis.

Table 11. List of variables

Variable	Measure	Definition
Readability 1 (FH)	Fernandez Huerta (FH)	Reading after formula L = 206.84 – 0.60P – 1.02F
Readability 2 (Inflesz)	Inflesz indices (Inflesz)	Reading after formula I = 206.835-(62.3S/P)-(P/F)
Sustainability compliance (SCOMPL)	Binary code and Total Average on reported	Compliance=1; Non-compliance=0 Number of reported. Total average on reported (A/(A+B))
Company performance (CEBITDA)	EBITDA	Overall company performance measure
Company size (CASSETS)	Total assets	Resources under company's control
Company leverage (CLEVERAGE)	Total assets divided by total debt	Level of debt compared to company assets (%)
Board Size (GSIZE)	Number of Directors	Number of directors at the board of directors

4.3.3. Methodology

After applying descriptive and correlation analyses, we employ a multiple regression analysis where the independent variables in this Model is Compliance (SCOMPL - Quantitative continua, percentage of the total. Number of GRI reported).

Fernandez Huerta (FH) and Inflesz indices serve as dependent variables for Readability - Qualitative ordinary.

The Model represents the relation between two readability indices for Spanish language (FH and Inflesz indices) with laws and regulation compliance on CSR reporting.

$$
\begin{aligned}
READABILITY_{it} &= \beta_0 + \beta_1 SCOMP_{it} + \beta_2 CEBITDA_{it} + \beta_3 CASSETS_{it} + \beta_4 CLEVERAGE_{it} \\
&+ \beta_5 GSIZE_{it} + \beta_6 YEAR16_{it} + \beta_7 YEAR17_{it} + \beta_8 YEAR18_{it} + \varepsilon_{it}
\end{aligned}
$$

4.4. RESULTS

4.4.1. Descriptive statistics and correlations

Of a universe of 140 CSR reports of Spanish IBEX35 companies from 2015 to 2018, 116 are considered in this study. Total Number of observations is 116.

The Readability variable for the FH and Inflesz Indices. The number of observations is the same as for Board Composition and Sustainability. To interpret the results, we must know the readability scale for FH, which is: 90-100 very easy, 80-90 easy, 70-80 somewhat easy, 60-70 normal (adult), 50-60 somewhat hard (pre-university), 30-50 hard (basic university), 0-30 very hard (specialized university). As well as the readability scale for Inflesz, which is: 80-100 very easy, 65-80 somewhat easy, 55-65 normal, 40-55 somewhat hard, 0-40 very hard. As we can see in Table 12, the readability average is 58 for the FH Index, which falls into 'somewhat hard' and 53 for the Inflesz Index, which also falls into 'somewhat hard'. In the FH variable, there were narrative texts that reached the 'hard' level, 37 min, and others 'very easy', 94 max. In the Inflesz (BI) variable, there were narrative texts that reached the 'very hard level', 31 min, and others the 'very easy', 90 max. Based on the stakeholder theory, since the scope of readers for CSR reports has widened (Clarkson, 1995; Tullberg, 2013; Moratis & Brandt, 2017), these results suggest that companies should simplify the readability of their CSR reports to make them easier to read by the different stakeholders who are interested in this information. Furthermore, they should avoid the practice mentioned by Wang, Hsiech and Sarkis (2018), whereby readability is purposely used to obfuscate inferior sustainability information and for greenwashing, to reduce the possible negative reaction of investors towards this information.

The Compliance with laws and regulations -SCOMPL variable- is an average among the reported sustainability information, since some companies did not report on all of the GRI studied. 17% is the average of Compliance. The maximum value of Compliance by one company is 50%.

Table 12. Summary of statistics

	Mean	**Std. Deviation**	**Mix**	**Max**	**N Obs.**
READABILITY1 (FH) Scale	58	9,92	37	94	116
READABILITY2 (BI) Scale	53	10,07	31	90	116
SCOMPL - %	0,17	0,17	0,00	0,50	116
CEBITDA - mil €	3.134.582	4.173.453	171.229	9.568.000	116
CASSETS - mil €	115.482.749	282.088.063	960.804	1.459.271.000	112
CLEVERAGE - %	0,29	0,18	0,00	0,71	112
GSIZE - Number of Directors in the Board	13	2,42	9	18	116
Valid number (by list)					112

Includes number of observations (N), Minimum (Min) and Maximum (Max) values, Mean and Standard Deviation (Std. Deviation)

Correlation coefficients between readability and compliance and control variables can be found in table 13. Readability variables negatively correlate with company characteristics such as (CEBITDA) and the size of the board (BSIZE). On the contrary, they are positively correlated with the level of compliance with GRI standards (SCOMPL), and other company characteristics such as assets (CASSETS) and leverage ratio (CLEVERAGE). Although some of the variables are significantly correlated, the analysis of the variance inflation factors (VIF) reveals no evidence of multicollinearity, as all of them take values under 10 (Kleinbaum, Kupper, Muller, & Nizam, 1998) and even under 5 (Hair, Black, Babin & Anderson, 2010).

Table 13. Correlation coefficients between readability and compliance and control variables

	FH	BI	SCOMPL	CEBITDA	CASSETS	CLEVERAGE	GSIZE	VIF
FH	1							
BI	0,999** (0,000)	1						
SCOMPL	0,247** (0,007)	0,253** (0,006)	1					1.24
CEBITDA	-0,011 (0,910)	-0,012 (0,902)	0,239** (0,010)	1				2.09
CASSETS	0,014 (0,881)	0,011 (0,909)	0,222* (0,018)	0,816** (0,000)	1			2.14
CLEVERAGE	0,173 (0,068)	0,177 (0,061)	-0,078 (0,415)	-0,253** (0,007)	-0,271** (0,004)	1		1.28
GSIZE	-0,014 (0,884)	-0,007 (0,937)	0,188* (0,044)	0,418 (0,000)	0,265** (0,005)	-0,089 (0,348)	1	1.41

***p<0,001; **p<0,05; *p<0,10

4.4.2. Regression analysis

The OLS regression model has been applied to regress Sustainability Compliance on Laws and Regulation with the two readability indices.

The analysis of this regression on FH and BI Indices can be found in table 14. Table 14 shows how Sustainability Compliance on Laws and Regulation is positively related to the FH and BI indices both at 0,001 level. The analysis of other variables also suggests a positive relation between the FH and BI readability indices and leverage.

Table 14. Regression model. Compliance and readability on FH and BI indices

	FH	BI
SCOMPL	0,002***	0,001***
	(3,223)	(3,295)
CEBITDA	0,377	0,374
	(-0,888)	(-0,893)
CASSETS	0,451	0,469
	(0,757)	(0,727)
CLEVERAGE	0,052*	0,046**
	(1,970)	(2,017)
GSIZE	0,938	0,879
	(0,078)	(0,152)
YEAR16	0,601	0,567
	(0,525)	(0,574)
YEAR17	0,887	0,929
	(-0,142)	(-0,089)
YEAR18	0,556	0,552
	(0,590)	(0,596)
Annual Effects	Yes	Yes
Observations	112	112
Nº of firms	34	34
R2	0.367*	0.373*

***p<0,001; **p<0,05; *p<0,10

The result on both indices suggests an association between compliance and readability, that high rates of readability are associated with high compliance, and vice versa, as was stated in our hypothesis. This is supported by the findings of Wang, Hsiech and Sarkis (2018) who stated that readability could be used to obfuscate CSR reports narrative texts.

The analysis of other variables also suggests a positive relation between readability and leverage, statistically significant at a 0,10 level for FH and at 0,05 level for the Inflesz indice, which means high rates of readability are associated with high leverage. Results also suggest that EBITDA, assets and board size or the years researched on are not associated with the dependent variables studied.

The readability study carried out in this thesis on 140 CSR reports of companies of the Spanish IBEX35 index during the period 2015-2018 of this thesis, comes to support the 'obfuscation hypothesis' since the average readability of both indexes studied

(Fernández-Huerta and Inflesz) falls at the “somewhat hard” level on the scale of measurement of readability.

4.5. CONCLUSIONS

Chapter objectives were to determine the readability difficulty levels of CSR reports' narrative texts in Spanish of the largest listed companies in Spain and, to determine whether or not the Spanish-language narrative texts in CSR reports of the largest listed companies in Spain, are influenced by compliance with non-financial information standards. To the best of our knowledge, no studies have been done on the readability of CSR reporting narrative texts in the Spanish language. This is the study gap.

Our findings show that the readability average of the Fernández-Huerta and Inflesz indices studied in CSR reports of Spanish large companies fall into ‘somewhat hard’ level in the **readability measure scale**. The results support the 'obfuscation hypothesis'.

Since stakeholders have taken the lead in demanding CSR transparency, engagement with them has become more important than ever and companies should make an effort to communicate in a simple manner, stimulated by regulators. They should keep in mind that their target audience might not now be a specialized one and they should simplify the readability of their CSR reports so that they may be understood by their varied receptors, which could include everyone from clients and society to investors, media or others.

Other results of the study suggest a positive association between **compliance on sustainability GRI standards** and readability, indicating that high rates of readability are associated with high compliance, and vice versa. The results support the 'obfuscation hypothesis'.

It's of interest to emphasize that a proactive stand and clear CSR communication should be the rule even when there is non-compliance, since one of the outcomes of this empirical study is that a company's readability is easier when there is compliance with GRI standards and becomes more difficult when there is non-compliance. This result could be influenced by the use of longer explanations frequently required by non-compliance, but this practice could also be due to information overload, complexity and obfuscation, as well as greenwashing, consequently, could affect a company's reputation and its legitimacy.

There is much to improve on CSR disclosure readability for IBEX35 Spanish firms. A more precise and standard reporting methodology could contribute to this approach, as well as a systematic and detailed audit review. The roles of regulators, stakeholders, assurance providers and companies are key in this process.

As for **business implications,** companies must:

- Write the narrative of CSR reports with a lower level of readability than is currently used, so that it is accessible to all stakeholders.
- Comply with GRI standards to reinforce the legibility of texts.
- In the event of non-compliance, maintain a level of readability that makes reports accessible to all stakeholders.
- Periodically review the level of legibility of narrative texts used in CSR reports and other corporate reports.
- Consider going one step further than the regulation on CSR auditing, to gain stakeholders' trust and improve reputation.

This study contributes to communication and sustainability' literature with research on readability using the Spanish language. It provides companies, regulators and stakeholders with empirical results on how difficult CSR disclosure narrative texts are and how there is room for improvement in this communication area. Finally, it suggests a need to be alert when it comes to CSR reports that are difficult to understand, since it could indicate a lack of compliance.

This research has the following limitations: Since there are no other references of CSR studies in Spanish, the results have been compared with English readability studies. Also, the readability indices used have restrictions when the narrative text is too short. In these cases, the results were not considered. Finally, there were companies that considered that some of the GRI used in this investigation didn't apply to them because of the type of activity they performed. In these cases, the results were not considered. Moreover, to increase the number of studied companies or to enlarge the period of study would be desirable.

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CHAPTER 5. THE INFLUENCE OF CORPORATE GOVERNANCE AS A DETERMINANT OF CORPORATE SOCIAL RESPONSIBILITY READABILITY IN SPANISH LANGUAJE

Chapter five's empirical study considers the influence of several internal corporate governance characteristics (board size, the proportion of independent directors and the proportion of female directors) on the readability of CSR reports in the Spanish language.

It also considers how, since 2018, the hard regulation of non-financial information in Spain, and the use of integrated reports, influences CSR readability.

Therefore, the primary objectives of this chapter are:

Determining whether or not the readability of Spanish-language narrative texts in CSR reports of the largest listed companies in Spain, are influenced by corporate governance characteristics.

Determining whether or not the readability of Spanish-language narrative texts in CSR reports of the largest listed companies in Spain, are influenced by 2017's CSR regulation.

Determining whether or not the readability of Spanish-language narrative texts in CSR reports of the largest listed companies in Spain, are influenced by the adoption of integrated reporting (IR).

The study was carried out on 140 CSR or sustainability reports of IBEX35 Spanish-listed companies from the period 2015-2018 using the Fernandez-Huerta formula and the Inflesz index for Spanish language readability. Findings suggest that internal corporate governance variables do not affect CSR report readability per se. Likewise, readability is unaffected when disclosure of non-financial information is required by law or when CSR issues are presented in an integrated report. On the contrary, the study suggests that when firms follow GRI guidelines and report on more GRI indicators, the better the readability will be.

5.1. INTRODUCTION

Nowadays, CSR information is as relevant for companies as financial information. Interest in these issues has increased in recent years not only among shareholders, but among stakeholders such as governments, local communities, clients, employees and suppliers (Arena, Bozzolan & Michelon, 2015; Boiral, Heras-Saizarbitoria & Testa, 2017).

