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Article

Voluntary Social Disclosure in an Emerging Country: The Case of Brazil

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Abstract: This study aims to assess the disclosure extent and quality, as well as the percentage of audited reports, of the Brazilian companies listed on the IBOVESPA stock exchange index and explore some factors that influence disclosure quality. A content analysis of 71 annual sustainability (or similar) and integrated reports was conducted, focused on the social dimension. Multiple linear regression was used to assess the relationship between the disclosure quality index and being audited by a Big Four company, the number of members on the board of directors, the use of the Global Reporting Initiative (GRI) standards in the preparation of the reports, and the type of industry. The results suggest that although the disclosure extent is reasonable, its quality is poor. In addition, considering its voluntary nature, the disclosure-auditing index is deemed satisfactory. The results also suggest that the disclosure quality of Brazilian companies is positively and significantly influenced by being audited by a Big Four company, by adopting the GRI standards, by the number of members composing the board of directors, and by belonging to the “Energy and utility” industry. This study contributes to the extant literature by assessing the disclosure extent and quality and the percentage of audited reports of companies in an emerging economy setting—Brazil—and exploring some factors which influence the disclosure quality in emerging countries’ companies, such as auditing by a Big Four company, which has thus far been unexplored. It also contributes to increasing the awareness of the theme among managers.

Keywords: disclosure auditing; disclosure extent; disclosure quality; emerging country; social responsibility



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1. Introduction

Corporate sustainability, with an emphasis on social aspects and environmental considerations, forms the basis of what is called corporate social responsibility (CSR) (Formigoni et al. 2021). Attention to issues related to CSR, corporate governance, and their impact on business performance has increased over time (Kumar et al. 2023). The importance and weight of adopting CSR is a much-discussed subject and is increasingly becoming a “mandatory requirement” that organisations must adopt to ensure their continuity and survival. Introducing the concept of sustainable development is a challenge for companies, as it creates opportunities, assisting in detecting and controlling risks to ensure business continuity (Camilleri 2017).

When, in 1953, the topic of sustainability began to be addressed by scholars, only the economic dimension was valued. They advocated profit at the expense of the quality and well-being of people and the environment. As time and society have progressed, the concept of sustainability has changed. However, there has never been a consensual

definition among researchers. The complexity and constant evolution of such a concept are the main reasons for the nonexistence of a standard definition. Due to the lack of consensus among authors, we will refer to sustainability as the “ability to meet the needs of the present without compromising the ability of future generations to meet their own needs” (Linkov et al. 2018, p. 1). Furthermore, with the improvement of studies and mentalities, it was found that sustainability does not exist without harmonising its three dimensions: the economic, social, and environmental (Camilleri 2017). However, the least explored dimension continues to be the social one, despite a growing concern on the part of organisations regarding this aspect. For example, the well-being of employees is increasingly crucial for the success of companies.

Research on information disclosure has been improving and so has the importance given to the quality of the information content (Usman 2020). Disclosing information is essential to strengthening organisations’ performance (financial and non-financial) and promoting a good image, especially regarding responsible behaviour towards society and environmental challenges (Saeed and Arshad 2012). Stakeholders, whose awareness is on the rise, have been increasingly demanding information on the non-financial performance of companies, and the need for companies to provide environmental, social, and governance (ESG) disclosures (Abang’a and Tauringana 2024) in sustainability reports has become imperative (Wachira et al. 2020). Robust governance structures, such as the internal governance dimension of ESG, ensure sound decision-making, adequate risk management, and accountability within organisations (Chininga et al. 2024).

Companies are encouraged to publish externally verified sustainability reports that provide specific, detailed information with quantitative data to enhance transparency and reliability (Aggarwal and Singh 2019). Thus, they increasingly seek independent assurance of their CSR reports through external audits to improve their communication with stakeholders through reliable and transparent information conveyed through sustainability reports (Clarkson et al. 2019). Since auditors’ opinions are independent and impartial, voluntary external auditing of reports improves the reliability and credibility of information and enhances accountability to stakeholders (Moroney et al. 2011; Reimsbach et al. 2018; Boiral and Heras-Saizarbitoria 2020). Such auditing tends to be voluntary (Ackers and Eccle 2015; Ackers 2016).

