

SOCIAL DISCLOSURE OF BRAZILIAN AND UK FIRMS IN LIGHT OF STAKEHOLDER THEORY, LEGITIMACY THEORY AND VOLUNTARY DISCLOSURE THEORY

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Abstract: The objective of this study was to investigate the main characteristics of social information disclosure and attempt to explain the results in light of Stakeholder Theory, Legitimacy Theory and Voluntary Disclosure Theory. Our sample consisted of the top 30 Brazilian firms and top 30 UK firms listed on the stock exchange of each country according to Forbes' global ranking of the 2000 largest firms in the world in 2008, year when the study was initiated. The study was exploratory and based on information collected from annual accounting statements and social reports related to the fiscal year ended on 31/12/2010, available after the second half of 2011. Data were submitted to content analysis using as categories and subcategories of analysis the indicators of Corporate Responsibility recommended in the United Nations Guidance published in 2008. The indicators most frequently disclosed by both Brazilian and UK firms were "total revenues" and "payments to government", explained by Stakeholder Theory and Legitimacy Theory. The second and third indicators more frequently disclosed by firms in both countries were "voluntary contributions to civil society" and "total new investments" and it may be justified by the three theories above and attributed to the influence of the stakeholders to whom the information is destined. The least frequently disclosed indicators were "local purchasing", explained by the Stakeholders Theory and "number of convictions for violations of corruption-related laws or regulations and amount of fines paid/payable", explained by the Voluntary Disclosure Theory. Brazilian and UK firms were found to have relatively similar disclosure patterns. The study constitutes a contribution to the literature on the phenomenon of social information disclosure in light of Stakeholder Theory, Legitimacy Theory and Voluntary Disclosure Theory. It also innovates by comparing company information on CSR against a concise UN-developed model of social indicators.

Keywords: Social disclosure. Stakeholder Theory. Legitimacy Theory. Voluntary Disclosure Theory. Brazilian and UK firms.

1 INTRODUCTION

The demand for social information has increased in step with the growth of the corporate social responsibility (CSR) movement. In addition to developing socially responsible actions, organizations are disclosing social information in their

accounting statements, social reports, websites and other documents and media. This body of information has been the object of a wide range of academic studies.

In general, organizations are not obliged to adopt or disclose CSR practices, though many choose to do so. What motivates organizations to adopt CSR practices? Why do competitors follow suit and engage in similar practices? What kind of information is disclosed? How much is disclosed? Answers to these questions are not easy to find and depend on perspective, focus and contextualization.

CSR is doubtless a popular subject among researchers. Nevertheless, few studies have focused on the reasons_why firms adopt and disclose CSR practices and the implications thereof. At first sight, firms may appear to disclose social information simply to improve financial results and/or maximize share prices on the capital market. However, as shown by our review of the literature, the subject is much more complex than that and cannot be understood merely from a quantitative point of view.

In this study, we attempt to answer the question: What are the possible explanations for social information disclosure by Brazilian and UK public firms in light of Stakeholder Theory, Legitimacy Theory and Voluntary Disclosure Theory? In other words, the overall purpose of the study was to investigate the main characteristics of social information disclosure by the top 30 Brazilian firms and top 30 UK firms listed on the stock exchange of each country (according to Forbes' global ranking of the 2000 largest firms in the world by sales, earnings, equity and market value), using as benchmark the UN Guidance on Corporate Responsibility Indicators in Annual Reports (UNITED NATIONS, 2008), and then attempt to explain the observed disclosure patterns in light of Stakeholder Theory, Legitimacy Theory and Voluntary Disclosure Theory.

The choice of Brazilian and UK firms for the sample is justified by the prominent position of Brazil in the world economy (the country is one of the 15 largest economies in the world) and by the long tradition in the UK of innovation in social and environmental practices, especially with regard to both voluntary and mandatory information disclosure. The UK was the first country to make VAS publication compulsory (though later revoked) and is currently supporting "The Prince's Accounting for Sustainability Project" (A4S) with the purpose of creating a global

structure for accounting and sustainability in which social and environmental information plays an essential role (International Integrated Reporting Committee).

The study contributes to the advance of published research about the disclosure by Brazilian and foreign companies of the indicators of corporate governance recommended by the UN (DE LUCA; MOURA; NASCIMENTO, 2012; OLIVEIRA; DE LUCA; PONTE; PONTES JÚNIOR, 2009; OLIVEIRA; ARAÚJO JÚNIOR; PONTE; OLIVEIRA, 2012; PONTES JÚNIOR; OLIVEIRA; OLIVEIRA, 2013; OLIVEIRA; ARAÚJO JÚNIOR; PONTE; RIBEIRO, 2013).

The present study constitutes a relevant contribution to the literature on the phenomenon of social information disclosure in light of Stakeholder Theory, Legitimacy Theory and Voluntary Disclosure Theory. It also innovates by comparing company information on CSR against a concise UN-developed model of social indicators based on the GRI model, ILO guidelines and IASB accounting standards.