This has led companies to increase CSR reported information (Adams & Zutshi, 2004; Amran, Lee & Devi, 2014) and encouraged regulators to rule its reporting.

CSR information (non-financial information, as named nowadays in law) is ruled by the European Parliament under Directive 2014/95/EU, Disclosure of non-financial and diversity information by certain large undertakings and groups, of 22 October 2014. Furthermore, in Spain, the European Directive was transposed by law 18/2017 of 24 November 2017, and since 2018 CSR reporting has been mandatory for companies with certain characteristics.[3] However, many companies had been reporting CSR information for years before it became mandatory.

CSR reports must include information necessary for understanding the policies and outcomes of the company/group, and the impact of its activity, at least on environmental and social issues, as well as information related to personnel, human rights, and the fight against corruption and bribery. The reports of listed companies must also include information on the diversity policies of the board of directors. Auditors must verify that this obligation to report non-financial information has been met, either in the management report or as a separate piece.

Even though some might see CSR as a public relations tool, it’s actually much more than that (Boiral et al., 2017; Cho, Michelon & Pattern, 2012), since it strengthens accountability to and engagement with stakeholders, and delivers to investors information on sustainability policies, strategies, effective governance, transparency, performance and impacts, as well as ecological and social data (ACCA & NetBalance, 2007; Amran et al., 2014; Clarkson, Richardson, & Vasvari, 2008; Lungu, Caraiani & Dascălu, 2011).

Nevertheless, CSR reporting is affected by the complexity of reporting, namely the complexity of explanatory languages surrounding a company’s financial reporting. Smeuninx, Clerck and Aerts (2016, p. 55) state that, ‘when a text’s features make it easier for the reader to extract desired information it is more readable,’ and Harris and Hodges (1995) consider that reading and understanding a written text defines the

[3] Firms under this rule are entities of public interest, companies with 500 employees as average in the year, and companies classified as “big companies” for two years in a row. (Big companies are those that meet two of these criteria: 20 million euros in assets, 40 million euros in annual turnover, and 250 employees on average). It also includes banks and insurance companies, among others.

concept of readability. In summary, readability may be identified as one of the criteria that influences the complexity of reporting. The readability of CSR reports mitigates information asymmetry. Some companies use readability to influence interest in and comprehension of CSR reporting texts, writing more readable narratives for positive disclosures than for negative ones (Wang, Hsiech & Sarkis, 2018). Various studies have been done on the concept of readability, as well as on readability and understandability (DuBay, 2004; Klare, 1963; Smith & Taffler, 1992). Measuring readability has been a challenge and it is not without problems in finance literature (Loughan & McDonald, 2020). Rudolf Flesch (1948) is considered the father of readability numeric measuring techniques in the English language. Dale and Chall (1948), Gunning (1952) and Kincaid, Fishburne, Rogers and Chissom (1975) have also defined popular formulae that are still in use (Smeuninx et al., 2016). Most Spanish readability formulae are based on those designed for the English language, with the empirical evidence concerning the readability of Spanish company reports in the Spanish language being scant, with the exception of Moreno and Casasola (2016), who used annual reports as a basis for analysis.

Financial literature argues that managers have incentives to increase the complexity of financial reporting (readability) to obfuscate poor performance, irregularities or bad news. While several papers in finance and accounting consider to what extent textual or linguistic attributes of financial disclosures (e.g. readability) affect the decision-making of investors and information intermediaries (Li, 2008; Loughran & McDonald, 2016), fewer are focused on the complexity of CSR information. Roman, Mocanu and Hoinaru (2019), for example, analyse the readability of integrated reports considering the effect of the cultural environment.

In this context, we propose that CSR reporting readability in listed firms is affected by an internal force that has to do with managerial discretion, that is, the possibility of managers to obfuscate financial reporting. In that context, corporate governance characteristics, like the size, diversity and composition of the board of directors, as well as the type of reporting and regulation, could influence the readability of CSR reporting. This chapter approaches the study of the readability of the CSR reports of IBEX35 companies (Spain) in the Spanish language. Specifically, it considers corporate governance characteristics as determinants of readability of CSR reports in Spanish, and the influence of regulation and the type of report on a report’s readability. This will enable us to consider the influence that certain corporate governance characteristics might have on the readability of CSR reports. Moreover, we consider whether the readability of CSR narrative texts is influenced by 2017’s CSR regulation, and whether the adoption of integrated reporting as a disclosure tool has affected CSR report readability. This study was performed on 140 CSR and annual reports on corporate governance by IBEX35[4] Spanish listed companies in the period 2015-2018.

Results obtained suggest that the proportion of independent directors, the percentage of female directors, and overall board size do not influence the readability of CSR disclosures. Nor has the regulation contributed positively to readability among narrative text in the CSR reports of IBEX35 companies, even though there was a slight increase in reports that marked above average on readability after regulation. Findings also suggest that reporting CSR information through integrated reporting (IR) does not influence readability. On the contrary, of those firms following GRI guidelines, the results suggest that the more GRI indicators they report on, the better the readability.

Regarding chapter contributions, while empirical studies about readability in most cases refer to English language texts, to the best of our knowledge no studies have been done on readability of CSR reporting narrative texts in the Spanish language. In addition, the object considered to measure readability differs. While previous studies of firms' reports have considered chairperson statements, letters to stakeholders, and annual reports (Moreno & Casasola, 2016), fewer are focused on CSR information (Abu Bakar & Ameer, 2011; Roman et al., 2019) such as the integrated report or the CSR reports. Furthermore, to our knowledge, no study has considered corporate governance characteristics as determinants of complexity. In most cases, CSR readability is associated with company performance (Abu Bakar & Ameer, 2011). Only Amran, Lee, and Devi (2014) consider the role of the board of directors in the quality, rather than readability, of the CSR report. We also consider the effect of regulation on readability, as well as the use of integrated reporting in relation to readability. There is a clear study gap, which we intend to fill with this study.

In terms of methodology, we complemented previously gathered sustainability information from CSR reports of Spanish IBEX35 companies by manually collecting data from annual reports on corporate governance retrieved from companies' web pages. After applying descriptive and correlation analyses, we first employed the Mann-Whitney U and the Wilcoxon tests for significant differences in CSR readability, depending on corporate governance characteristics and type of report. Next, to test the research hypotheses, we analysed the influence of corporate governance characteristics,

[4] IBEX35 index unites the 35 largest listed companies in Spain given their market capitalization.

regulation and type of report on CSR readability by applying the random-effects panel data model, given that the Hausman test revealed potential autocorrelation between independent variables and the fixed effects.

This chapter is organised as follows. First, we review relevant literature and provide a theoretical framework containing the questions and hypotheses of this study. Then the methodology is described, which includes reference to the readability indices used. Finally, we present the results, the discussion, conclusions to be drawn, and the implications.

5.2. THEORETICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

5.2.1. Readability in CSR reporting

CSR reporting appeals to the interests of more groups than financial or corporate governance reporting (GRI, 2013; Smeuninx et al., 2016). CSR reports should represent the concerns of all company stakeholders, including shareholders (Sacconi, 2004). CSR reporting is seen as an important platform for demonstrating transparency, accountability and effective governance. It assists decision-makers by translating ecological, economic and social data (Amran et al., 2014; Lungu, et al., 2011).

Managers control the company's non-financial information. But do they have the incentive to report CSR activities with accuracy? Managers have the responsibility of the reporting processes, and the result could be that information is collected and disseminated to be clearly understood only if it brings a positive image to the corporation, rather than for the purposes of being transparent and accountable to stakeholders. This is called the 'obfuscation hypothesis' (Courtis, 1998; Rutherford, 2003; Smeuninx et al., 2016). As Amran, Lee and Devi (2014, p. 218) states, following Owen, Swift, Humphrey and Bowerman (2000), 'accountability and transparency are less important motives when compared with management advantage'. The two key motivating factors for CSR reporting of companies, identified by scholars, are moral responsibility and business interests (Adams & Zutshi, 2004).

Following *legitimacy theory*, stakeholder reaction can be influenced by CSR reporting, and, consequently, reports may improve corporate reputation and image (Chan, et al., 2014; Wang et al., 2018), corporate relations with stakeholders (Adams & Zutshi, 2004; Chan et al., 2014), financial returns (Torugsa & O'Donohue, 2012; Wang et al., 2018), and might reduce capital market information uncertainty (Martínez- Ferrero, Ruíz-Cano & García-Sánchez, 2016; Wang et al., 2018).

From the agency theory point of view, the separation between managers and owners, that is Agency Conflict Type One (Villalonga & Amit, 2016), may explain a possible opportunistic managerial behavior. As a consequence of those conflicts of interests, managers may behave opportunistically and obfuscate disclosures to mask unfavorable information that may harm the firm's performance. One way of masking unfavorable information is through text complexity or lower readability. Clarkson, Li, Richardson and Vasvari (2008) report that managers are not economically incentivised towards opportunistic reporting, since the market might identify it and punish the company with share price reduction. Guay, Samuels and Taylor (2016) find that managers of firms with high financial complexity increase voluntary disclosure to mitigate the negative impact of financial complexity on their environment. So managers will use CSR text narrative for reports as a communication tool, to provide relevant information and reduce information asymmetries, between the company and the different stakeholders (Arena et al., 2015; Clarkson et al., 2008; Martínez-Ferrero et al., 2015).

Other studies under the impression-management hypothesis suggest that managers might apply communication tactics to influence share prices to their advantage, as the market is not able to assess short-term reporting (Clatworthy & Jones, 2001). The signaling theory looks at how the greater transparency and connectivity of financial, as well as non-financial, information conveyed by integrated reports are likely to exert a signaling effect on capital providers, encouraging managers to adopt a long-term value-creation strategy to the benefit of investors (Lys, Naughton & Wang, 2015).

From the point of view of readability in the context of financial reporting, the 'incomplete revelation hypothesis' (Bloomfield, 2002; 2008) suggests that information with higher processing costs produces fewer trading interests and therefore will produce less price efficiency and higher uncertainty. So a report of lower readability will increase complexity as it increases the cost of processing information, and managers may use this to obfuscate poor performance, bad news, etc. As previously mentioned, this is what some scholars call 'obfuscation hypothesis' (Courtis, 1998; Rutherford, 2003; Smeuninx et al., 2016). For example, studies by Adelberg (1979) and Li (2008) suggest that readability of a company's report and its financial performance were negatively associated; other authors have studied consequences and costs relating to how the readability of narrative text on financial disclosure influences the reaction of investors (You & Zhang, 2007;

Lehavy, Li & Merkley, 2011). Other studies (Lehavy et al., 2011) find that a higher readability of financial statements leads to a lower dispersion and uncertainty of analyst earnings forecasts. Furthermore, prior research suggests that managers selectively disclose good news and are less forthcoming with bad news (Lang & Lundholm, 2000). Concerning the readability of CSR reports or integrated reports, Roman, Mocanu and Hoinaru (2019) analysed an international sample to study the influence of the following variables on the readability of integrated reports: revenue (the higher the revenue, the more balanced their integrated reports), company age (younger companies use a more optimistic tone when reporting), national culture (countries with a transparency culture provide less readable integrated reports) and the type of industry (companies of non-environmentally sensitive industries provide less readable integrated reports). In summary, there are some positive and negative arguments that may influence the readability of corporate responsibility information.

5.2.2. Corporate governance as a determinant factor of readability

Corporate governance is widening in its scope and 'now addresses the concerns of the social, environmental, and public arena' (McBarnet, 2007, p. 556) as well as issues related to ethics, accountability and disclosure (Lerach, 2002). This was foreseen in some corporate governance definitions that introduced the concept of stakeholders, such as the OECD's (2015), which defines it thus: 'Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders.' (p. 9). Accordingly, traditional CSR issues such as non-financial reporting practices, codes of conduct, stakeholder engagement, etc., are now being addressed by corporate governance practices (Rahim & Alam, 2013). So the scope of corporate governance has broadened to encompass the growing importance of CSR (Amran et al., 2014). As a consequence, firms have increased the amount and quality of CSR information they report. It seems reasonable to deduce that good corporate governance will benefit companies' CSR disclosure.

Managers' decisions about disclosures are not neutral (Bowen, Davis & Matsumoto, 2005) and consequently managers might purposely manipulate information to the company's advantage (Boiral, 2013; Parsons & McKenna, 2005). In order to control managers, board members define business strategies and valuate their impact on CSR to ensure the right blend of experience and capabilities. Within literature, there are numerous studies than link company disclosure practices with corporate governance (Adams, 2002; Gul & Leung, 2004; Michelon & Parbonetti, 2012; Wang et al., 2018).