There is also evidence that, among different auditors, the so-called Big Four (B4) auditing firms (i.e., Deloitte, Ernest and Young, KPMG, and Price Waterhouse Coopers) positively impact the reliability of the assurance process. Hence, there is a greater concern about contracting the services from one of these companies (see Boiral and Heras-Saizarbitoria 2020; Clarkson et al. 2019). The reasoning is that specialised auditors, possessing industry-specific expertise to offer distinct and superior services to their clients, enhance the credibility of financial as well as non-financial reporting by improving error detection processes and ensuring greater compliance with auditing standards (Kolsi et al. 2022). From a general perspective, the audit process reflects the ideal of transparency in sustainability reporting, assuring stakeholders that, based on a rigorous verification process, the information disclosed by organisations is considered reliable, material, and consistent with the realities of sustainability performance (Boiral and Henri 2017; Reimsbach et al. 2018).

Due to the importance of the theme, this study focuses on the disclosure and assurance of companies’ social practices in emerging countries, specifically Brazil. In fact, there is a need to study business environments in emerging countries, such as Brazil, since they can help implement best practices, with the necessary adjustments for those countries (Kumar et al. 2023). Brazil is an emerging country, where a patriarchal society persists (Pinheiro et al. 2024), suffering from significant inequalities, which are rooted in its own history and social structure. Brazil is a country marked by colonial legacies, where historical inequalities and the growth of neoliberal conservatism facilitated a blatant loss of rights during the pandemic as a crisis of gender, racialisation, and social class (Paulo Resende de Lima et al. 2024).

This study's goal is twofold. First, based on the analysis of annual sustainability (or similar) reports and integrated reports of Brazilian companies listed on the IBOVESPA stock exchange index, it aims to assess the degree of voluntary disclosure of companies in two dimensions—extent and quality—and the percentage of audited reports for the year 2020. The year 2020 coincided with the COVID-19 pandemic. During this year, organisations have dealt with unsafe working conditions and health risks for their stakeholders. The prioritisation of social responsibility over promotional activities and changes in dissemination strategies was stressed, reflecting a recognition of the importance of communication with stakeholders (Stevenson et al. 2024).

This study also aims to examine whether the quality of voluntary social disclosure is influenced by the fact that the companies in the sample are audited by a company belonging to the B4, by the number of members of the board (MoB) of directors, by the fact that they follow the GRI standards in the preparation of their reports, and by the type of industry to which they belong.

A content analysis of 71 annual sustainability (or similar) and integrated reports (referring to 2020) of Brazilian companies from different sectors was carried out. These companies were listed on the Brazilian stock exchange B3 and, more specifically, on the IBOVESPA index.

Furthermore, the multiple linear regression (MLR) model was adopted to examine the relationship between the abovementioned factors and disclosure quality.

The following Section is devoted to the conceptual background. Section 3 describes the adopted methodology. The results are then presented in Section 4. Finally, in Section 5, such results are discussed, and some concluding remarks are offered.

2. Conceptual Background

2.1. Corporate Social Responsibility

The concept of CSR has been ambiguous, and there has yet to be a consensus on its definition or components. For many years, companies and society have undervalued this subject (Wahba and Elsayed 2015). Bowen, in 1953, provided the first connotation of social responsibility, defining it as the obligation that entrepreneurs have to make decisions or follow lines of action that would meet the goals and values of society (Aggarwal and Singh 2019). CSR can be considered a company's obligation to protect and improve social welfare and ensure equitable and sustainable benefits for various stakeholders. CSR initiatives enable companies to develop critical success factors and sustainable competitive advantages, mainly by influencing stakeholders' perception of their image, including a positive view of their duty for self-motivation (Alon et al. 2010). Companies are no longer exclusively focused on seeking and obtaining profit but are now concerned with value judgments held by society (Sánchez-Teba et al. 2021). Hence, and following a triple bottom line (TBL) approach, companies seek continuous improvement in sustainability awareness by including, in their business models, social and environmental aspects in addition to financial ones (see Elkington 1998).

Although the environmental dimension is essential (i.e., existing resources must be managed without compromising future generations) and has been highly studied, social issues are also crucial elements of a company's CSR agenda (Monteiro et al. 2023). The social dimension is essential in assessing the performance of companies since it makes it possible to understand the level of well-being of workers and the communities in which they operate. In fact, social projects are generally considered as a long-term investment (Teja 2024). For example, Monteiro et al. (2023) analysed the influence of social disclosure on the reporting entity's performance regarding specific indicators: labour practices, decent work, and human rights.