2 THEORETICAL FRAMEWORK

2.1 Stakeholder Attributes and their Influence on Social Information Disclosure

Stakeholder Theory is based on concepts of social contract, legitimacy and ethics. According to Social Contract Theory, a social contract exists between society and organizations in general with implicit and explicit terms to be observed by the latter. The terms reflect the expectations of society in relation to each organization. However, expectations change over time and, according to Alam (2006, p. 209), an important function of company management is to monitor for changes in expectations in order to make appropriate adjustments to company operations and disclosure of activities.

In the perspective of Stakeholder Theory, Social Contract Theory provides parameters with which stakeholder groups and their expectations may be identified in relation to the organizations in which they hold stakes.

Since different stakeholder groups have different expectations, firms must meet information demands in different ways. In addition, due to their peculiar characteristics, stakeholders may exercise varying levels of power and influence on organizations.

Stakeholder Theory is not a uniform construct, but features branches and subdivisions expressing different views. Alam (2006) described two major rival currents within Stakeholder Theory: the instrumental and the normative. The instrumental approach is opposed to Classic Theory. While the latter sees the firm as the property of shareholders and claims this model is the best for allocating resources and increasing efficiency, the former sees the organization as a constellation of stakeholders working together to generate a synergy favoring operational efficiency and productivity. The stakeholder perspective helps understand how different groups of stakeholders can contribute to the success of the organization.

In contrast, advocates of the normative approach believe stakeholders should be contemplated regardless of how this will impact earnings, productivity and so forth. As a matter of justice, management should take into account the interest of any group of stakeholders affected by company decisions. It is a question of doing what is just, considering the theoretical definition of an organization operating in society and fulfilling its social function. In other words, the interests of stakeholders should be considered by organizational decision makers, not for the sake of operational efficiency and economic results, but because it is the right thing to do.

Stakeholder Theory comprises several models designed to answer questions such as: Who are the stakeholders? How to classify them? How to manage them? (FREEMAN, 1984) The models vary in amplitude: some are merely concerned with identifying stakeholders, others go further and classify them, determine their level of priority and propose how to manage them.

According to Mainardes, Alves and Raposo (2011, p.230), the manager must to identify the stakeholders, understand their needs and establish a relationship with them.

It can be very difficult for an organization to recognize actors or groups of stakeholders that directly or indirectly affect or are affected by its activities and to plan and carry out strategies corresponding to the expectations of actual or potential stakeholders. In view of this problem and based on the definitions of stakeholder --- from the most comprehensive, such as “any individual or group affecting or affected by the attainment of company objectives” (FREEMAN, 1984), to the most restrictive, such as “individuals or small groups with power to manage, negotiate or change the

strategic future of the organization” (EDEN; ACKERMAN, 1998 apud BRYSON, 2003, p. 4) --- and their implications on the ability of the company to recognize stakeholder groups of concern, Mitchell, Agle and Wood (1997) proposed a model which can identify such groups and suggested how to manage them in a pragmatic way.

According to Mitchell *et al* (1997), stakeholders are internal and external actors directly or indirectly affecting or affected by the activities of an organization. In addition, stakeholders must possess at least one of three attributes: power, legitimacy and urgency. In the absence of these attributes, the individual or group loses the ability to affect or be affected by the organization and therefore ceases to be a stakeholder. However, as pointed out by Martins and Fontes Filho (1999), the three attributes should be analyzed against the characteristics of each organization, reflecting the relative importance conferred to different types of resources. For example, organizations more or less dependent on financial resources are highly susceptible to the actions of capital holders, such as banks, whereas organizations whose performance is strongly tied up with their image need to be particularly concerned with actors capable of influencing public opinion, such as the media. On the other hand, organizations liable to break certain regulations are vulnerable to the coercive power of the State. Based on these differences, Tilt (1994) developed an approach to analyze the relation between stakeholder pressure and company strategy.

Legitimacy, the second attribute of the model, is important in that it reinforces the exercise of power while reducing resistance to authority in those who are subject to it. Suchman (1995) defines it as the assumption or general perception that the actions of an actor are desirable or appropriate within a given socially constructed system of rules, values, beliefs and definitions. To Martins and Fontes Filho (1999), the concept of legitimacy as something socially desirable implies the assumption that social actors cannot always clearly define what is desirable in a given circumstance.

The actions of a given social actor may be considered desirable or legitimate at both the macrosocial level (society as a whole) and the microsocial level (the organization), at only one of these levels, or at neither. The first situation may be illustrated by a non-governmental organization purchasing products from a

manufacturer: this action would be considered desirable both for the company supplying the products and for society (MARTINS; FONTES FILHO, 1999).

Following the reasoning of Mitchell *et al* (1997), “urgency”, the third attribute, reflects the need for immediate attention to a demand due either to time sensitivity (when delay in attending to the claim is unacceptable) or criticality (risk of damage to property, feelings, expectations or exposure). A case of “urgency” may be when citizens are concerned about the efficient use of tax money in view of social demands (education and security) in need of immediate action to prevent serious consequences for the population. In short, the interaction between the organization and stakeholders in possession of one or more of these attributes influences the level of social information disclosure of the organization.