Walls, Berrone and Phan (2012), Mason and Simmons (2014), and Tamimi and Sebastianelli (2017) mention how the depth of CSR implementation might be influenced by corporate governance. Others have related disclosure practices and corporate governance attributes, among which we find board composition (Haniffa & Cooke, 2005); board size (Villiers, Naiker & van Staden, 2011) and the proportion of independent non-executive directors (Chan et al., 2014; Eng & Mak, 2003; Haniffa & Cooke, 2005; Villiers et al., 2011).

Concerning the **board of directors**, CSR reporting should improve as boards of directors obtain a clearer understanding of the benefits of greater disclosure (Aras & Crowther, 2008). The board of directors is responsible for the disclosure of CSR information and influences the quality of reporting (Kim & Starks, 2016). Therefore, a strong positive relation between corporate governance and quality CSR reporting can be expected. Amran, Lee and Devi (2014) suggest an efficient composition of the board (board size, independence and gender) influences CSR report quality. Previous studies concerning board composition have mostly addressed corporate governance and disclosure practices rather than readability (Adams, 2002) or quality (Amran et al., 2014).

Prior empirical evidence has considered the relation between board size, independence, and female presence on boards with transparency and accountability practices in the company (Amran et al. 2014; Kolk, 2008; Tamimi & Sebastianelli, 2017). Amran, Lee and Devi (2014) consider how the quality of CSR reports (not readability) should improve as boards of directors obtain a clearer understanding of the benefits of clear disclosure. They relate board size, independence and board gender to the quality of CSR reports, although they do not find any direct effect. On the specific case of readability, Ginesti, Drago, Macchioni and Sannino (2018) found that female board participation has a positive impact on a firm’s readability in firms with small boardroom connections, across a sample of Italian companies.

The size of the board is a crucial variable in corporate governance. The size of the board should be optimal depending on the type of company and its ownership structure (Gaeremynck & Renders, 2012), even though it seems smaller boards tend to be more effective (Amran et al., 2014; Lipton & Lorsch, 1992), efficient (Yermack, 1996), see reduced problems of opportunism, and encourage proactive managerial behavior. Moreover, an effective board contributes to better decisions. But, from a CSR point of view, the effect of board size could be the opposite. Previous studies on **board size** within agency theory suggest that boards with more board members have higher levels of CSR reporting and represent different groups of stakeholders, which results in a greater effort to communicate with and satisfy the demands of stakeholders (Kaymak & Bektas, 2017). Larger boards might influence management to engage with CSR activities (Jizi, Salama, Dixon & Stratling, 2014; Tamimi & Sebastianelli, 2017) and will influence the disclosure of companies' actions (Frias-Aceituno, Rodríguez-Ariza & García-Sánchez, 2013; Tamimi & Sebastianelli, 2017) or the adoption of CSR practices (Ben Barka & Dardour, 2015; Tamimi & Sebastianelli, 2017). In summary, large boards have a wider diversity of experience and skills, which contributes to a better and more transparent CSR disclosure and might improve CSR readability.

Based on the above, we propose:

Board size is positively associated with CSR readability (H1).

Regarding **independent directors**, they are among outsider directors that are expected to provide the board with a different view of issues and be more objective than inside directors, who are employees with easier access to information (Kaymak & Bektas, 2017) and a potentially conflicting interest. Independent directors connect the firm with external stakeholders and are interested in a high degree of transparency, which implies a disclosure of high-quality information (Amran et al., 2014). Studies on board independence and transparency have suggested a positive association between voluntary disclosure and board independence (Cheng & Courtenay, 2006; Donnelly & Mulcahy, 2008) as well as a negative relation between voluntary disclosure and the number of outsider directors on the board (Eng & Mak, 2003; Gul & Leung, 2004). Eng and Mak (2003) found that an increase of outsider directors will reduce voluntary disclosure, as they are a good substitute for each other in monitoring the organisation's managers. Other studies suggest that external board members contribute to board independence, to decision-making capacity and to mitigating information asymmetries within CSR (Dalton et al., 1998; Kaymak & Bektas, 2017). Previous studies, of the Kenyan banking sector (Barako & Brown, 2008) and of Pakistani companies (Lone, Chaudhry & Khan, 2016), have suggested that the presence of independent directors (outsiders) on the board increases CSR disclosure (Tamimi & Sebastianelli, 2017). As a matter of fact, stakeholder management approach upholds that a company's performance will improve in the long run with diverse groups on the board, since they lead to sustainable strategies (Freeman, 1984) and to transparency and disclosure (Carroll, 2000; Kaymak & Bektas, 2017). There are incentives for independent directors to influence disclosure practices to maintain a firm's reputation (Amran et al., 2014). A greater board independence affects the degree of transparency (Cheng & Courtenay, 2006; Donnelly & Mulcahy, 2008; Huafang & Jianguo, 2007; Kaymak & Bektas, 2017). In summary, the study of board independence and disclosure practices has provided contradictory information, having found both positive and negative relations.

Therefore, we hypothesise that:

The proportion of independent directors on the board is positively associated with CSR readability (H2).

Concerning **female presence on boards**, previous studies suggest that enhanced CSR management and quality is associated with board diversity in listed European companies (Ferrero-Ferrero, Fernández-Izquierdo & Muñoz-Torres, 2015). Bear, Rahman and Post (2010) state that ‘the presence and the number of women on boards may signal to stakeholders that the firm pays attention to women and minorities, and is, therefore, socially responsible’ (p. 211). These studies also suggest that females are more sensitive about social issues (Kiliç, Kuzey & Uyar, 2015; Tamimi & Sebastianelli, 2017) and enhance CSR performance (Tamimi & Sebastianelli, 2017; Velte, 2016). Gender diversity is shown to be positively associated with corporate social reporting and better social and environmental performance (Adams & Ferreira, 2004). The same has been found in the study of females on boards of directors and the positive relation to CSR reporting quality. While Fernandez-Feijoo, Romero and Ruiz-Blanco (2012) found a positive relation between having more than three women on the board and CSR reporting, Frias-Aceituno, Rodriguez-Ariza and Garcia-Sanchez (2013), Lone, Chaudhry and Khan (2016), and Tamimi and Sebastianelli (2017) found that gender diverse boards had higher Bloomberg ESG scores[5]. A study by Amran, Lee and Devi (2014) didn't find any consistent relation between gender diversity and CSR reporting quality. Relating to the focus of this study, only Ginesti, Drago, Macchioni and Sannino (2018) consider the effect of board gender on readability. That study analysed a sample of Italian firms and found that female board participation has a positive impact on disclosure readability of

[5] ESG<GO> is a Bloomberg Terminal function that provides sustainability investors with data about a company's environmental, social and governance metrics, such as greenhouse gas emissions intensity, resource consumption and workplace diversity. The function provides an overview of a company's support of sustainability initiatives and ranks its performance against industry peers. Retrieved from https://www.bloomberg.com/company/press/esg-function-adds-robecosam/#:~:text=ESG%20is%20a%20Bloomberg,resource%20consumption%20and%20workplace%20diversity. (4 August 2020).

annual reports in firms with small boardroom connections, but the opposite effect in firms with large boardroom connections. In summary, a higher proportion of women on boards will increase CSR reporting quality and, therefore, readability. Taken together, we state:

A greater proportion of female directors is positively associated with CSR readability (H3).

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5.2.3. Mandatory disclosure of CSR and the influence of the integrated report

CSR information (non-financial information, as named in law) reporting was ruled by the European Parliament under Directive 2014/95/EU, Disclosure of non-financial and diversity information by certain large undertakings and groups, of 22 October 2014. Furthermore, in Spain, the object of our study, CSR reporting has been ruled as mandatory by law 18/2017 (24 November 2017) for all companies with certain characteristics since 2018. Firms obliged to report are entities of public interest, entities with 500 employees as averaged throughout the year, and entities classified as 'big companies' for two years in a row and others. So, it might be interesting to research whether CSR readability has changed since the application of the new legislation.

Within the mandatory disclosure of CSR, and due to the variety of information requested, European legislation refers to different standards that could be used as guidelines in the disclosure of information. In particular, the European Directive mentions the following standards: the Eco-Management and Audit Scheme (EMAS), the United Nations (UN) Global Compact, the Guiding Principles on Business and Human Rights: Implementing the United Nations 'Protect, Respect and Remedy' Framework, the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises, the International Organisation for Standardisation's ISO 26000, the International Labour Organisation's Tripartite declaration of principles concerning multinational enterprises and social policy (MNE Declaration), and the Global Reporting Initiative.

Among the different reporting guidelines mentioned in the European Directive, 100% of the reports analysed used Global Reporting Initiative (GRI), which is why that is the standard this study is based on.

Companies are permitted report on CSR either within the management report or with a separate piece, as long as it includes the content that is required by law (RD 18/2017, de 24 Nov). In this sense, integrated reporting represents the convergence of the CSR report and the financial report into a single narrative, as a holistic representation of a company's performance in terms of finance and sustainability (Roman et al., 2019). We expect companies reporting CSR criteria through integrated reporting to score better on readability, because these companies are making an effort to improve the quality of their reporting.

In summary, we will consider whether there are differences in the readability of CSR reports before and after the change of the norm and before and after the integrated reports, when applied, so we propose that:

The introduction of the norm making the disclosure of CSR information mandatory for certain firms, and the use of an integrated report (IR), improves CSR readability (H4).

5.3. METHODOLOGY

5.3.1. Sample and sources

The initial sample is the entire population of Spanish-listed firms indexed (or included) on the IBEX35 index for the period 2015-2018 (35 firms and 140 observations). From this initial sample, we excluded those observations of firms with CSR reports in the English language (1 observation), those observations that did not report under GRI standards (4), those observations that did not report under the GRI indices of the study (13), and those observations for which CSR information was not available (1 observation). After applying these filters, the final sample contains 35 firms and 121 observations.

Information required to estimate variables employed in the study was manually gathered from different sources. Data for CSR or sustainability reporting comes from the firms' CSR/Sustainability reports (if firms report with an independent piece), from firms' management (annual) reports and from firms' integrated reports (reports with a focus on integrated thinking). Those reports are retrieved from firms' official websites. Information on corporate governance comes from annual corporate governance reports filled in by each firm at the Spanish Supervisory Agency, the Comisión Nacional del Mercado de

Valores (CNMV). Data for economics and finance come from the SABI database and from Madrid's Stock Exchange website.

5.3.2. Variables

Table 15 provides variable definitions.

Table 15. Variables

Variable	Definition
Dependent variables	
FH	Fernandez-Huerta readability index computed as: L = 206.84 – 0.60P – 1.02F Where 0 = lowest readability; 100 = highest readability
BI	Inflesz readability index computed as: I = 206.835-(62.3S/P)-(P/F) Where 0 = lowest readability; 100 = highest readability
Independent variables	
BSIZE	Total number of board directors
BINDE	Percentage of independent directors
BFEM	Percentage of women directors
CSRMANDAT	Dummy = 1 in 2018 and = 0 otherwise
INTREPORT	Dummy = 1 if the CSR report is an integrated report and = 0 otherwise
Control variables	
EBITDA	Natural logarithm of EBITDA in (measured in euros)
ASSETS	Natural logarithm of total assets in (measured in euros)
LEVERAGE	Total debt/book value of total assets
SCOMPL	A binary code on compliance (compliance=1; non-compliance=0) is given to each of the GRI indicators reported by the firm (maximum of 6). Then, a total percentage formula is run (A/(A+B)). Results: 0.50 is the higher score for compliance and 0 the lowest.

5.3.2.1. Dependent variables: Readability measures

Readability studies building on the English language (Adelberg, 1979; Courtis, 1998; Lehavy et al., 2011; Li, 2008; Wang et al., 2018) have mostly applied the Fog, Kincaid, and Flesch indices to measure readability of narrative disclosure in annual and CSR reports. The most frequently used index is the Flesch Reading Ease Formula, which takes into account word and sentence length and ranks from 0 to 100, where low outcomes suggest difficult-reading narrative texts, and high outcomes suggest the opposite. Due to the differences in length between English and Spanish narrative texts, the Flesch formula has been adapted to be applied to Spanish texts (Moreno & Casasola, 2016). This study has used two readability indices, both of them based on the Flesch formula (Flesch, 1948): the Fernández-Huerta Index (1959) and the Inflesz Index by Barrio (2008).

The Fernández-Huerta Index (FH) is defined as:

$$FH = 206.84 - 0.60P - 1.20F$$

where FH is the Fernández-Huerta readability Index; P is the average number of syllables per word; and F is the average number of words per sentence.

The Inflesz Index (BI) is estimated as:

$$BI = 206.835 - \left(62.3\frac{S}{P}\right) - (\frac{P}{F})$$

where BI is the Inflesz readability index; S is the total number of syllables per word; P is the total number of words per sentence; and F is the number of sentences. Both readability indices rank from 0 to 100. The higher the FH index or the BI index, the better readability of a firm's CSR report, meaning reports are easier to read. Readability indices are estimated using the program legible.es on Python software.