The CSR concept has gained momentum in recent years as society has become aware of the impact of its actions on social and environmental issues (Dartey-Baah and Amoako 2021; Martínez et al. 2021). Globalisation, climate change, the effective and efficient management of available resources, their depletion, or even the population ageing encourage

society to change the direction of quantitative economic growth to a more qualitative and responsible dimension. This complex and important topic is being increasingly addressed by companies, mainly motivated by the growing concern of workers and other stakeholders. The applicability of CSR by companies translates not only into the constant search for a good image before stakeholders but also into a transparent style of resource management that guarantees results, whether economic, social, environmental, or even political (Martínez et al. 2021).

In the 21st century, there appears to be a shift towards sustainability as a primary focus, although it may not be easy to distinguish from CSR. According to O'Neill (2024), CSR, which can differ significantly between companies, can be seen as a company's internal commitment to sustainability. Each organisation has its ideal regarding the direction and magnitude of its internal commitment to sustainability.

The value generated within the community will reflect society's overall well-being, thereby elevating motivation levels. This enhanced motivation will inevitably result in superior productivity, thereby benefiting organisations. Additionally, the inclination to maintain an agreeable environment will lead to a further improvement in environmental conditions. Consequently, society's well-being will also be enhanced, and individuals' social engagement will become less destructive (Crowther 2018). The essence of CSR is the concept that a company should expand the scope of its goals and objectives beyond maximising shareholder wealth. Companies should be evaluated based on their economic and financial success and responsible social behaviour (Qa'dan and Suwaidan 2018).

According to Crowther (2018), CSR, as currently defined, is dead. An equitable balance is needed for the development of sustainability. Only with a vision of good corporate management performance, concerned with the management of the organisation's financial resources as well as the management of the organisation's (external) resources, is sustainable development possible. The relationship and power of customers have led to changes in corporate behaviour and concerns about the supply chain and the value chain (Crowther 2018).

Furthermore, Tsang et al. (2022) noted that most empirical studies conducted on CSR are in the context of developed countries, and more empirical studies are needed in emerging economies. The importance of emerging countries to the global economy and the role they are expected to play in achieving the net zero economy (energy industry context) is now seen as essential. Thus, these authors addressed the BRICS, as a representation of emerging countries, in their study. CSR activities in emerging economies such as Brazil have serious issues. Developing countries are facing various problems, such as economic instability, political unrest, lack of transparency, weak monitoring by institutions and regulatory bodies, often contradicting the interests of society and the corporate sector, resulting in the failure of CSR activities (Ali et al. 2022).

2.2. Voluntary Disclosure of Corporate Social Responsibility

The fast development of social responsibility in recent decades has been accompanied by a remarkable development in sustainability reporting (Gomes et al. 2015). In recent years, "CSR disclosure is one aspect of the firms that disclose their socially responsible initiatives and believed that corporate social performance impacts firms' performance" (Ali et al. 2022, p. 1027). Today, sustainability reporting has become an increasingly common practice by companies to respond to the expectations, pressures, and criticisms of stakeholders who want to be constantly informed about the social and environmental impacts of business activities (Boiral 2013). In fact, although CSR disclosure is mandatory in specific contexts and industries, it still has a voluntary nature, namely in emerging countries, which are increasingly focusing on social and environmental disclosures (Kolsi et al. 2022).

On the one hand, social disclosure is used to communicate information related to employment, labour, health and safety, stakeholder relations, human rights, and actions taken to prevent corruption. However, on the other hand, environmental disclosure

incorporates information about environmental issues, such as pollution, waste management, and energy consumption (Hassan et al. 2020). Specifically, disclosing social issues is deemed crucial in motivating organisations in developing economies to measure and manage their social impacts and performance. This fact can help achieve sustainable development goals and improve social and economic security (Nath et al. 2024).

Different theories have emerged to explain why companies voluntarily disclose information. The most referred theories within this scope are the stakeholder and legitimacy theories. The stakeholder theory emerged in the mid-1980s (Freeman and McVea 2017). It recognises that a company has a moral responsibility to various stakeholders, which is fundamental to its success. It further supports the idea that maintaining healthy relationships with stakeholders is bilateral, meaning that companies and their managers are not solely responsible for creating good communication but also for fostering sustainable relationships (Dmytriyev et al. 2021). The legitimacy theory is grounded on the premise that companies show their legitimacy through voluntary disclosure of their practices and financial and non-financial information, aiming to improve their image (Uwuigbe and Uadiale 2011). This is in line with Dobbs and van Staden (2016), who consider that the primary motivations for social responsibility are related to a company's reputation and brand value and its employees' awareness of CSR. Based on legitimacy theory, disclosure is used to promote the perception of CSR and confirm that the value system is in line with the social norms in which the company operates. Companies seek to be transparent, increase people's trust, enhance their reputation, and ensure that their actions are seen as legitimate (Garcia et al. 2021).