2.2 Voluntary Disclosure Theory and Social Information Disclosure

According to Murcia and Santos (2010), voluntary disclosure consists in the choice between disclosing and not disclosing information whose publication is not obligatory. According to Gamerschlag, Möller and Verbeete (2011, p 236-237), some characteristics of the company define whether it will disclose information about CSR: visibility, profitability, ownership structure and relationship with stakeholders.

According to Healy and Palepu (2001, p.420), studies about disclosure assume the premise that, even in efficient markets, managers have greater volume and quality of information about the expected future performance of their firms, compared to external stakeholders.

Voluntary Disclosure Theory is opposed to Normative Accounting Theory and therefore compatible with positive accounting. Its main purpose is to explain aspects of financial information disclosure. However, the theory has been expanded to include environmental and social information disclosure (VERRECCHIA, 1983; ROVER; TOMAZZIA; MURCIA; BORBA, 2009).

According to Dye:

The theory of voluntary disclosures is a special case of game theory with the following central premise: any entity contemplating making a disclosure will disclose information that is favorable to the entity, and will not disclose information unfavorable to the entity (DYE, 2001, p. 184).

In addition to this approach, Hendriksen and Van Breda (1999) see disclosure not as a theory, but as a practice with a number of implications.

Broadly speaking, disclosure simply means sharing information with the public. However, in the corporate context, relevant and timely information is disclosed through corporate reports, usually on an annual basis (HENDRIKSEN & VAN BREDA, 1999), such as financial statements and management reports.

Since the information is a crucial element in the decision-making process of the final users, the identification of these users is necessary in order to understand social information disclosure, answer questions regarding information quality and quantity, disclosure levels, methods and patterns, and focus on comparability and predictability.

Many agencies regulating information disclosure adopt the view that the level of disclosure should satisfy the basic needs of information users in general, subsidizing their decision-making processes, and that the criteria used in the production and reporting of such information (accounting policies, methods of calculation, etc.) should be clearly stated (HENDRIKSEN; VAN BREDA, 1999).

According to Bedford and Beladouni (1962 apud DIAS FILHO, 2000), information disclosure reduces uncertainty but depends on the expectation of the recipient. However, despite the assumption of the ideal minimum body of information, attention has historically been concentrated on economic information users, i.e. traditional users of accounting information such as investors, shareholders and government agencies, in detriment to other potential users, such as employees, NGOs and society in general. The preference for economic information users has been justified by the argument that these users and their specific information needs are already clearly defined. The same cannot be said of other groups of information users.

The level of information disclosure also raises questions such as: Should non-financial information be included in mandatory reports? Should non-financial information be published in traditional accounting reports or in additional documents, such as sustainability reports? Considering that information may be quantitative or qualitative in nature, should it be disclosed according to certain standards or models or according to the specific information needs of each organization? Should

information be disclosed in a format allowing for comparisons and predictions or in the form of accountability reports?

These questions must be answered to determine the importance of information disclosure by top management to all stakeholders (HENDRIKSEN; VAN BREDA, 1999). Hendriksen and Van Breda (1999) believe the ideal level of disclosure depends on the level of social well-being it produces and, with the Financial Accounting Standards Board (FASB), stress that to produce social well-being, information should be timely, comprehensible, neutral, representative, fair and complete.

According to Faria and Pereira (2009, p. 3), without proper information disclosure, stakeholders are unable to analyze and follow the activities of the organization, let alone determine whether it is socioenvironmentally responsible.

The current increase in socioenvironmental information disclosure is a result of the rapid dissemination of the concept of corporate accountability. In the opinion of many stakeholders, the concept of organizational performance ought to be expanded beyond merely economic parameters of interest to shareholders alone. Essentially, the objective is to widen the scope of the concept of accountability.

Nevertheless, much of the social information disclosure made in response to stakeholders' demand for transparency is still voluntary, thus unregulated.

Social and environmental accounting has gained popularity and a number of guides have been published. Social information may be included in standard accounting reports or disclosed through separate publications (ALAM, 2006), such as special reports for specific groups of stakeholders containing multidimensional socioenvironmental information and descriptions of initiatives of commitment to sustainable development. Stakeholders have a legitimate right to be informed about all the organization's activities. This disclosure eventually creates a dialogue with different groups stakeholders, adding legitimacy to the organization and allowing stakeholders to participate in the business.

Voluntary Disclosure Theory focuses on the judgment of corporate executives about what should be disclosed and what should not. The decision to disclose depends on the characteristics of the organization, such as size, performance and practices (corporate governance, for instance). These characteristics may be used as

categories to analyze patterns of voluntary disclosure of social information and adherence to CSR.

Why do organizations disclose information voluntarily? At closer inspection, voluntary disclosure is always tied up with specific organizational interests, usually associated with capital raising. In other words, social information disclosure favors the organization in the competition for capital. The reports published by the organization, whether the nature of the disclosure is financial or social, voluntary or mandatory, represent the main means of communication between the management, the investors and the market.

According to Bushman and Smith (2003 apud CUNHA; RIBEIRO, 2006), information plays a central role in the management of conflicts of interests and in the reduction of information asymmetry between managers and investors. In the perspective of the authors, information --- including social information --- is an essential tool in the evaluation of investment opportunities by investors in general.