The observations gathered from CSR reports are a selection of the Global Reporting Initiative (GRI)[6] standard reporting indicators used by Spanish IBEX35 companies, since GRI standard reporting is the most frequently used guideline employed by these companies for CSR reports. To identify which specific GRI indicator should be the subject of this study, the selection was based on the Bloomberg ESG (Environmental, Social and Governance) database, which is often used for academic ESG studies, such as that of Pei-yi Yu, Qian Guo and Van Luu (2018) or Tamimi and Sebastianelli (2017). In particular, the GRI indicators selected were those related to compliance on laws and regulation, which have a high-impact evaluation on the Bloomberg ESG database. Specifically, the GRI indicators studied are: 205/G4-SO5 Confirmed incidents of corruption; 206/G4-SO7 Legal actions for anti-competitive behavior; 307/G4-EN29 Non-compliance with environmental laws and regulations; 417-2/G4-PR4 Incidents of non-compliance concerning product and service information and labeling; 417-3/G4-PR7 Incidents of non-compliance concerning marketing communications; and 419/G4-SO8

[6] There are two different versions for GRI standards applied by companies. The most recent are GRI Sustainability Reporting Standards, launched on 19 October 2016 and required for reports published on or after 1 July 2018. Previous GRI standards are GRI4 Guidelines. A Mapping (GRI, 2018) that correlates GRI Standards with GRI4 Guidelines has been used, preventing the new version of the guidelines from being a limitation on this study (Global Reporting Initiative, 2020).

and PR9 Non-compliance with laws and regulations in the social and economic area. Readability formulas were applied to Spanish narrative texts of these six GRI indicators reported on in CSR reports. The process of measuring the sustainability information followed three steps. First, the narrative text of each GRI indicator studied was extracted from the CSR report and copied to the database, specifying the page where it was extracted from. Next, readability indices were estimated and their results registered. Finally, the company's compliance or non-compliance with that GRI indicator was registered with a binary code (1=compliance; 0=non-compliance).

5.3.2.2. Independent variables

Independent corporate governance variables include: (a) the total number of directors (BSIZE); (b) the percentage of independent directors (BINDE); and (c) the percentage of women directors (BFEM). The mandatory content of CSR information (CSRMANDAT) is considered by a dummy variable equal to one in 2018, and zero before 2018, as that was the year when reporting of CSR information became mandatory for Spanish IBEX35 companies[7]. Finally, INTREPORT is a dummy variable that takes the value of one when the CSR information corresponds with an integrated report, and zero otherwise.

5.3.2.3. Control variables

Control variables comprise a set of continuous variables previously employed in CSR-related research: the natural logarithm of a firm's EBITDA as an indicator of company performance, the natural logarithm of the book value of total ASSETS as a measure of firm size, and the LEVERAGE ratio (total debt divided by total assets) as a proxy of a firm's risk.

Finally, as a control variable, we define a variable capturing the average of total GRI standards accomplished by companies each year (SCOMPL). Each GRI criteria has been identified and classified using a binary score (1-0) for each observation, 1 being compliance and 0 being non-compliance. Binary scoring is frequently used in sustainability studies following the KLD database criterion (Arena et al., 2015; Cho & Patten, 2007; Cho, Roberts & Patten, 2010) developed by Kinder, Lydenberg, Domini Research and Analytics (Kaymak & Bektas, 2017). Consequently, a firm could score a

[7] Under European Directive 2014/95/EU Disclosure of non-financial and diversity information of 22 October 2014 and its transposition to Spanish legislation by the law 18/2017, of 24 November 2017.

maximum of zero point five (0.50) and a minimum of zero (0). The higher the score, the more compliance. Formulae for calculating the reporting with these six GRI indicators was a total percentage (A/(A+B)): *(binary GRI 205 + binary GRI 206 + binary GRI 307 + binary GRI 417-2 + binary GRI 417-3 + binary GRI 419) / ((binary GRI 205 + binary GRI 206 + binary GRI 307 + binary GRI 417-2 + binary GRI 417-3 + binary GRI 419) + Number of GRI indicators reported by firm).* (e.g. a company reports on three indicators, it complies with two and doesn't comply with one; the formulae would be: (1+1+0)/((1+1+0)+3) = 0.40, meaning that it complies with 0.40 – out of 1 – of reported indicators).

5.3.3. Methodology

After applying descriptive and correlation analyses, we first employ the U-Mann Whitney and the Wilcoxon tests for significant differences in CSR readability, depending on corporate governance characteristics (BSIZE, BINDE, and BFEM), regulation (CSRMANDAT) and type of report (INTREPORT). Next, to test the research hypotheses, we analyse the influence of corporate governance characteristics (H1 to H3), regulation and type of report (H4) on CSR readability by applying random-effects panel data model, given that the Hausman test reveals potential autocorrelation between independent variables and the fixed effects. The random-effect panel data model is defined as:

$$\begin{aligned} READABILITY_{it} &= \beta_0 + \beta_1 BSIZE_{it} + \beta_2 BINDE_{it} + \beta_3 BFEM_{it} + \beta_4 CSRMANDAT_t \\ &+ \beta_5 INTREPORT_{it} + \beta_6 X_{it} + \varepsilon_{it} \end{aligned}$$

where $READABILITY_{it}$ is a vector of continuous dependent variables (alternatively FH and BI) of the firm i in the year t; $BSIZE_{it}$, $BINDE_{it}$ and $BFEM_{it}$ are the total number of directors, the percentage of independent directors and the percentage of women directors, respectively, of the firm i in the year t; $CSRMANDAT_t$ denotes the legislation introduced in 2018; $INTREPORT_{it}$ captures if the firm i in the year t adopts integrated reporting; X_{it} is a vector of control variables (*EBITDA*, *ASSETS*, *LEVERAGE*, and *SCOMPL*); and ε_{it} is a normal error term.

Panel data models control for unobservable heterogeneity by decomposing the random error term ε_{it} into two parts: the combined effect (μ_{it}), which depends on individual and time periods, and the individual effect (η_i), which captures the firm's characteristics and constants over time.

5.4. RESULTS

5.4.1. Descriptive statistics and correlations

Table 16 represents the descriptive statistics of variables for this study. Concerning readability, in order to interpret results, it is worth noting the readability scale for FH index, which is: 90-100 very easy, 80-90 easy, 70-80 somewhat easy, 60-70 normal (adult), 50-60 somewhat hard (pre-university), 30-50 hard (basic university), 0-30 very hard (specialised university). The readability scale for BI index is: 80-100 very easy, 65-80 somewhat easy, 55-65 normal, 40-55 somewhat hard, 0-40 very hard. The readability average is 57.99 for the FH Index and 53.02 for the BI Index, which fall into the 'somewhat hard' category. The FH index ranges from 'hard' (36.65 min) to 'very easy' (93.1 max). The BI index ranges from 'very hard' (31.17 min) to 'very easy' (89.2 max).

IBEX35 company boards average 13 directors (BSIZE), of whom 32 % are independent directors (BINDE) and 16% are female directors (BFEM). Female presence on boards of directors is far from the objective of 30% set by the Good Governance Code of Listed Companies (2015), and from the objective of 40% set by Good Governance Code of Listed Companies (2020). There are boards where there are no independent or female directors, and others that have a maximum of 45% independent directors and 33% female directors. Finally, 12 % of firms use integrated reporting. Regarding control variables, average EBITDA is 3,034,753 thousand euros (21.83 natural logarithm), average ASSETS are 107,910,244 thousand euros (25.40 natural logarithm), and firms have 30% LEVERAGE ratio. Finally, the level of compliance with GRI indicators is on average 17%, i.e. companies comply in average with 17% of the GRI indicators, that being 67% of the maximum level of compliance.

Table 16. Descriptive statistics

Variables	Mean	Std. Deviation	Median	Min	Max	N Obs.
FH	58.12	10.04	57.99	36.65	93.81	121
BI	53.16	10.21	53.24	31.17	89.72	121
BSIZE	12.94	2.38	13	9	18	121
BINDE	31.93	7.69	33.33	0	0.45	121
BFEM	16.43	7.18	16.67	0	0.33	121
CSRMANDAT	0.25	0.43		0	1	121
INTREPORT	0.12	0.33		0	1	121
EBITDA	3,092,226	4,120,000	1,225,275	102,784	19,568,000	121
ASSETS	108,239,651	273,000,000	15,513,774	83,730	1,459,271,000	121
LEVERAGE	0.31	0.20	0.29	0	0.80	121
SCOMPL	0.17	0.18	0.17	0	0.50	121

EBITDA and ASSETS in thousands of euros.

Table 17 reports the bivariate correlations among study variables. Readability variables negatively correlate with the size of the board (BSIZE), the percentage of independent directors (BINDE), and firm ASSETS. On the contrary, they are positively correlated with the percentage of female directors (BFEM), the existence of regulation (CSRMANDAT), integrated reporting (INTREPORT), the level of compliance with GRI standards (SCOMPL), and other company characteristics such as firm EBITDA and LEVERAGE ratio. Although some of the variables are significantly correlated, the analysis of the variance inflation factors (VIF) reveals no evidence of multicollinearity, as all of them take values under 10 (Kleinbaum, Kupper, Muller & Niza, 1998) and even under 5 (Hair, Clark, Babin & Anderson, 2010).

Table 17. Bivariate correlations

	1	2	3	4	5	6	7	8	9	10	11	VIF
1. FH	1											
2. BI	0.998*** (0.000)	1										
3. BSIZE	-0.015 (0.869)	-0.009 (0.919)	1									1.41
4. BINDE	-0.001 (0.988)	-0.004 (0.962)	-0.211** (0.020)	1								1.16
5. BFEM	0.015 (0.873)	0.022 (0.808)	0.063 (0.495)	0.136 (0.136)	1							1.29
6. CSRMANDAT	0.018 (0.848)	0.014 (0.883)	-0.035 (0.707)	0.077 (0.403)	0.189** (0.037)	1						1.06
7. INTREPORT	0.010 (0.913)	0.010 (0.913)	-0.107 (0.241)	-0.024 (0.791)	-0.281*** (0.001)	-0.043 (0.649)	1					1.12
8. EBITDA	0.054 (0.556)	0.045 (0.588)	0.451*** (0.000)	0.062 (0.496)	0.345*** (0.000)	-0.032 (0.725)	0.193** (0.033)	1				2.09
9. ASSETS	-0.055 (0.547)	-0.063 (0.491)	0.401*** (0.000)	-0.016 (0.8613)	0.189** (0.037)	-0.068 (0.461)	-0.084 (0.357)	0.612*** (0.000)	1			2.14
10. LEVERAGE	0.216** (0.017)	0.218** (0.016)	-0.124 (0.173)	0.111 (0.226)	0.052 (0.571)	0.033 (0.716)	0.026 (0.775)	-0.071 (0.437)	-0.389*** (0.000)	1		1.28
11. SCOMPL	0.225** (0.013)	0.228** (0.011)	0.163* (0.073)	-0.187** (0.040)	0.138 (0.130)	-0.103 (0.263)	-0.135 (0.140)	0.309*** (0.000)	0.330*** (0.000)	-0.031 (0.73)	1	1.24

***p<0.01; **p<0.05; p*<0.10

5.4.2. Bivariate analysis

Table 18 differences in readability depending on corporate governance characteristics. We have divided firm observations into two groups, depending on whether or not the total number of directors (BSIZE), the percentage of independent directors (BINDE), and the percentage of women directors (BFEM) are above or below the sample average. Surprisingly, readability, measured by both FH and BI indices, is better in firms with smaller boards of directors, lower percentages of female directors and higher percentages of independent directors. However, differences are not statistically significant. Overall, results reveal that there are no significant differences in readability among companies depending on corporate governance characteristics.

Table 18. Bivariate analysis: CSR readability and corporate governance characteristics.

Variable	BSIZE			BINDE			BFEM		
	Above the mean N=63	Below the mean N=58	Z statistics (p-value)	Above the mean N=66	Below the mean N=55	Z statistics (p-value)	Above the mean N=62	Below the mean N=59	Z statistics (p-value)
FH	57.47	58.82	0.405 (0.6857)	58.23	57.98	0.094 (0.925)	57.72	58.53	0.617 (0.5372)
BI	52.58	53.79	0.332 (0.7398)	53.22	53.09	0.125 (0.900)	52.85	53.48	0.544 (0.5861)

***p<0.01; **p<0.05; p*<0.10. Two-sample Wilcoxon rank-sum (Mann-Whitney test). P-value in brackets

Table 19, reports differences in readability indices before and after changes in regulation. We compare mean values of readability indices in 2015, 2016 and 2017 (before regulation) versus mean values of readability indices in 2018 (after regulation). Results show that readability has become slightly easier over time with just one exception, in 2016 when they became much easier. Although readability has improved, with regulation taking readability indices values higher in 2018 than in 2015 and 2017, in 2016 readability indices take the highest values in our sample. Nevertheless, the results reveal that there are no statistically significant differences in CSR readability before or after law enforcement.