Stakeholders' pressure for companies to take actions based on their expectations leads them to prepare and release sustainability reports to show they comply with sustainability standards (Nguyen 2020). Accordingly, sustainability disclosure can be used as a legitimising tool (Cho and Patten 2007). Other motives can be found for a company to disclose non-financial information. For example, Murphy and McGrath (2013) argue that some entities disclose such information to avoid or mitigate the risk of class actions or associated financial penalties. Pintão et al. (2018) claim that there are two types of benefits to disclosing social responsibility: internal benefits, related to the generation of new resources, and external benefits, which are mainly related to the improvement of the company's reputation and a possible competitive advantage over other companies in the industry in which it operates.

As for how to disclose non-financial information, the opinions of various authors are distinct. Studies in this area focus mainly on the disclosures made in annual financial reports. Nevertheless, the increased awareness of the importance of sustainability disclosure has led companies to disclose their information in independent reports (Patten 2015), such as sustainability reports or integrated reports. In addition to the growing demand for CSR disclosure, its quality has also been pointed out as a highly relevant factor, which companies can use as a financial performance driver and a reputational tool (Usman 2020). In this sense, the disclosed information is essential to strengthening the business entity's financial and non-financial performance and promoting a better image before stakeholders, especially regarding the responsible behaviour of companies towards society and social challenges.

Much is known about how CSR is conceptualised and developed on a large scale in industrialised nations such as the US and Germany, while more is needed about emerging economies (Alon et al. 2010). Management challenges in CSR and leadership dynamics must be understood to help its practical implementation in emerging economies (Dartey-Baah and Amoako 2021). Corporate orientation towards sustainable development has received increased research attention, which is vital for the next generation of leaders, namely in BRIC countries. These economies are more aware of sustainable approaches, and these new leaders should promote the proactive adoption and implementation of different sustainability initiatives (Arya et al. 2023).

The nature of CSR activities in emerging economies is strongly influenced by their culture, which consequently affects the social expectations of organisations. Also, the commit-

ment to CSR in emerging countries is strongly driven by stakeholders, such as the government, shareholders, customers, or suppliers and by various advantages that companies gain due to their commitment to CSR (Dartey-Baah and Amoako 2021). However, there are numerous challenges to implementing CSR in developing countries. Its failure is often related to the incompatibility between CSR initiatives and corporate goals or even top management problems, namely weak leadership, lack of funding, and corruption (Yin and Zhang 2012). Also, Colovic and Henneron (2018) indicate that the need for more resources is one of the many factors hindering CSR implementation. The low level of reported CSR disclosures highlights the need for a more rigorous corporate governance implementation mechanism, as opposed to the “comply or explain” principle requiring the establishment of CSR or related committees (Abang’a and Tauringana 2024).

Regarding CSR disclosure, emerging countries are behind developed ones. There are different reasons why companies in emerging countries keep their social and environmental information private, such as the unavailability of CSR data, lack of motivation to issue CSR, cost of CSR, and poor corporate performance (Colovic and Henneron 2018).

2.3. Disclosure Auditing

With the development of CSR, companies began to feel the need to have their reports assured by a third party to improve their communication with stakeholders (O’Dwyer et al. 2011; Cohen and Simnett 2015; Chininga et al. 2024). Assurance of CSR reporting is a component of report quality that aims to improve the credibility of the report (Sierra-García et al. 2015). Auditing firms accumulate experience and skills over time, allowing them to influence the environmental and social disclosures of their client companies (Kolsi et al. 2022).

Obtaining assurance is an expensive decision. However, it is a valuable tool for companies as it leads to increased stakeholder trust through the perception of greater credibility in the voluntarily disclosed information despite previous studies showing that many companies choose not to audit their sustainability reports (Casey and Grenier 2015; Kaya 2017). On the one hand, companies that resort to auditing consider the improvement of the disclosed information and the increase in its credibility, the growth of the social legitimacy of organisations, and even the development of better internal communication. On the other hand, companies that do not perform quality verification of socio-environmental information do not do so for different reasons, such as its high cost or the lack of evidence that it increases their credibility (Park and Brorson 2005).