2.3 Legitimacy Theory and Social Information Disclosure

According to Pereira, Bruni and Dias Filho (2010), the Legitimacy Theory suggests that when companies disclose corporate information they intend to be perceived as legitimate and to ensure their continuity.

Derived from Political Economy Theory, Legitimacy Theory is based on the concept of social contract and on the assumption that organizations depend on legitimacy for their survival. Organizations operate within an ample social system, on which they produce an impact and by which they are likewise impacted. If they ignore the expectations of society, they will find it difficult to perpetuate themselves.

When organizations identify, understand and satisfy the demands of stakeholders, their decisions, decision-makers and the organization as a whole acquire legitimacy. According to Alam (2006) and in the perspective of legitimacy, the concept of social contract indicates the need for managers to contemplate the interests of stakeholders other than shareholders bent on profit maximization.

As described by Deegan (2006), Legitimacy Theory has been used to explain the voluntary disclosure of socioenvironmental information by large corporations

through reports (such as sustainability reports) published as supplements to mandatory financial statements, using specifically designed disclosure models. According to Dias Filho (2007), in the context of Legitimacy Theory, social information disclosure is a means to acquire, sustain and recover legitimacy within the social system.

In all these concepts, legitimacy is seen as the result of the alignment between corporate policies and the value and belief systems of the environment in which the organization operates. This is necessarily so because the activities of the organization produces externalities, i.e. the organization produces an impact on, and is impacted by, the external environment. To some, the interaction between the organization and the environment is so important that the ensuing legitimacy is viewed as a resource on which many organizations depend, to a greater or lesser extent, for their survival.

Deegan (2006) believes that if legitimacy is perceived to be threatened in such a way as to compromise the success of the organization, Legitimacy Theory may suggest a course of action to remedy the problem. This will usually involve increasing the disclosure of information describing the organization's activities.

An organization can only perpetuate itself to the extent it is considered legitimate by society. In other words, society confers upon the organization a state of legitimacy. As explained by Deegan (2006), it is not the actual conduct of the organization that is important, it is what society collectively knows or perceives of the organization's conduct that shapes legitimacy.

Thus, despite being eminently positive, Legitimacy Theory is also normative. It is positive when used to describe or predict organizational behaviors based on empirical facts; it is normative when used to design strategies to acquire, retain, manage or regain legitimacy.

According to Shocker and Sethi (1974 apud DEEGAN, 2006), the concept of social contract implies two basic conditions: the delivery by the organization of socially desirable ends and the distribution of economic, social, or political benefits to groups from which it derives its power. As explained by the authors, due to fluctuations in societal dynamics, expectations and needs are subject to change. Managers should therefore regularly make sure the social benefits provided are relevant and that the organization is approved by society.

When an organization does not abide by the terms of the social contract, the latter may be revoked by society, such as when consumers decide to stop purchasing a given product. This type of behavior may be the result of environmental awareness. In addition to loss of consumer loyalty, the supply of raw material may be disrupted, workers may go on strike, government agencies may issue fines or NGOs may lay pressure on the organization as punishment for breaking the social contract.

The terms of the social contract may be explicit or tacit. The former include laws, standards and government regulations. The latter include a number of societal expectations. In some cases, this can explain why large corporations voluntarily disclose socioenvironmental information.

Legitimacy is conferred on the organization when society perceives it to operate in accordance with current regulations and values. Nevertheless, the concept is dynamic, as are the expectations of society with regard to the organization (LINDBLOM, 1993 apud MÄKELÄ; NÄSI, 2010). Expectations may change over time, affecting the reputation of the organization. In other words, legitimacy may be lost depending on how the organization is perceived by the community in which it operates.

Organizations may have access to resources with which the perception of society can be influenced, or even manipulated. Thus, if the actions of the organization are perceived to be in misalignment with the expectations of society, corrective measures may be taken (DEEGAN, 2002 apud MÄKELÄ; NÄSI, 2010).

According to Dias Filho (2007), expectations may be seen as part of a tacit social contract, adherence to which implies legitimacy for the organization. Conversely, actions in breach of this contract would be considered illegitimate. In fact, the entire organization may lose its legitimacy and eventually be forced to discontinue.

In the perspective of Legitimacy Theory, the perpetuation of the organization depends on its ability to adhere to the value system predominant in the environment. One way to further this is to disclose information of interest to the major environmental stakeholders reflecting an alignment between expectations and company practices. A disclosure policy may be established in order to manage relations with relevant groups of stakeholders, especially those with most influence

on the perpetuation of the organization.

In Legitimacy Theory, certain aspects of corporate information disclosure are difficult to explain because society is viewed as simple and pluralistic without taking into account conflicts between social groups and their different levels of power. However, the approach may be complemented by Stakeholder Theory which identifies specific groups of stakeholders, their expectations and their relative power over the organization.

Gray, Kouhy and Lavers (1995 apud DEEGAN, 2006) explained several aspects of empirical evidence of socioenvironmental information disclosure based on the corporate disclosure strategies proposed by Lindblom. These strategies include i) changing society's perception of the organization's environmental performance by disclosing socioenvironmental information, ii) changing society's perception of industries that pollute or act irresponsibly, and iii) distract society's attention from central environmental issues.