Table 19. Bivariate analysis: CSR readability and regulation

Variable	CSRMANDAT						
	Year -3 (2015) N= 27 (a)	Year -2 (2016) N=32 (b)	Year -1 (2017) N=32 (c)	A Year +1 (2018) N=30 (d)	Wilcoxon (d)-(a)	Wilcoxon (d)-(b)	Wilcoxon (d)-(c)
FH	57.10	59.74	57,13	58.42	-0.893	-0.46	-1.252
BI	51.98	54.88	52.21	53.40	-0.985	-0.114	-1.116

***p<0.01; **p<0.05; p*<0.10 Z statistics is obtained from the non-parametric test Wilcoxon for related subsamples.

Finally, on table 20, reports differences in readability indices depending on the type of report used to disclose CSR activities (i.e. integrated reporting vs management report, annual report, sustainability report, CSR, or annual report). Although differences are narrow and statistically insignificant, readability is better among companies that do not use integrating reporting.

Table 20. Bivariate analysis: CSR readability and type of CSR report

Variable	N Obs.	Firms with IR Mean	N Obs.	Firms without IR reports Mean	Mann-Whitney U
FH	15	58.38	106	58.07	-0.566 (0.5712)
BI	15	53.43	106	53.12	-0.531 (0.5955)

***p<0.01; **p<0.05; p*<0.10

Overall, results do not seem to support our research hypotheses. The results do not support positive relationships between CSR readability and board size (H1), nor between CSR readability and the amount of independent (H2) and female directors (H3). Additionally, they do not support a positive relationship between CSR readability and regulation concerning non-financial information and integrated reporting (H4).

5.4.3. Regression analysis

Table 21 summarises the random-effect panel data model results. The dependent variables are the readability indexes (FH and BI), and Models A relate to the Fernández-Huerta Index (FH) and Models B to the Inflesz Index (BI). Additionally, Models 1 (A and

B) relate to H1, Models 2 (A and B) to H2, Models 3 (A and B) to H3, and Models 4 and 5 (A and B) to H4.

The results seem to support the preliminary conclusions extracted from bivariate analysis. Indeed, the size of the board (BSIZE) does not seem to significantly increase CSR readability (Models 1A and 1B). Regarding directors' typology and gender, the percentage of independent directors (Models 2A and 2B) and the percentage of female directors (Model 3A and 3B) have no impact on readability indices. Therefore, results do not support the hypotheses related to corporate governance, as we do not find any relationship between board of director characteristics and CSR readability.

Regarding the effect of regulation, in line with bivariate analysis we do not find that the enactment of mandatory disclosure regulation increases CSR readability (Models 4A and 5B). Something similar occurs when looking at the way in which CSR information is reported. Thus, integrated reports are no easier to read than other types of reporting (Models 5A and 5B).

Concerning control variables, LEVERAGE ratio and the degree of compliance with GRI standards (SCOMPL) positively and significantly increase readability indices. This reveals that readability improves when there is compliance with laws and regulations. Results align with the 'obfuscation hypothesis' (Courtis, 1998; Rutherford, 2003; Smeuninx et al., 2016), which states that information is collected and disseminated to be clearly understood only if it brings a positive image to the corporation, rather than for the purposes of being transparent and accountable to stakeholders. Related to this, but with respect to management behavior, authors such as Li (2008) and Loughran and McDonald (2016) mention how managers might increase the complexity of financial reporting (readability) to obfuscate poor performance, irregularities or bad news.

Table 21. Regression models: Influence of corporate governance characteristics, regulation, and type of CSR report on CSR readability.

	Dependent variable: FH					Dependent variable: BI				
Variables	Model 1A	Model 2A	Model 3A	Model 4A	Model 5A	Model 1B	Model 2B	Model 3B	Model 4B	Model 5B
BSIZE	-0.274 (0.544)					-0.218 (0.554)				
BINDE		-0.007 (0.138)					0.009 (0.140)			
BFEM			-0.027 (0.147)					-0.015 (0.149)		
CSRMANDAT				1.28 (1.657)					1.176 (1.666)	
INTREPORT					1.59 (2.737)					1.962 (2.764)
SCOMPL	15.019*** (5.689)	15.003*** (5.767)	15.121*** (5.698)	15.488 *** (5.702)	15.073*** (5.679)	15.820*** (5.757)	15.784*** (5.833)	15.893*** (5.764)	16.257*** (5.772)	15.855*** (5.745)
EBITDA	0.879 (1.299)	0.727 (1.263)	0.777 (1.292)	0.646 (1.233)	0.824 (1.268)	0.906 (1.327)	0.787 (1.292)	0.814 (1.321)	0.700 (1.261)	0.882 (1.296)
ASSETS	-0.598 (0.935)	-0.669 (0.918)	-0.669 (0.922)	-0.634 (0.898)	-0.699 (0.920)	-0.709 (0.956)	-0.767 (0.939)	-0.767 (0.943)	-0.729 (0.918)	-0.796 (0.941)
LEVERAGE	6.088 (6.959)	6.100 (6.930)	6.155 (6.988)	6.163 (6.786)	5.956 (6.932)	5.789 (7.109)	5.804 (7.084)	5.802 (7.142)	5.890 (6.934)	5.667 (7.083)
Cons	52.67** (21.524)	54.248** (21.422)	53.345** (21.708)	54.482*** (20.811)	5.475** (21.389)	49,014** (21.989)	50,349** (21.902)	49,722** (22.190)	50,605** (21.265)	48,538** (21.854)
Annual Effects	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO
Observations	121	121	121	121	121	121	121	121	121	121
Nº of firms	35	35	35	35	35	35	35	35	35	35
Wald chi2	9.81* (0.08)	9.57* (0.08)	9.58* (0.08)	10.26* (0.07)	10.10* (0.07)	10.25* (0.06)	10.11* (0.072)	10.10* (0.073)	10.74* (0.059)	10.64* (0.059)
Hausman test	6.46 (0.26)	7.50 (0.186)	6.22 (0.285)	8.30 (0.14)	5.85 (0.321)	6.80 (0.236)	7.90 (0.162)	6.64 (0.249)	8.66 (0.124)	6.25 (0.282)

Dependent variable is a quantitative value using two measures of readability (FH total and BI Total). SE in brackets. * p < 0.10; ** p < 0.05; *** p < 0.01

Finally, for the purposes of assuring the robustness of the data, we repeated our estimations using pooled OLS instead of the panel data methodology, and results do not change.

5.5. CONCLUSIONS

This research aims to relate corporate governance characteristics – board size, proportion of independent directors and proportion of female directors – with the readability of CSR reports in the Spanish language. This is the first study to consider Spanish readability in CSR reports and corporate governance. The influence of regulation, type of report and compliance are also analysed.

Main conclusions are the following:

Results evidence that considered **corporate governance characteristics** do not affect CSR readability. In this sense, this result is similar as the one obtained by Amran, Lee, and Devi (2014) on a sustainability reporting quality cross-sectional study of 113 Asia-Pacific companies where they highlighted ‘The weak role of the board of directors in upholding the sustainable development agenda through the reporting process’ (p. 217). This could be explained partially by characteristics of the sample firms considered: IBEX35 Spanish listed companies. These are the best firms in terms of liquidity in the Spanish market and are usually positioned very highly in corporate governance rankings. Another potential explanation could be that board directors are not yet concerned about the importance of CSR information, and are therefore unconcerned about CSR readability. This conclusion reinforces the relevance of the role played by managers in the elaboration of CSR reports, and should lead to a reflection on whether or not boards of directors have taken command of their strategy, control and supervision functions where CSR reporting is concerned. CSR readability is not affected by either the **size of the board** or the **proportion of independent directors**. This could be a sign that external directors do not affect the content and information disseminated in CSR reports because they are not involved in their content. Finally, our results do not show the effect of **female directors** on CSR readability. This could be due to the fact that, in Spain, female board directors are usually external directors. Again, they may not be involved with decisions about the content of CSR reporting. Moreover, the low proportion of female directors in the firms studied may also affect this result, which is contrary to previous results (Fernandez Feijoo et al., 2012), although those studies were focused on the quality rather than the readability of CSR reports.

Results show that readability improves when there is compliance with laws and regulations. These results suggests that when companies comply with laws and regulations, they provide more readable explanations than when they don't comply with them. This could justify the need for further explanations when there is non-compliance as this could have an influence on readability. Results are also aligned with the 'obfuscation hypothesis' (Courtis, 1998; Rutherford, 2003; Smeuninx et al., 2016), which states that information is being collected and disseminated to be clearly understood only if it brings a positive image to the corporation, rather than with the aim of being transparent and accountable to stakeholders.

Regarding **laws on the reporting of non-financial information**, as is the case in Spain, these have not contributed towards improving the readability of CSR reports in general, having scored 'somewhat hard' in both indices studied. This conclusion reinforces the role played by stakeholders, since the companies studied were already reporting on CSR, on stakeholder demand, prior to mandatory regulation. Following the legitimacy theory, companies have given stakeholders information on CSR as a means of improving their relations with them, as well as improving the firm's reputation and image. Also, due to the complexity of IBEX35 firms, and following the studies by Guay, Samuels and Taylor (2016), there might have been an increase in voluntary disclosure in order to mitigate the negative impact of financial complexity on their environment. This result shows the great influence of stakeholders. Highlight in particular how large institutional investors are influenced by their clients' request to invest in sustainable companies and how this request reaches out to companies. In addition, this request is amplified through the media and is followed by regulation by public administrations. Also highlight the power of the consumer, as a pressure group with a voice through social networks, which is increasingly aware of sustainable criteria when making purchasing decisions, and is willing to exert influence.

We conclude that there is coherence between this result and the study carried out on the issuance of corporate governance codes by European countries, since these were issued, presumably at the request of investors (the main stakeholders of the moment), being poorly influenced by different European actions and regulations.

Lastly since reporting CSR criteria via **integrated reporting** does not influence readability scores as could have been expected by the apparent and implied increased willingness to provide the sort of clear and holistic information that is associated with integrated reporting, it is concluded that the fact that there is an integrity in the information does not imply that the narrative of the companies will be more readable and, therefore, companies have to attend to criteria other than readability when deciding in which format to report CSR disclosure.

As for **business implications** of this study, boards of directors must assume their responsibility on CSR disclosure, define its broad lines, and supervise and control the implementation. Boards should become more diverse, including directors with CSR knowledge. It is a good opportunity for external directors to specialise in CSR and provide new skills and knowledge to the board.

Therefore, companies must:

- Analyse whether the board of directors is taking the reins of CSR.
- Define CSR strategy, as well as its broad lines, including readability, in addition to supervising and controlling implementation.
- Include CSR issues on the agenda of board of directors' meetings.
- Ask what role management is assuming with regards to CSR, and why.
- Consider training the board of directors on CSR issues.
- Continue listening to stakeholders and anticipating further regulations.
- Use the report format that is considered appropriate, bearing in mind that readability of CSR reports will be unaffected by this decision.

This research succeeds in providing the academic community with the first empirical study that considers the influence of several internal corporate governance characteristics (board size, the proportion of independent directors and the proportion of female directors) on the readability of CSR reports in Spanish language. It also considers how, since 2018, the hard regulation of non-financial information in Spain, and the use of integrated reports, influences CSR readability.

This research suffers some limitations. The first one is related to the low number of firms considered (i.e. IBEX35 firms). These are the 'best in class Spanish listed firms' in terms of transparency, liquidity, etc. Moreover, these firms are more homogeneous than other listed firms. Future studies should consider a large sample of listed firms. Second, since boards became responsible for CSR reporting under law during the last year of our study (2018), it is possible that board characteristics might play a more relevant role as the number of years after its enforcement increases. Third, to see the effect of corporate governance variables on CSR reporting readability, perhaps other corporate governance variables should be considered, for example the type of owner, whether CSR is on the board's agenda, the presence on the board of independent directors with knowledge of CSR, the number of board meetings held, whether the chair is executive or non-executive, if the audit committee supervises CSR reports, if there is a specific CSR committee, etc. Future studies should explore this issue. Finally, our results refer to the Spanish market and to the use of the Spanish language in CSR reports. Similar studies should be done in different institutional frameworks and in other languages to see if there are differences.