The evidence further suggests that the audited reports contain a high level of non-conformity to the standards or guidelines they should apply, particularly the GRI standards. Furthermore, many events are not reported, contrary to the reporting principles of balance, integrity, and transparency (Boiral 2013). According to Ackers (2016), internal auditors can actively participate in CSR governance and sustainability practices within their companies. This can indirectly enhance external stakeholders’ confidence in the accuracy of CSR disclosures. Additionally, auditing CSR reporting hinges on the company’s size, leverage, and profitability, as well as the industry it operates (Sierra et al. 2013).

When it comes to providing assurance, audit firms and consultants can provide high-quality assurance services. However, the so-called B4 companies can provide higher assurance services, as they are more experienced in performing tests and analytical procedures to ensure data integrity (Clarkson et al. 2019). Marín-Andreu and Ortiz-Martínez (2018) argue that limited or moderate assurance is often applied to reports, and external assurance is often sought from the ‘Big Four’ accounting firms, mainly due to their good reputation. Also, in terms of the division of the sustainability assurance market between auditors and consultants, certain industries, such as oil and energy, basic materials, and financial services, tend to rely heavily on auditors for this service (Sierra et al. 2013).

Nevertheless, CSR assurance is characterised by ambiguity regarding the entities that should carry out an impartial assessment and the skills that the assessor should have or the assurance criteria that should be established (Martinov-Bennie and Hecimovic 2010;

Ackers and Eccle 2015; Ackers 2016). According to Kolsi et al. (2022), large audit firms encourage their clients to voluntarily disclose detailed and transparent CSR information, whereas small audit firms, which are primarily focused on attracting new clients and maximising profits, do not prioritise CSR disclosure. Nonetheless, these companies compete with other firms and professionals, such as independent consultants, who offer similar assurance services (Moroney et al. 2011; O'Dwyer et al. 2011). In addition, B4s are typically contracted to provide the service in both developed and developing countries, and the reports they audit have a higher quality index (QI) than unaudited reports (Ackers and Eccle 2015).

2.4. Hypothesis Development

Audit or assurance processes can increase the degree of disclosure, enhance the delivery of non-financial information and improve credibility and quality in voluntary disclosures. External verification can assist in determining which material aspects should be disclosed (Sierra-García et al. 2015; Rivera-Arrubla et al. 2017). Whether a member of the B4 or not, the audit firm could be viewed as a reliable indicator of the standards that govern the quality of investor relations (IRs) communication and disclosure (Rivera-Arrubla et al. 2017).

Several authors argue that the quality of voluntary disclosures improves substantially if audited by a B4 (see Ackers and Eccle 2015). The high demand for these audit firms is mainly due to their ability to provide superior audit services compared to other firms (Clarkson et al. 2019). Companies audited by B4s increasingly tend to disclose more social and environmental information than the rest (Welbeck et al. 2017). Biaek-Jaworska and Matusiewicz (2015) report a positive relationship between B4s and voluntary disclosure of CSR information. These companies provide a quality audit of the reports, consequently improving their credibility and reducing information manipulation (Dechow et al. 2010).

In fact, Moalla et al. (2021) found that, in France, most companies employ auditors and sustainable development specialists from the B4 audit firms to conduct external CSR verification tasks. The presence of an audit committee and the size of the external assurance firm significantly influence the level of voluntary reporting of environmental and social information, as observed in studies conducted in Malaysia, India, and other locations. Evidence suggests that B4 companies are more reliable in providing quality information and assurance than non-B4 auditors (Clinch et al. 2012; Wang 2017; Hammami and Zahed 2020). Also, the choice of a B4 auditor is a positive signal to outsiders about the prospects of the company (Kolsi et al. 2022).

H1. *Big Four auditing companies positively influence the quality of voluntary social information disclosure.*

According to Lu et al. (2022), in their systematic literature review, more empirical studies on corporate boards and their outcomes in emerging economies are needed. The board of directors (BoDs) serves as an intermediary between shareholders and executives, taking on significant responsibilities by monitoring the decisions made by managers and ensuring that they are aligned with shareholders' interests (Formigoni et al. 2021). The BoD is a crucial corporate governance mechanism, aiming to ensure proper direction by its agents, overseeing and monitoring risk (Said et al. 2013; Qa'dan and Suwaidan 2018).