An increasing number of firms are concerned about presenting an image of environmental awareness. Socioenvironmental information disclosure is a widely used mechanism to satisfy or manipulate society's environmental perception and ensure approval.

As a tool, Legitimacy Theory, with its approach to socioenvironmental information disclosure, may be used to change society's perception of the organizational environment. In this, it is comparable to the theoretical framework of other theories, such as Voluntary Disclosure Theory and Stakeholder Theory, in which the target audience plays an essential role.

3 METHODOLOGY

The study was exploratory and based on information collected from annual accounting statements and social reports and submitted to content analysis. Our sample consisted of the top 30 Brazilian firms and top 30 UK firms listed on the stock exchange of each country according to Forbes' global ranking of the 2000 largest firms in the world in 2008, year when the study was initiated (Square 1).

Square 1 – Firms Studied and their economic sector

Brazil		UK	
Companies	Sectors	Companies	Sectors
Petrobras	Oil and gas	HSBC Holdings	Financial institution
Vale	Materials	BP	Oil and gas
Bradesco	Financial institution	Royal Bank of Scotland	Financial institution
Banco do Brasil	Financial institution	Barclays	Financial institution
Itaúsa	Financial institution	HBOS	Financial institution
Unibanco Group	Financial institution	Lloyds TSB Group	Financial institution
Eletróbás	Utilities	Glaxo Smith Kline	Drugs e biotechnology
Usiminas	Materials	Aviva	Assurance
Tele Norte Leste	Telecommunication	Tesco	Market of food
Metalurgica Gerdau	Materials	Standard Chartered Group	Financial institution
CSN-Cia Siderurgica	Materials	Prudential	Assurance
Cemig	Utilities	Anglo American	Materials
Brasil Telecom	Telecommunication	Astra Zeneca	Drugs e biotechnology
CPFL Energia	Utilities	BT Group	Telecommunication
Braskem	Chemical Industry	British Amer Tabaco	Food, beverage e tobaco
Redecard	Services	Legal & General Group	Assurance
Embraer	Aviation	National Grid	Utilidades
Votorantim C P	Materiais	BG Group	Oil and gas
Sabesp - Saneamento Básico	Utilidades	BAE Systems	Aviation and defense
Banrisul	Financial Institution	Old Mutual	Assurance
Aracruz Celulose	Materials	Diageo	Food, beverage e tobaco
Bradespar	Financial Services	Centrica	Utilities
CESP	Utilities	SABMiller	Food, beverage e tobaco
Sadia	Food, beverage e tobaco	Scottish & Southern	Utilities
Copel	Utilities	Vodafone	Telecommunication
CBD Brasil Distribuição	Market of food	Cadburry Schweppes	Food, beverage e tobaco
CCR	Transportation	Rolls-Royce Group	Aviation and defense
Ultrapar Participações	Oil and gas	Standart Life	Assurance
WEG	Capital Goods	WPP	Media
Bovespa Holding	Financial service	Reckitt Benckiser Group	Products of Personal and Domestic Use

Social reports and annual accounting statements published by the sampled firms were obtained from the respective websites and from the website of specific organizations such as stock exchange of each country. The documents used in this

study refer to the fiscal year ended on 31/12/2010, available on the homepages of companies and stock exchanges of the two countries since the second half of 2011.

The collected data were submitted to content analysis and the results were analyzed in light of Stakeholder Theory, Legitimacy Theory and Voluntary Disclosure Theory in search of an answer to the central question of the study. The content analysis was performed against 16 UN indicators of social corporate responsibility (subcategories of analysis), divided into 6 groups (categories of analysis) (Square 2). One of the 15 indicators: “value of imports versus exports”; was not considered appropriated to the financial institutions and its disclosure was not investigated because of the high number of companies of this economic sector in our sample: 7 financial institutions and 1 insurance company (see Square 1). However, from 16 indicators, 15 were considered appropriated to the research objective and their disclosure were investigated (see Square 2).

The documents collected from each firm were analyzed with regard to adherence to UN recommendations in each subcategory/indicator. A data collection instrument was designed using terminology and concepts (key words) extracted from “Guidance on Corporate Responsibility Indicators in Annual Reports”, published by the UN in 2008, related to each one of the 15 subcategory/indicator. So, we used as parameters in the data collection instrument the 15 categories and their respective key words to identify for each firm the practices of corporate social responsibility disclosed compatible with those recommended by the UNCTAD/ISAR.

To determine the level of disclosure of each indicator a 3-point scoring system was used: 0 = no disclosure of social information (no aspects of the indicator disclosed), 1 = partial disclosure of social information (some aspects of the indicator disclosed), and 2 = full disclosure of social information (all aspects of the indicator disclosed). The scoring system reflects the different ways in which companies disclosed the content of each indicator: some indicators were absent from company reports, some were disclosed in full, as recommended by the UN, and some were only partly disclosed. Each firm in the sample could score a maximum of 30 points (in case of full disclosure of all 15 indicators). The procedure made it possible to compare UK firms to Brazilian firms with regard to the level of social information disclosure.