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CHAPTER 6. CONCLUSIONS, LIMITATIONS AND FUTURE RESEARCH LINES

6.1. CONCLUSIONS

Even before CSR reporting became mandatory for public interest European companies[8] in 2018, this communication channel had gained in relevance and influence. A wide variety of stakeholders had become interested in the content of CSR reports and called for companies to disclose this information, which they began doing on a voluntary basis. Nowadays, IBEX35 Spanish companies are publishing CSR reports according to regulations and standards, but have not yet fully adapted their communications to new stakeholders.

Due to the wide variety of active stakeholders that are currently interested in company CSR activities, and because these stakeholders use CSR reports as a source of information on this matter, companies must adapt their communication to this new demand and provide them with accessible, transparent and readable reports, whether or not they comply with CSR required standards. Boards of directors is the body of the company responsible for CSR disclosure, and since corporate governance sets the norms for boards of directors' rules and regulations, it is of interest to understand how corporate governance actually influences CSR reporting.

Therefore, the main objective of this thesis is to study whether factors such as compliance with rules and regulations (GRI standards) and corporate governance criteria determine the readability of CSR reports in the Spanish language. To this end, this thesis provides two studies on the readability of 140 CSR reports of IBEX35 Spanish-listed companies, in the period 2015-2018.

To fully understand the studies carried out, this thesis begins by providing a review of the legal context of corporate governance and non-financial information in the EU, looks into the concept of CSR, its evolution and the latest trends, and into the concept of corporate governance through the main theories, codes and challenges, with the following concluding remarks for secondary objectives:

Opening with a review of the **legal context (soft law and hard law)** of corporate governance and non-financial information, the European Union is very aware of corporate governance

[8] Firms under this rule are entities of public interest, companies with 500 employees as average in the year, and companies classified as "big companies" for two years in a row. (Big companies are those that meet two of these criteria: 20 million euros in assets, 40 million euros in annual turnover, and 250 employees on average). It also includes banks and insurance companies, among others.

advantages for preventing scandals and attracting investment as it endeavours to safeguard the particularities of each member state by actively maintaining a robust legal framework to support best governance practices and encourages its member states to do so as well.

By chronological order, firstly inquiring into **soft law** on corporate governance, we come across corporate governance codes. Codes have the purpose of gathering best practices for 'good' corporate governance and become instruments for self-regulation. Since the EU rejected the option of a common code for all European companies, by European Directive 2006/46/EC, it compelled the use of a corporate governance code, either national or otherwise. Results from the study of corporate governance codes issued and reviewed by EU member states from 1992 to 2019 suggest that entities that issue codes are international and national, and the period in which codes were developed is from 1992 to 2013. They also show that the publication of the European Union Action Plan on Modernizing Company Law and Enhancing Corporate Governance in the EU, 2003 and the report by the High-Level Group on Financial Supervision in the EU, 2009, did not directly influence the initiation of code issuing given that the number of codes issued doesn't support this argument since plenty of codes were issued before these publications. Hence, we conclude that the regulatory framework did not influence as much as expected the issuance of codes and that code issuing was possibly motivated by the demands of international investors. Regarding code issuers, they are classified as: International (institutions or transnational, with international institutions such as the OECD and ICGN being the more active in issuing codes), and National (among the national ones, they are classified in terms of whether codes are issued by private or public entities. All countries of the European Union preferred to issue their own code for it to consider cultural and business particularities, as codes issued by international reference entities (for example, OECD or ICGN) are country crosswise. All countries, except one, had reviewed or updated their initial codes by 2019 with one from a variety of issuers. In the EU, 120 corporate governance codes and reviews/updates for listed companies were issued from 1992 to 2019, making for an average of 4.3 codes per country, with Germany and the UK being the countries with more codes issued. The period 2002 to 2010 is the more active, with an average of 7.11 documents issued every year. Concerning issuers of code's reviews and updates, there are those that argue that revisions of codes are mostly made by the entities that first developed the code, and others consider that they have been initiated by the public sector or private sector or have been a mixed initiative, regardless of the code's origin. Codes for unlisted companies and others were also issued.

When it comes to **hard law**, in the EU the key policy developments and key regulatory outputs on corporate governance and non-financial information from 2002 to 2019 were: one proposed directive, fourteen directives, and two amendments to directives. Hence, the EU has also regulated corporate governance by turning into hard law some previous recommendations and setting new mandatory norms.

Due to the pressure from investors and other stakeholders, **non-financial information** was introduced in soft law through corporate governance codes, together with references to the concept of long-term sustainability and to the relevance of the stakeholders' role. Reporting on non-financial information is first ruled by European Directive 2014/95/UE, which applies to large companies in Europe, as of their 2018 reports. But there is still a lot to achieve for non-financial information reporting to better enable analysis and comparison of non-financial information concepts and indices. This is quite a challenge, due to the particularities of metrics across countries and industries.

Concerning soft law, with four codes **Spain** is almost at the average of code issuing in the EU (EU average is 4.3). Its hard law has evolved with the European demands and has widened some of its applications to entities of public interest (EPIs). Regarding non-financial information it was introduced through soft law by 2015's Good Corporate Governance Code. Non-financial information reporting is currently ruled by European Directive 2014/95/UE and its Spanish transposition, Real Decreto-ley 18/2017, applicable since 2018. Most of Spanish IBEX35 companies reported voluntarily on non-financial information before it was introduced. The most frequently used standard for IBEX35 companies in Spain is GRI.

When looking into the **concept of CSR**, we find that CSR is currently one of the biggest concerns for boards of directors because of its relevance to companies' strategic definition and the lack of a clear understanding of what is really required of them.

Since CSR comes to unite the interests of different actors that surround a company, as well as the company itself, many of the most relevant management theories have come together around this complex concept, with stakeholder theory being one of the most influential. The **influence of stakeholders** has been the determining factor for the relevance that CSR has acquired. Furthermore, the involvement of stakeholders in strategies and operations has contributed to the integration of sustainability into corporate strategy and has also contributed to preventing destructive economic decisions and social imbalances. Hence, the legislation surrounding the disclosure of information through CSR reporting has taken this information one step further by elevating it to the level of financial and corporate governance information.

After studying **CSR as a term**, we conclude that there is no single definition of CSR. It is also observed that, since the concept has evolved over the past 50 years, new terms such as non-financial information, corporate citizenship and sustainability have arisen and are used interchangeably. These new terms emphasize some dimensions of CSR or underline the point of view of the company or some stakeholders, while creating confusion about the concept and contributing to difficult empirical studies. Based on its evolution, and considering it is a very wide concept, the scope of which is still being defined, it seems reasonable for CSR to continue evolving, even though there is a demand for, even an expectation of, a consensus on the main issues represented by the concept. For that matter, further legislation could contribute to clarifying the boundaries of the term.

When it comes to **standards of CSR reporting**, the wide variety of frameworks allowed by regulation as a basis for reporting is causing some confusion. Nonetheless, there are some standards, such as the GRI standards, that stand out from the rest in Europe and are widely used by European companies. Currently, the call for action is focused on the demand by stakeholders, mostly investors, for a common guideline or framework with unambiguous criteria as a reference for international reporting. This demand is very difficult to meet, since stakeholders, sectors, companies, cultures and governments may differ in their claims and in the way they are interpreted and reproduced. Therefore, different institutions, such as the International Organization of Securities Commissions (IOSCO), a global regulatory body, are addressing this issue, with the purpose of harmonising rules and frameworks.

Concerning **CSR reporting evolution**, CSR or sustainability reports have been used by companies previously on a voluntary basis (soft law), and now as mandatory (hard law), to provide transparency on non-financial information topics of great interest to stakeholders. As a matter of fact, the involvement of stakeholders in strategies and operations has contributed to the integration of sustainability into corporate strategy and has also contributed to preventing destructive economic decisions and social imbalances. Since the 1960s indicators of CSR reporting have evolved from human resources tools to standardised international systems as the demanding source evolve from employees to shareholders/investors and, currently, to stakeholders. Next step would be to improve standard's indicators to allow for cross company comparisons. If, until the 1990s, CSR reports were usually an independent piece of information, in the 2000s the use of integrated reporting on non-financial initiatives became more frequent.

With reference to the **role of auditors**, this will probably become more relevant over time and could even be further legislated on, since there will be a need not only to assess whether information is given, but also to verify its truthfulness. Furthermore, some companies are going one step ahead of the regulations on auditing in CSR by auditing truthfulness of the data provided as a way to standout before investors and stakeholders. Additionally, ESG ratings' supervisory practices and policies will be further scrutinised and it will be increasingly valued to go one step ahead of the regulations on auditing in CSR.

Concerning **positive CSR outcomes**, there are plenty of academic studies that demonstrate how companies that engage in CSR activities are recompensed by stakeholders from a marketing point of view, from an employee point of view and, as a consequence, from a business performance point of view, among others. But these positive outcomes, together with corporate scandals, have triggered insinuations of 'greenwashing', hence consistency has become relevant for CSR disclosure, and a holistic approach to CSR, led by the board of directors and embedded in the company culture, has become crucial for companies' legitimacy and credibility in the eyes of stakeholders. That is why CSR is currently one of the biggest concerns for boards of directors, due to its relevance to a company's strategic definition and to the lack of clear knowledge about what is really demanded from them. A company's CSR strategic approach should become an essential part of the company culture and should be reflected in all its actions.

When looking into the concept of **corporate governance**, even though there is a great variety of theories that have influenced corporate governance, agency theory is among those that have had the most influence. Within this theory, the concept of shareholders as the only important principal has been greatly defied by the concept of the corporation as a principal. This concept argues that when shareholders acquire shares, they own those shares and the voting right at the general assembly, but they do not own the company and should not enjoy primacy over other, non-investor stakeholders. As a result, directors appointed by shareholders must, in the decisions they make, ensure company interests, and not the interests of the shareholders that appointed them. On the other hand, we might find that the interests of directors are not always aligned with the interests of management (Heracleous & Lan, 2012) and board's monitory function becomes essential. There are many studies on how control mechanisms could solve this matter. Some scholars have classified the control mechanisms as 'internal' if they apply to tools that can be internally defined by the company – e.g. long-term company perspective from the board, predominant role to all stakeholders and culture alignment – and 'external' if they are part of the ecosystem in which the company performs, e.g. non-investor stakeholders such as the media, society and millennials, as futures executives, investors and clients (Gutierrez & Surroca, 2014).

Institutional theory and the jurisprudence tradition have also influenced corporate governance. How soft law is applied by companies is one of the greatest challenges to corporate governance since companies look to compliance as a purpose, when the purpose is to apply and internalise corporate governance in the organisation. This is one of the reasons why soft law is moving from a ‘comply or explain’ approach towards an ‘apply and explain’ approach, whereby companies must apply and also explain how and why the application has been performed.

Another debate on this issue is the **hard law vs soft law conflict**; finding the right blend between them; which of them is more effective in the application of good corporate governance practices; and which is more likely to achieve a natural and in-depth transformation of the company towards corporate governance standards.

Regarding **control mechanisms**, we point to how new corporate governance codes come to challenge classic mechanisms of internal and external control by including the company culture, supervision and internal control, as well as the functions of the board of directors as internal functions, interest groups being external. Among them there are non-investor stakeholders such as the media, society and millennials—as futures executives, investors and clients—The sensitivity of the media, millennials and society on how companies behave has significantly increased. This, coupled with the communication means that these non-investor stakeholders currently have, makes for a control mechanism to be seriously considered.

Finally, there are still many **challenges and trends** ahead for corporate governance, among which we emphasize: the trend to provide corporate governance principles for unlisted companies, consolidated with the 2018 UK Wates Principles. How corporate governance is increasing its scope and complexity, for example, by including non-financial information in its scope. It is also relevant to highlight the trend from "comply or explain" to "apply and explain", as well as the focus on company long-term contribution, sustainability and transparency. About legislative issues, the transition from recommendations to compliance is a trend, and from the point of view of the stakeholders, it is observed how companies transition from giving relevance, almost exclusively, to investors and shareholders, to considering other stakeholders.

Moving forward to the specific **theoretical context regarding CSR disclosure**, we find **stakeholder theory** considers that for disclosure to be effective, stakeholders must give credibility to the disclosed information and it must be quality information (Gray, 2000; Martínez-Ferrero et al., 2015; Odriozola & Baraibar-Diez, 2017). Also, **legitimacy theory** states that if society considers a company is legitimate by being socially and environmentally responsible (Gray et al., 1995; Reverte, 2009; Odriozola & Baraibar-Diez, 2017; Wang et al., 2018), it will be able to exist and use community resources (Chan et al., 2014; Holder-Webb et al., 2009). Lastly, there are different views on reporting within **agency theory** and how it has become a powerful tool in the hands of management for influencing stakeholder opinion.