Studies suggest that the ideal structure and effectiveness of a BoD depend on the company's characteristics and its directors. According to Lu et al. (2022, p. 12), from the reviewed articles in their systematic literature review, there "are only a few studies on CB (Corporate Board) and voluntary disclosure theme". In fact, they consider that the increasing number of board members can promote disclosure. While larger BoDs may bring more experienced directors, covering diverse services and shareholder interests, they may also have communication and coordination problems. Conversely, smaller boards are more manageable and have better control and management performance. It is important to

identify the characteristics of the BoD that can enhance the company's sustainable activities and its disclosure to the different stakeholders (Said et al. 2013).

The opinions of the various authors regarding the influence of the BoD size are disparate, with no consensus being reached on this topic. According to Ali et al. (2022), the BoD size is a crucial factor in determining the improvement of the organisation. In fact, most empirical evidence shows that larger BoDs tend to be associated with a higher level of CSR (see Qa'dan and Suwaidan 2018; Abang'a and Tauringana 2024). This provides companies with more ways to connect with external stakeholders who control the resources necessary for the company's operations. Several authors argue that it is necessary to have several members on the BoD with a wide range of experience and knowledge in various areas so that the workload can be divided, giving scope for more extensive explanations of various issues (see Frias-Aceituno et al. 2013). Hence, larger BoDs are more likely to include directors with greater diversity in their education and experience and, consequently, disclose more information (Qa'dan and Suwaidan 2018).

More specifically, the larger the size of the board, the more it can improve its decisions regarding disclosure-related actions, which will positively lead to future outcomes (Abeysekera 2010). Formigoni et al. (2021) found that companies with larger boards, more external members, and a higher number of women tend to disclose more and more standardised information on CRS practices. Their study compared the composition of the CA of Spanish and Brazilian companies. Similarly, Wang (2017) considers that a positive relationship between board size and CSR disclosure can be found. Hence, large boards can pressure the company to engage in CSR activities more than smaller boards and positively influence CSR disclosure practices (see Jizi et al. 2014; Formigoni et al. 2021). However, some authors, such as Jizi et al. (2014), consider that a BoD with fewer members will be more effective in monitoring and control since members have more efficient communication and coordination.

H2. *Board size positively influences the quality of voluntary disclosure of social information.*

Through its standards, the GRI is increasingly seen as the leading reference standard for sustainability reporting, with a wide application, namely in multinational companies operating in various industries (Joseph 2012; Boiral 2013; Wachira et al. 2020). It aims to provide a normative framework for voluntary reporting that promotes sustainability reporting practices at a level equivalent to financial reporting in terms of rigour, comparability, and universal recognition (Khan et al. 2011). Such a framework is widely recognised as a leader in the international standardisation of sustainability and similar reports (Mallin et al. 2012). The GRI standards' main contribution is at the sustainability reporting level, where they can reduce uncertainty and increase legitimacy (Brown et al. 2009). The qualitative features of these standards were made to respond to new legitimacy problems and develop a sustainable business model (Brown et al. 2009; Geldres-Weiss et al. 2021).

It is widely accepted that voluntary reporting, be it CSR or integrated reporting, should be in line with the GRI standards while at the same time self-declaring its GRI assessment. This behaviour is strongly associated with a willingness to provide a higher level of disclosure (Rivera-Arrubla et al. 2017; Simmons et al. 2018). When a company submits its sustainability report to the GRI, it will likely seek greater transparency through increased disclosure (Sierra et al. 2013; Sierra-García et al. 2015; Rivera-Arrubla et al. 2017). As a cross-sector initiative, the GRI standards provide a set of principles and guidelines, as well as a list of disclosures and key performance indicators, for voluntary use by organisations in reporting their sustainability performance. They are an important driver for improving the quality of social and environmental reporting (Perego and Kolk 2012). The Global Reporting Initiatives (GRIs) present three reporting standards related to the economy (with 7 dimensions), environment (8 dimensions), and social (19 dimensions), with environmental and social disclosure having significant differences. Therefore, they must be analysed separately (Teja 2024). According to Joseph (2012), companies that

perform information disclosure based on the GRI reporting framework tend to have higher levels of commitment to CSR than companies that do not.