4 RESULTS AND ANALYSIS

4.1 Overview of Disclosed Practices

Square 2 provides an overview of the 15 CSR indicators recommended by the UN and the empirical findings of socioenvironmental information disclosure by the 60 firms in our sample. None of the firms presented full disclosure of all 15 indicators. Even in the most compliant firms, disclosure was partial for many of the indicators.

Square 2 - Level of disclosure of UN-recommended CSR indicators by the Brazilian and UK firms in the sample (continue)

Groups/Indicators (Categories/ Subcategories)	Brazilian firms			UK firms		
	Full	Partial	None	Full	Partial	None
Trade, investment and linkages						
1. Total revenues	30	0	0	30	0	0
2. Value of imports vs. exports	N/A*	N/A	N/A	N/A	N/A	N/A
3. Total new investments	22	3	5	22	5	3
4. Local purchasing	3	0	27	0	0	30
Employment creation and labor practices						
5. Total workforce with breakdown by employment type, employment contract and gender	6	19	5	8	15	7
6. Employee wages and benefits with breakdown by employment type and gender	2	27	1	0	27	3
7. Total number and rate of employee turnover broken down by gender	8	7	15	5	2	23
8. Percentage of employees covered by collective agreements	9	1	20	1	0	29
Technology and human resource development						
9. Expenditure on research and development	15	1	14	13	1	16
10. Average hours of training per year per employee broken down by employee category	5	13	12	2	4	24
11. Expenditure on employee training per year per employee broken down by employee category	6	21	3	1	5	24
Health and safety						
12. Cost of employee health and safety	23	5	2	6	5	19

Square 2 - Level of disclosure of UN-recommended CSR indicators by the Brazilian and UK firms in the sample (conclusion)

Groups/Indicators (Categories/ Subcategories)	Brazilian firms			UK firms		
13. Work days lost due to occupational accidents, injuries and illness	9	5	16	11	1	18
Government and community contributions						
14. Payments to government	30	0	0	30	0	0
15. Voluntary contributions to civil society	26	0	4	21	5	4
Corruption						
16. Number of convictions for violations of corruption-related laws or regulations and amount of fines paid/payable	2	4	24	2	1	27

Source: The authors. *N/A = Not applicable.

4.2 Analysis by Category and Subcategory

4.2.1 Trade, investment and linkages

The indicator “total revenues” was fully disclosed by all Brazilian and UK firms in accordance with UN recommendations. This may be explained by the existence of accounting regulations in each country which determines the disclosure of revenues in accounting statements. Nevertheless, in light of the theories discussed in the study, firms are likely to wish to disclose total revenues, whether disclosure is mandatory or not.

Thus, in addition to providing information on the organization’s volume of exchange with the environment, the disclosure of total revenues makes it possible to assess the size of the organization and its capacity for absorbing human and non-human resources. This is important since it informs us about the organization’s responsibilities, as suggested by Social Contract Theory, which in turn underpins stakeholder Theory and Legitimacy Theory.

Society’s expectations depend on the size of the organization. In other words, more is expected of larger firms in terms of transparency, compliance with regulations, social commitment, etc. Since stakeholders see this information as relevant to social accountability, the disclosure of the indicator may be explained in light of Stakeholder Theory as well.

From the point of view of the stock market, total revenues organized in chronological order provide an idea of the history of organizational performance. This may be used as an argument to attract or retain shareholders. In this case, disclosure may be interpreted in light of Voluntary Disclosure Theory: for firms traded on the stock market, the disclosure of this indicator, whether mandatory or not, serves to maintain or increase market value and the potential for capital raising.

Firms are required by the government to disclose total revenues especially because the indicator is used directly or indirectly to calculate taxes. In Brazil, in addition to being used to calculate earnings subject to income tax, the indicator “total revenues” is used to estimate another important tax, the so-called “social contribution on net income”. Both taxes are major components of federal government revenues.

Finally, the disclosure of total revenues makes it possible for society in general to assess the importance of the organization, especially in the local context. The importance of this indicator in more than one way confirms the claims of Stakeholder Theory and Voluntary Disclosure Theory.

Unlike total revenues, the disclosure of which is tied up with strict accounting regulations, the indicator “total new investments” is disclosed voluntarily. This difference was reflected in the collected data. As shown in Square 2, the indicator was not fully disclosed by all firms in the sample. Interestingly, the overall level of disclosure was similar in Brazil and the UK.

New investments are generally associated with increased production capacity due to the acquisition of facilities, machinery, equipment and intangible assets. Since new investments are often expected to contribute to reducing poverty and social inequality, the disclosure of this indicator may be an act of social marketing, adding value to the organizational image. In the perspective of Legitimacy Theory, the disclosure of new investments helps aggregate legitimacy and reputational capital to the organization.

The pattern of disclosure of “local purchasing” (Square 2) was rather similar in Brazil and the UK, with “no disclosure” being the rule, although, somewhat surprisingly, three Brazilian firms disclosed the indicator fully.

Each type of information is relevant to a specific stakeholder or group of stakeholders. Thus, as a stakeholder, the government ought to be particularly

interested in information on local purchasing. With this information, the relation between the organization and the local economic fabric can be appreciated and public policies may be formulated furthering the economic development of the region.