Different unrecommended CSR disclosure practices that derive from these theories include being more willing to disclose information when performance is good and suppressing bad information (Clarkson et al., 2008; Mermod & Idowu, 2013; Wang et al., 2018), or reporting only when there is pressure (Bewley & Li, 2000; Wang et al., 2018). This manipulation might occur depending on whether or not the company complies with the legislation or reference standards, being able to facilitate reading when there is compliance and doing the opposite when there is not. Other studies suggest that managers might apply communication tactics, such as concealing failures and enhancing successes (Arena et al., 2015) (IM hypothesis), to influence share prices to their advantage, as the market is not able to assess short-term reporting (Clatworthy & Jones, 2001).

Positive disclosure practices have also been identified since, to maintain their legitimacy and its positive effects, managers will need to disclose their efforts and achievements to social agents and will be motivated to do it (Wang et al., 2018). For this purpose, they will use an effective communication channel such as CSR reporting (Chan et al., 2014; Dyllick & Hockerts, 2002; Wheeler & Elkington, 2001). Also, some scholars suggest that managers are not economically incentivised towards opportunistic reporting since the market might identify it and punish the company with share-price reduction (Clarkson et al., 2008). Furthermore, managers might use CSR narrative for reports as a communication tool to provide relevant information and reduce information asymmetries between the company and the different stakeholders (Arena et al., 2015; Brown & Hillegeist, 2007; Clarkson et al., 2008; Martínez-Ferrero et al., 2015; Odriozola & Baraibar-Diez, 2017; Reverte, 2012; Verrecchia, 1983).

Within CSR reporting, **readability** is one of the tools used to manipulate disclosure, either by writing reports that are easier to read or more difficult. This last practice, whereby a report has lower readability and increased complexity as it increases the cost of processing information, is used by managers to obfuscate poor performance, bad news, etc. This is what some scholars call the ‘obfuscation hypothesis’ (Courtis, 1998; Rutherford, 2003; Smeuninx et al., 2016), and, as seen, could be determined by a company’s performance which, in the case of CSR reporting, is measured by its compliance with standards. The study done in this thesis, on the readability of 140 CSR reports of IBEX35 Spanish-listed companies in the period 2015-

2018, comes to support the 'obfuscation hypothesis' since the readability average of both indices studied (Fernandez-Huerta and Inflesz) falls into the 'somewhat hard' level on the readability scale.

When we look into **readability and corporate governance**, it can be found that, since CSR disclosure is a responsibility of the board of directors, and therefore ruled by corporate governance, there is prior empirical evidence considering the relation between board size, independence, and female presence on boards, with transparency and accountability practices in the company (Amran et al., 2014; Kolk, 2008; Tamimi & Sebastianelli, 2017).

Furthermore, **CSR reporting** has been recently **ruled** by law for public interest EU companies[9] of, with companies permitted to report on CSR either within **the management report or with a separate piece**, as long as it includes the content that is required by law (RD 18/2017, de 24 Nov). These two matters might influence the readability of CSR reports.

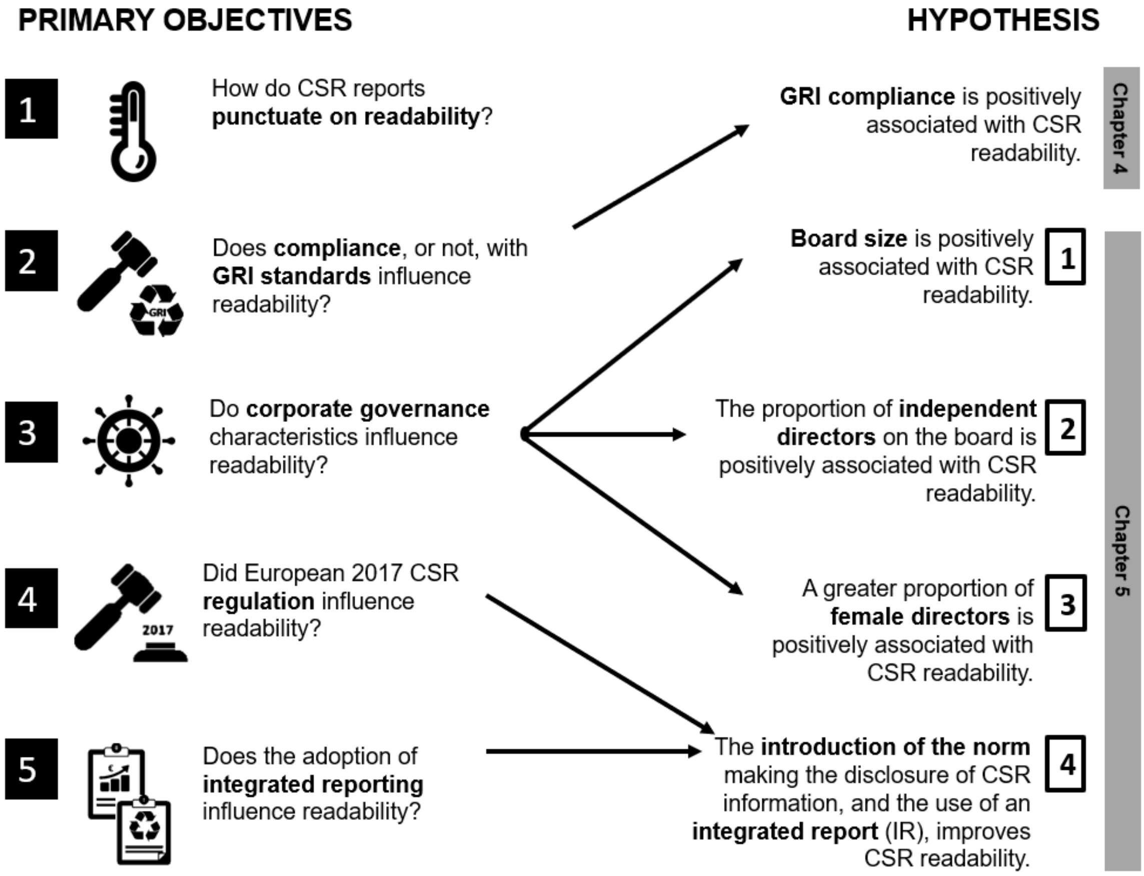
This thesis further studies the readability of CSR narrative texts through CSR reporting in Spanish. Following there is a summary of hypothesis and results of the two studies done.

6.1.1. Summary of hypothesis and results associated to primary objectives

There follows a brief description of the **hypothesis and results** of the studies within this thesis starting with an infographic that summarises the relation between primary objectives and hypotheses on figure 9.

[9] Firms under this rule are entities of public interest, companies with 500 employees as average in the year, and companies classified as "big companies" for two years in a row. (Big companies are those that meet two of these criteria: 20 million euros in assets, 40 million euros in annual turnover, and 250 employees on average). It also includes banks and insurance companies, among others.

Figure 9. Infographic summary of the relation between primary objectives and study hypotheses.



Source: By author, using icons retrieved from the web page Freepng.es

On the **first study** (Chapter 4), results show that the **average readability** of both indexes studied (Fernández-Huerta and Inflesz) falls at a **"somewhat hard"** level on the readability measurement scale, therefore, at a pre-university level, above the normal readability level for an adult. Regarding the hypothesis on **regulatory compliance with GRI standards and how it is positively associated with readability** based on the theorical framework on how legitimacy theory is an appropriate theory by which to document the relevance of CSR reporting that details companies' compliance with laws and regulations, in the search for social legitimacy, and after looking at how stakeholder theory and agency theory are appropriate theories by which to document the relevance of readability as a manipulation tool in CSR narrative text disclosures. Results obtained on the analysed sample lead us to **accept the proposed hypothesis**. The regression results show how regulatory compliance (GRI) is positively associated with the studied indices of (Fernandez-Huerta and Inflesz) with an association between compliance and readability, since high rates of readability are associated with high compliance and vice versa, as was stated in our hypothesis. This is supported by the findings of Wang, Hsiech and Sarkis (2018), who stated that readability could be used to obfuscate CSR reports' narrative texts.

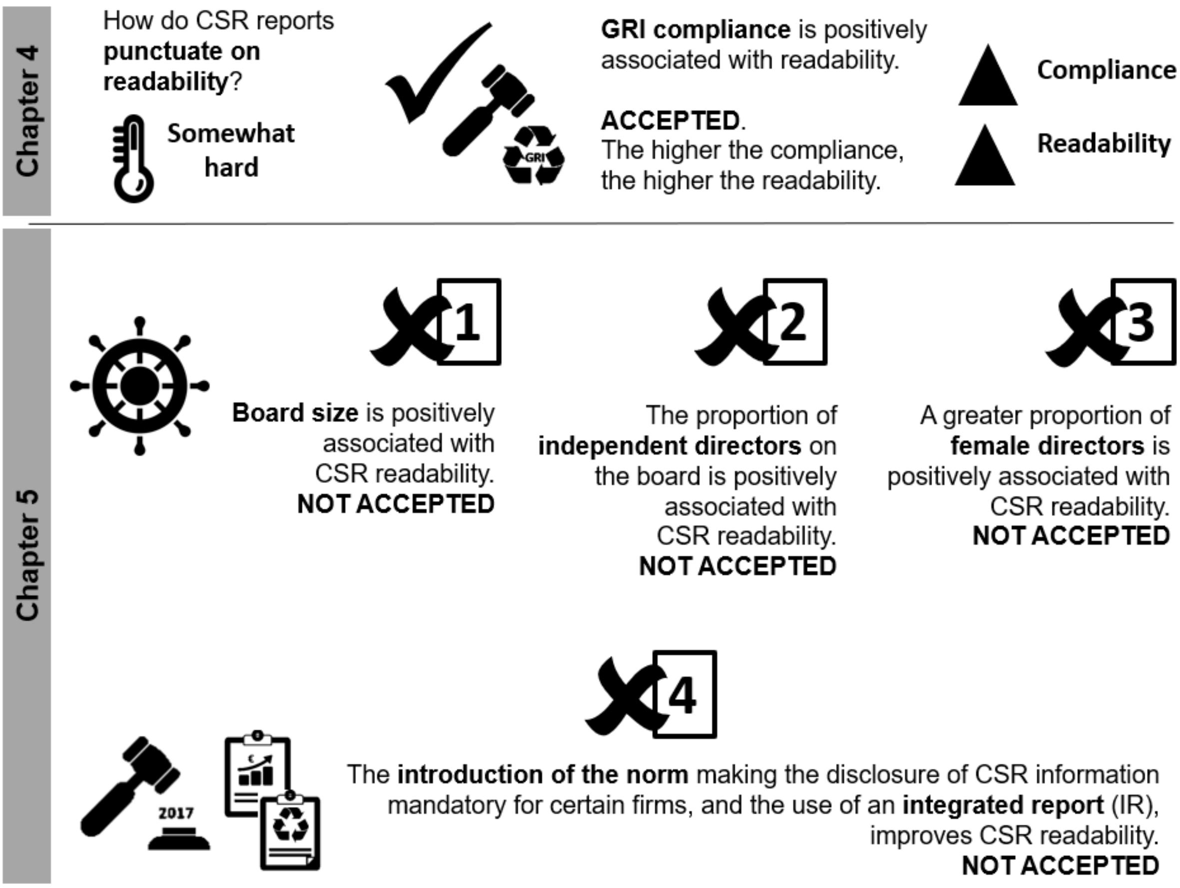
The **second study** (Chapter 5) on the effect over CSR readability of corporate governance, the introduction of the norm on non-financial information and integrated reporting, suggest the following results:

Since **corporate governance** is widening in its scope, this study looks further into the relationship between certain characteristics of corporate governance and CSR readability. These characteristics are board size, proportion of independent directors, and proportion of female directors. The **size of the board** is a crucial variable in corporate governance. Previous studies on board size suggest that large boards have a wider diversity of experience and skills, which contributes to a better and more transparent CSR disclosure and might improve CSR readability. Results contradict previous studies and do not support positive relationships between CSR readability and board size. This hypothesis **is not accepted.** Regarding **independent directors**, studies on board independence and transparency have suggested a positive association between voluntary disclosure and board independence as well as a negative relationship between voluntary disclosure and the number of outsider directors on the board. The results do not support positive relationships between CSR readability and the number of independent directors. As a consequence, this hypothesis **is not accepted**. This is supported by the findings of Eng and Mak (2003) and Gul and Leung (2004). Concerning **female presence on boards**, it seems that a higher proportion of women on boards will increase CSR reporting quality and, therefore, readability. The results do not support positive relationships between CSR readability and the number of female directors. This is supported by the findings of Amran, Lee and Devi (2014), which didn't find any consistent relation between gender diversity and CSR reporting quality. This hypothesis **is no accepted.** These results on corporate governance are similar to the one obtained by Amran, Lee and Devi (2014) on a sustainability reporting quality cross-sectional study of 113 Asia-Pacific companies where they highlighted 'The weak role of the board of directors in upholding the sustainable development agenda through the reporting process' (p. 217). Also they could be explained partially by the characteristics of the companies considered in the sample: IBEX35.