H3. *Adopting a reporting model based on GRI standards positively influences the quality of voluntary disclosure of social information.*

The industry type is one of the factors that can influence CSR practices and disclosure. Many studies show that industry significantly influences social and environmental disclosure (Gray et al. 2001; Fortanier et al. 2011; Said et al. 2013; Rivera-Arrubla et al. 2017). The environmental dimension is the one which has been given more attention regarding the impact of industry type on CSR disclosure. Industries involved in sensitive activities tend to disclose non-financial aspects in more detail, voluntarily or due to regulatory requirements. The need for visibility, coupled with exposure to high public pressure from stakeholders, determines the degree of disclosure on non-financial issues (Gray et al. 2001; Fortanier et al. 2011; Rivera-Arrubla et al. 2017). Companies rely on disclosure to justify their operations to stakeholders, particularly ones that may cause environmental damage based on their industry (Aggarwal and Singh 2019; Garcia et al. 2021). In fact, the level of disclosure in most industries in which companies operate is closely related to environmental concerns, as Rivera-Arrubla et al. (2017) state.

However, according to Salehi et al. 2019), several empirical studies show a strong relationship between industry type and the social dimensions of CSR. These studies state that companies disclose more information about their employees' jobs in manufacturing industries (Salehi et al. 2019). In addition, they find that consumer-oriented industries are more exposed to social disclosure to improve their image to consumers (Salehi et al. 2019). Also, according to Pinheiro et al. (2024), stakeholders value the social performance of environmentally sensitive companies and that is why they disclose more information than other industry sectors. Sebastianelli et al. (2024) observed that highly polluting companies may engage in greater voluntary disclosure of social information as reputation insurance, to divert attention from environmental performance (i.e., greendeflecting). Greendeflecting is a strategy often used to improve reputation by increasing participation and reporting socially responsible behaviours to offset environmental information (Sebastianelli et al. 2024).

H4. *There is a positive relation between the type of industry and the quality of voluntary disclosure of social information.*

3. Methodology

3.1. Sample Selection and Data Collection

Although there is a plurality of studies addressing CSR, there is still a high asymmetry when looking at studies conducted on developed and developing countries; that is, there is some need for more studies in the context of emerging economies. Therefore, for this article, the countries belonging to the so-called "BRICS" (Brazil, Russia, India, China, and South Africa) were considered. Furthermore, most existing research focuses on economies other than Brazil or only analyses the largest global companies (Piccioni et al. 2024). Brazil offers a unique setting to examine the effects of CSR-related news on companies' market values due to its specific environmental, social, and governance challenges and opportunities (Piccioni et al. 2024). Brazil is one of the most biodiverse countries in the world and a key player in global agricultural and energy markets, thus playing a crucial role in sustainability efforts around the world (Piccioni et al. 2024). That is why addressing Brazil as an application context for this study may provide valuable insights. Furthermore, Brazilian companies tend to have a high degree of voluntary disclosure. Thus, the study focuses on companies listed on the Brazilian stock exchange, specifically those in the IBOVESPA index. Finally, regarding the aspect to be developed, it was decided to prioritise the social dimension because the information in this field is not as extensive as the environmental dimension.

The initial sample comprised 92 Brazilian companies listed on the Brazilian stock exchange B3, specifically companies listed on the IBOVESPA index as of 31 December 2020. The data for the sample were collected through annual reports, sustainability reports (or similar), and integrated reports for the year 2020, which are available on the websites of the various companies. Note that “similar” means the other reports with names similar to sustainability reports and presenting similar content, such as “ESG Reports”. However, 21 companies were removed, as they did not present any of the above reports or only presented figures prior to 2020. Hence, the final sample encompassed 71 companies.

The option for studying the disclosure produced in 2020 is related to the COVID-19 pandemic. COVID-19 has triggered an economic crisis by leading companies to reduce rights and develop new reporting standards to promote corporate transparency in social information (Monteiro et al. 2023). During the COVID-19 pandemic, it was crucial for organisations to engage stakeholders and provide ad hoc disclosures in a timely manner to legitimise themselves as beneficiaries (Crovini et al. 2022).

3.2. Data Analysis

The content analysis technique was adopted to assess the extent and quality of social sustainability disclosure for the sample. Specifically, the following dimensions were analysed regarding the social component of CSR and the respective indicators, as shown in Figure 1. These dimensions were based on Popovic et al. (2018). For the purpose of our study, we only focused on the following endpoints: labour practices, decent work, and human rights.