Using the typology of Mitchell *et al* (1997) within the framework of Stakeholder Theory, it is possible to understand the low level of disclosure of the indicator “local purchasing”: although the government is a socially recognized actor in possession of the attributes “power” and “legitimacy”, the absence of the attribute “urgency” allows organizations to neglect disclosure. The three attributes (power, legitimacy, urgency) must be present to ensure disclosure. In the case discussed, “urgency” may take the form of an effective interest and demand for information on part of the government.

As suggested in the UN guide on CSR indicators, information on local purchasing is an important subsidy in national policy making. Moreover, the disclosure of this indicator may be considered an act of social accountability.

A comparison of the indicators in the first group (total revenues, total new investments and local purchasing), shows that i) the full disclosure of total revenues in both groups is due to the strictly normative nature of this indicator, ii) the high overall level of disclosure of new investments may be explained by Stakeholder Theory since this information is a direct indication of the solidity and growth potential of the organization. Shareholders, as a major group of stakeholders, expressly request disclosure of investments and, as shown by the typology of Mitchell *et al* (1997), possess the three attributes of power, legitimacy and urgency, iii) the low level of disclosure of local purchasing can be explained in light of Stakeholder Theory: the most important stakeholder (the government) lacks the attribute required to prompt disclosure, namely “urgency”.

4.2.2 Employment creation and labor practices

Disclosure was rather similar for the indicators “total workforce” and “employee wages and benefits” (Square 2). Quantitative and financial information is often disclosed simultaneously and in the same part of the report. However, despite the relatively high level of disclosure overall, disclosure tended to be partial rather than full, when compared to UN recommendations.

This behavior may be understood with the help of Stakeholder Theory and Legitimacy Theory. Information on employment creation and labor practices is very

important for the country's development. From the perspective of Stakeholder Theory, the government has the legitimacy and power required to demand disclosure of these indicators. However, it may not have the urgency since some organizations may already be reporting directly to the government rather than publishing the information in reports for wider audiences. In this case, the disclosure patterns fall outside the scope of the present study which, as explained in the section on methodology, was based entirely on information collected from annual accounting statements and social reports downloaded from the websites of the sampled firms and the respective stock markets.

From the perspective of Legitimacy Theory, the indicators "total workforce" and "employee wages and benefits" are highly relevant to society in general and to trade unions. Unfortunately, neither stakeholder group has a large enough measure of the attribute "power" to enforce disclosure.

As explained in the section of theoretical framework discussing Voluntary Disclosure Theory, in the absence of pressure from the environment, organizations are not apt to increase disclosure, especially with regard to information that may be used against them in legal disputes by trade unions and related public agencies. For example, a recently privatized Brazilian electricity distribution company controlled by a foreign organization was indicted by the Public Prosecutor after the voluntary disclosure of social information revealing almost the entire workforce to be outsourced.

In short, the mostly voluntary nature of the disclosure of these indicators in annual reports explains the uneven and predominantly partial disclosure pattern observed.

The level of disclosure was even lower for the indicator "total number and rate of employee turnover": eight Brazilian and five UK firms disclosed it fully, whereas seven Brazilian and two UK firms disclosed it partially.

Stakeholder Theory helps explain the predominance of partial disclosure of "employee wages and benefits" and "total number and rate of employee turnover". Stakeholders without property rights, such as employees and trade unions, are seen as mere production factors and lack the influence required to enforce disclosure.

Disclosure of the indicator "percentage of employees covered by collective

agreements” was predominantly null. As explained above, the government may request this information directly from firms through public agencies supervising labor relations rather than demanding disclosure through social reports. In addition, in the perspective of Stakeholder Theory, the lack of relevance of this information to shareholders may account for the low levels of disclosure observed.

On the other hand, if the relation between firms and workers is well established in the country and organizational legitimacy does not appear to be in jeopardy, managers may no longer see the disclosure of this information as essential to retaining legitimacy. Since progressive labor and wage policies are taken for granted in both the UK (a first world country) and Brazil (a rapidly developing economy), these factors are unlikely to represent a threat to organizational legitimacy. Thus, it is not surprising if firms are not giving priority to the disclosure of this indicator.

4.2.3 Technology and human resource development

As shown in Square 2, UK firms and Brazilian firms presented similar patterns of disclosure of the indicator “expenditure on research and development”, with a near-equal predominance of full disclosure and no disclosure. The pattern may be explained by Stakeholder Theory, according to which strategic stakeholder management is a means of achieving the organization’s ultimate goal of maximizing shareholder profits.

Expenditure on research and development are closely linked with the competitive advantages necessary to advance the organization’s economic goals. Thus, the disclosure of this indicator may occur in response to pressure from shareholders; that is, managers may use disclosure to persuade shareholders the organization is prepared to face challenges posed by market competition in the future. It may also be explained by Voluntary Disclosure Theory, according to which managers would expect to make a favorable impact on shareholders by voluntarily disclosing this type of information.