Lastly, the effect of laws on non-financial information on CSR readability, as well as whether or not the adoption of integrated reporting influences on CSR readability, has also been studied. CSR information (non-financial information, as named in law) reporting is ruled by Directive 2014/95/EU. Furthermore, in Spain, the object of our study, CSR reporting has been ruled as mandatory by law 18/2017 (24 November 2017) for all companies with certain characteristics since 2018. We will consider whether there are differences in the readability of CSR reports **before and after the change of the norm**. Results suggest that this variable studied has not contributed to improving the readability of CSR reports in general. Companies studied were already reporting on CSR prior to mandatory regulation. This hypothesis **is not accepted.** Current law allows companies to report on CSR either within the management report or with a separate piece, as long as it includes the content that is required by law (RD 18/2017, de 24 Nov). **Integrated reporting** represents the convergence of the CSR report and the financial report into a single narrative. We expect companies reporting CSR criteria through integrated reporting to score better on readability, because these companies are making an effort to improve the quality of their reporting. Evidence shows that the use of integrated reports does not influence on readability scores as could have been expected by the apparent willingness to provide clear and holistic information that is associated with integrated reporting. This hypothesis **is not accepted.**

A summary of these empirical results can be found in the infographic in Figure 10.

Figure 10. Infographic summary of the empirical results found ordered by hypothesis



Source: By author, using icons retrieved from the web page Freepng.es

6.1.2. Conclusions for primary objectives

Since the study of 140 CSR reports of IBEX35 Spanish-listed companies in the period 2015-2018 suggests that the readability average of both indices studied (Fernandez-Huerta and Inflesz) fall into the 'somewhat hard' **level in the readability scale**, that is, to a pre-university level, above the normal reading level of an adult, it is concluded that the narrative of the CSR reports of Spanish IBEX companies is not yet adapted to the wide variety of stakeholders that currently consult CSR reports. Since stakeholders have taken the lead in demanding CSR transparency, engagement with them has become more important than ever and companies should make an effort to communicate in a simple manner, stimulated by regulators. They should keep in mind that their target audience might not now be a specialized one and they should simplify the readability of their CSR reports so that they may be understood by their varied receptors, which could include everyone from clients and society to investors, media or others.

Regarding the relationship between **compliance with GRI standards** and the readability of CSR reports, results on both indices suggests an association between compliance and readability: high rates of readability are associated with high compliance, and vice versa. From this result, it can be concluded that it is positive to comply with GRI standards since compliance contributes to an easier reading narrative and, therefore, allows the CSR reports to be understandable to a greater number of stakeholders. However, non-compliance with non-financial reporting standards is associated with the use of readability as a tool to obfuscate the narrative texts of CSR reports or as information overload, complexity and greenwashing, consequently, could affect a company's reputation and its legitimacy. This result could be influenced by the use of longer explanations that are often required in non-compliance.

There is much to improve on CSR disclosure readability for IBEX35 Spanish firms. A more precise and standard reporting methodology could contribute to this approach, as well as a systematic and detailed audit review. The roles of regulators, stakeholders, assurance providers and companies are key in this process.

This study contributes to communication and sustainability' literature with research on readability using the Spanish language. It provides companies and regulators with empirical results on how difficult CSR disclosure narrative texts are and how there is room for improvement in this communication area. Finally, it suggests a need to be alert when it comes to CSR reports that are difficult to understand, since it could indicate a lack of compliance.

Concerning whether or not the Spanish-language narrative texts in CSR reports of the largest listed companies in Spain are influenced by **corporate governance characteristics**, results suggest that they do not affect CSR readability. This could be partially explained by characteristics of the sample firms considered: IBEX35 Spanish-listed companies. These are the best firms in terms of liquidity in the Spanish market and are usually positioned very highly in corporate governance rankings. Another potential explanation could be that board directors are not yet concerned about the importance of CSR information, and are therefore unconcerned about CSR readability. This conclusion reinforces the relevance of the role played by managers in the elaboration of CSR reports, and should lead to a reflection on whether or not boards of directors have taken command of their strategy, control and supervision functions where CSR reporting is concerned. The fact that the **size of the board** is not influencing CSR readability could mean that it is an issue that is not on the board's agenda and therefore not addressed in meetings. CSR readability is not affected by the proportion of **independent directors**. This could be a sign that external directors do not affect the strategy for content and information disseminated in CSR reports because they are not involved, nor supervise, its elaboration. Finally, our results show there is no effect of female directors on CSR readability. This could be due to the fact that, in Spain, **female board directors** are usually external directors. Again, they may not be involved with decisions about the content of CSR reporting. Moreover, the low proportion of female directors in the firms studied may also affect this result, which is contrary to previous results, although those studies were focused on the quality rather than the readability of CSR reports (Fernandez Feijoo et al., 2012).

Regarding the **introduction of laws** on the reporting of non-financial information by 2017, as is the case in Spain, this has not contributed towards improving the readability of CSR reports in general, those having scored ‘somewhat hard’ in both indices studied. This result reinforces the role played by stakeholders, since the companies studied were already reporting on CSR, at stakeholder demand, prior to mandatory regulation. Following the legitimacy theory, companies have given stakeholders information on CSR as a means of improving their relations with them, as well as improving the firm's reputation and image. Also, due to the complexity of IBEX35 firms, and following the studies by Guay, Samuels and Taylor (2016), there might have been an increase in voluntary disclosure in order to mitigate the negative impact of financial complexity on their environment. This result shows the great influence of stakeholders. Highlight in particular how large institutional investors are influenced by their clients' request to invest in sustainable companies and how this request reaches out to companies. In addition, this request is amplified through the media and is followed by regulation by public administrations. Also highlight the power of the consumer, as a pressure group with a voice through social networks, which is increasingly aware of sustainable criteria when making purchasing decisions, and is willing to exert influence.

We conclude that there is coherence between this result and the study carried out on the issuance of corporate governance codes by European countries, since these were issued, presumably at the request of investors (the main stakeholders of the moment), being poorly influenced by different European actions and regulations.

Lastly since reporting CSR criteria via **integrated reporting** does not influence readability scores as could have been expected by the apparent and implied increased willingness to provide the sort of clear and holistic information that is associated with integrated reporting, it is concluded that the fact that there is an integrity in the information does not imply that the narrative of the companies will be more readable and, therefore, companies have to attend to criteria other than readability when deciding in which format to report CSR disclosure.

These studies contribute to the knowledge about communication, CSR and corporate governance with an investigation on readability in the Spanish language. It provides companies, regulators and stakeholders with empirical results on the readability of the narrative texts of CSR reports and the possibilities for improvement in this area of communication. This research provides the first empirical study that considers the influence of compliance with GRI standards on the readability of CSR reports and the first empirical study that considers the influence of various internal corporate governance characteristics (size of the board of directors, proportion of independent directors, and proportion of female directors) on the readability of CSR reports in Spanish. It also considers the degree of influence of regulation on non-financial information in Spain, and the use of integrated reports.

6.2. IMPLICATIONS FOR COMPANIES

The following implications for companies arise from this thesis:

Companies should make an effort to communicate in a simpler manner and regulators should stimulate this, given that companies' target audience might no longer be a specialised one and could include interest groups with different reading levels, among which can be found everyone from clients and society to investors, media or others.

Complying with CSR standards contributes to better readability of reports and, therefore, to better communication with stakeholders. Also, a proactive stand and clear CSR communication should be the rule even when there is non-compliance, since to do otherwise can be interpreted as information overload and 'greenwashing' and could, consequently, affect a company's reputation and legitimacy.

Boards of directors must assume their responsibility on CSR disclosure, define its broad lines, and supervise and control the implementation. Boards should become more diverse, including directors with CSR knowledge. It is a good opportunity for external directors to specialise in CSR and provide new skills and knowledge to the board.

Therefore, companies must:

- Write the narrative of CSR reports with a lower level of readability than is currently used, so that it is accessible to all stakeholders.
- Comply with GRI standards to reinforce the legibility of texts.
- In the event of non-compliance, maintain a level of readability that makes reports accessible to all stakeholders.
- Periodically review the level of legibility of narrative texts used in CSR reports and other corporate reports.
- Consider going one step further than the regulation on CSR auditing, to gain stakeholders' trust and improve reputation.
- Analyse whether the board of directors is taking the reins of CSR.
- Define CSR strategy, as well as its broad lines, including readability, in addition to supervising and controlling implementation.
- Include CSR issues on the agenda of board of directors' meetings.
- Ask what role management is assuming with regards to CSR, and why.
- Consider training the board of directors on CSR issues.
- Continue listening to stakeholders and anticipating further regulations.
- Use the report format that is considered appropriate, bearing in mind that readability of CSR reports will be unaffected by this decision.

Overall, there is much to improve on sustainability disclosure readability through CSR reports by IBEX35 Spanish firms. Boards must take the lead and define the tone from the top on CSR issues. Also, a more precise and standard reporting methodology could contribute to this approach, as well as a systematic and detailed audit review. The roles of regulators, stakeholders, assurance providers and companies are key to this process.

6.3. ACADEMIC CONTRIBUTIONS

Regarding the academic contributions of this thesis, while empirical studies about readability are in most cases related to the English language, to the best of our knowledge no studies have been done on the readability of CSR report narrative texts in the Spanish language. In addition, the object studied to measure companies' readability differs. While previous studies have considered chairman statements, letters to stakeholders and annual reports (Moreno & Casasola, 2016), fewer are focused on CSR information (Abu Bakar & Ameer, 2011; Roman et al., 2019) as divulged in integrated reports or CSR reports. Furthermore, and to our knowledge, no study has considered compliance with GRI standards and corporate governance characteristics as determinants of complexity. In most cases, CSR readability is associated with company performance (Abu Bakar & Ameer, 2011). Only the article from Amran, Lee and Devi (2014) considers the role of the board of directors in the quality of the CSR report (but not readability). We also consider the effect of regulation on readability, as well as the use of integrated reporting and its relation to readability. Therefore, there is a clear study gap that is completed with this study.

6.4. FUTURE RESEARCH LINES

Future research lines include:

With regards to **CSR academic research**, there are many fields to explore in the future. For example, a thorough study on current CSR standards could contribute to the difficult task of providing a common CSR standard. Also, a proposal of a CSR definition based on academic research could set the groundwork for a definition consensus. Other areas of research could be: how to improve company-investor dialogue; how to absorb CSR into company culture; identifying the limitations to CSR standard application because of sector, cultural or country contexts; the involvement of the board in CSR success and reporting; stakeholders' understanding of CSR reports; CSR risks; or results of different CSR strategies, among many others.

Other fields of investigation **on CSR report readability** could be to study compliance and readability of other GRI indices, to investigate a larger sample of listed and unlisted companies in Spain, as well as in other countries that report using the Spanish language, or to compare results with those of other European countries. Also, doing a further comparison between English and Spanish could be of interest, as could investigations into readability and quality of information, disclosure or auditing. Similar studies could also be conducted in different institutional frameworks and in other languages to see if there are differences. Moreover, to consider the effect of performance would be desired.

Future research studies **on corporate governance and CSR report readability** could be related to multi-country studies and they should consider a large sample of listed firms. Such studies could explore other corporate governance variables, for example, the type of owner, whether CSR is on the board's agenda, the presence on the board of independent directors with knowledge of CSR, the number of board meetings held, whether the chair is executive or non-executive, if the audit committee supervises CSR reports, if there is a specific CSR committee, etc.,

6.5. RESEARCH LIMITATIONS

This research has the following limitations: Since there are no other references of sustainability studies in Spanish, the results have been compared with English readability studies. Also, the readability indices used have restrictions when the narrative text is too short. In these cases, the results were not considered. Also, there were companies that considered that some of the GRI indicators used in this investigation didn't apply to them because of the type of activity they performed. In these cases, the results were not considered. Other limitations include: The low number of firms considered – IBEX35 firms. These are the 'best in the class' Spanish listed firms in terms of transparency, liquidity, etc. Moreover, this set of firms is more homogeneous than the rest of listed firms. In terms of limitations on the corporate governance research, since boards became responsible for CSR reporting under law during the last year of our study (2018), it is possible that board characteristics might gain a more relevant role as the number of years following its enforcement increases. Also, in order to see the effect of corporate governance variables on CSR reporting readability, other corporate governance variables should be considered, e.g. the type of owner, the position of board members on committees, number of board meetings, etc. Regarding corporate governance codes' adoption and issuers, in some cases sources differ on the adoption year or issuer of certain codes. The data gathered for 2019 is that which was available until June of that year.

6.6. REFERENCES

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