The indicator “average hours of training per year” was disclosed by eighteen Brazilian firms (full disclosure: 5; partial disclosure: 13) and by six UK firms (full disclosure: 2; partial disclosure: 4) (Square 2). The corresponding figures for “expenditure on employee training per year” were twenty-seven (full disclosure: 6;

partial disclosure: 21) and six (full disclosure: 1; partial disclosure: 5) (Square 2). The low level of full disclosure may be due to the extensive detailing of these indicators in the UN guide. In the perspective of Stakeholder Theory, the major users of this information (workers and trade unions) lack the attributes of “power” and “urgency” (Mitchell *et al*, 1997) necessary to prompt disclosure.

4.2.4 Health and safety

In contrast with the indicators analyzed thus far, UK firms and Brazilian firms differed strongly with regard to the level of disclosure of the indicator “Cost of employee health and safety”, as information was fully disclosed by 23 Brazilian firms versus only 6 UK firms. The difference was even more marked for firms with no disclosure (2 Brazilian firms versus 19 UK firms). Five firms from each country presented partial disclosure (Square 2).

Employee health and safety is usually a major responsibility of the organization, depending on the legal framework of the country. Thus, low investments in this area is often associated with low productivity and losses, both of which are suggestive of inefficient management (UNITED NATIONS, 2008).

The indicator “work days lost due to occupational accidents, injuries and illness” was fully disclosed by 9 Brazilian firms and 11 UK firms (Square 2). Unlike most of the indicators analyzed in the present study, disclosure was greater among UK firms. The lower level of disclosure observed for Brazilian firms may be explained by Voluntary Disclosure Theory, which is based on the assumption that only information favorable to the organization is disclosed voluntarily.

4.2.5 Government and community contributions

As illustrated in Square 2, the indicator “payments to government” was fully disclosed by all Brazilian and UK firms, in accordance with UN guidelines. The typology of Mitchell *et al* (1997), in the perspective of Stakeholder Theory, can help identify the factors responsible for this disclosure pattern.

In the present case, the government may be considered a definitive stakeholder, in possession of the attributes “power”, “legitimacy” and “urgency”, materialized in the existence of accounting regulations mandating disclosure of this

information by firms in both countries. These regulations justify the attention the indicator received from the managers of the sampled firms.

Voluntary contributions to civil society were fully disclosed by 26 Brazilian firms and by 21 UK firms. However, when full and partial disclosure were pooled (26+0 firms vs. 21+5 firms, respectively), the total number of firms was the same in the two groups (Square 2).

Disclosure of this indicator was relatively similar for Brazilian firms and UK firms. The observed pattern may be interpreted according to the instrumental approach of Stakeholder Theory (stakeholder management policies are used to attain organizational goals), Legitimacy Theory (by meeting the information needs of groups of stakeholders other than shareholders, organizations show their commitment to the local community) and Voluntary Disclosure Theory (disclosure is used to make a positive impression on society).

4.2.6 Corruption

Disclosure of this type of information tends to produce a negative impact on the organization's image. Square 2 shows that only two Brazilian firms and two UK firms disclosed the indicator fully, whereas partial disclosure was made by four and one firms, respectively. The predominant pattern was "no disclosure" (24 and 27 firms, respectively).

The observed pattern of disclosure may be explained by Voluntary Disclosure Theory: organizations hardly view any direct benefit in the disclosure of convictions for violations of corruption-related laws.

5 CONCLUSION

The indicators most frequently disclosed by both Brazilian and UK firms were "total revenues", justified by the three theories above, and "payments to government", explained by Stakeholder Theory and the typology of Mitchell *et al* (1997).

The relatively high level of disclosure of the indicator "total new investments" by firms in both countries may be attributed to the influence of the stakeholders to whom the information is destined, especially shareholders and investors in possession of the three attributes required to enforce disclosure, namely "power",

“legitimacy” and “urgency”. The typology is employed in strategic stakeholder management, within the conceptual framework of Stakeholder Theory.

The least frequently disclosed indicators were “local purchasing” and “number of convictions for violations of corruption-related laws or regulations and amount of fines paid/payable”. Information on the value of local purchases is very important in the context of CSR. However, to appreciate its significance requires a better understanding of the contribution this information can make to the perception of the organization as socially responsible. Due to the limited awareness of this fact, stakeholders rarely demand the disclosure of the indicator, which is consequently assigned a lesser priority by the organization.

Brazilian and UK firms were found to have relatively similar disclosure patterns, indicating that the variable “country” did not have a significant impact on the results. The similarity between the two groups may also be explained by the large size of the firms in the sample (top firms on Forbes’ global ranking), many of which are multinational and therefore subject to similar pressures and expectations from a wide range of stakeholders around the world.

Despite the reasonable level of disclosure of CSR practices observed in this study, there is much room for improvement. It should however be pointed out that the organizations in the sample may have engaged in CSR practices other than those disclosed in the annual reports from which our information was retrieved, or made specific information available directly on demand from stakeholders.

The moderate size of our sample may represent a limitation of the study. Likewise, aspects not included in our analysis, such as the influence of business sectors and information regarding sales volume, equity and contributions to civil society, among others, could possibly have enriched the analysis of the patterns of social information disclosure.

Suggestions for future studies include replicating the study with more recent data to evaluate possible changes in behavior, and replicating the study with firms from countries other than the UK, for example comparing samples from South American countries to our sample of Brazilian firms.

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