Dimension	Indicator
Employment benefits and characteristics	Employee turnover Employee layoffs Number of working hours Part-time and full-time employees
Employment practices and relations	Promotion fee
Health and safety practices and accidents	Lost time caused by accidents, illness No. of accidents Risk assessment Workers covered by health and accident insurance
Training, education and personal skills	Annual training hours Literary skills
Diversity and equal opportunities	Gender Wage level between genders Employees with disabilities
Employee welfare	No. of sick leaves
Innovation and competitiveness	Innovations New Products
Human rights implementation and integration	Human Rights Training for Workers Child labour Forced labour Collective bargaining agreements Sustainable policies
Basic human rights practice	Discrimination Employee complaints solved by superior parties

Figure 1. Social indicators. Source: adapted from Popovic et al. (2018).

To determine an extension index (EI), a score of “1” was attributed if a particular indicator was disclosed (if not, a score of “0” was attributed). To determine the quality index, we evaluate each socio-related item/narrative. This was guided by prior work such as the one of Soobaroyen et al. (2022). Thus, based on van Staden and Hooks (2007) study, a five-point scale was developed to assess the quality of the information, i.e., to calculate a QI (see Figure 2). The maximum allowable score for each company was 96 points (24×4), and the social disclosure quality index for a company was calculated by dividing the score by 96. The QI is calculated for each indicator (pertaining to the nine dimensions—see Figure 1), similarly to what was done to calculate the EI. Finally, it is important to state that it was given the same weight to all indicators (and, consequently, all dimensions).

Quality Measure	Description
0	Not disclosed, no discussion of the issue
1	Minimum coverage, little detail
2	Qualitative reference to the required information
3	Quantitative reference to the required information
4	The totality of the information required in the indicator

Figure 2. Scoring scale. Source: adapted from van Staden and Hooks (2007).

Regarding the auditing of the reports, if a report was audited, a score of 1 was considered (0, if not).

Finally, an MLR was used to test the relationship between the dependent and independent variables. The model used is as follows:

$$QI_i = \beta_{0i} + \beta_{1i} B4 + \beta_{2i} GRI + \beta_{3i} BoD + \beta_{4i} IND$$

Figure 3 below presents the variables used.

Variable		Definition	Measure	Variable type
Quality Index	QI	Voluntary disclosure quality index		Dependent variable
Big Four	B4	Reports audited by B4 company	1 if a B4 company audits the report; 0 otherwise	Independent variable
Global Reporting Initiative	GRI	The company follows the GRI standards when preparing their reports	1 if the company follows the GRI standards; 0 otherwise	Independent variable
Board of Directors	BoD	Number of BoD elements	Number of BoD elements	Independent variable
Industry Type	IND	Dummy variable for different industry profiles: consumer goods; energy and utility; heavy engineering; other (basic materials, healthcare, IT and telecom)		Independent variable

Figure 3. Description of the variables.

Given the diversity of existing business lines, dividing them to standardise the different companies by industry is essential. Consequently, the sample companies were segregated into seven broad categories: basic materials, consumer goods, consumer services, energy and utility, healthcare, heavy engineering, and IT and telecom (see Hassan et al. 2022). In addition, basic materials, IT and telecom, and healthcare industries have been joined in a single category called “Other” due to their lack of representativeness in the sample.

4. Main Results

4.1. Descriptive Statistics

The overall performance in terms of disclosure extent can be considered moderate. According to the results, the EI presents an average percentage of 62.5%. The results also show that 56 companies have an EI greater than 50%, representing 79% of the sample. More specifically, the results suggest that some companies stand out positively from the others, namely “Banco do Brasil”, “Cemig”, and “Sul América” with an index of 92%, followed by “Copel” with 89% and, finally, “Azul” and “ItaúUnibanco” with an index of 88%. Conversely, the companies with the lowest indexes are “Gerdeu” with an EI of 21%, followed by “JHSF Part” with 13%, and, lastly, “Cyrela Real” with an EI of 8%.

The results suggest that three dimensions stand out regarding the different social dimensions analysed: diversity and equal opportunities, labour relations practices, and human rights implementation and integration (see Figure 4).

The quality indexes are considerably weaker when compared to the extension ones. Therefore, the overall performance regarding information disclosure quality can be considered poor, i.e., the QI was 45.5%. Furthermore, the results indicate that only 31 companies (43% of the final sample) have a QI higher than 50%. In more specific terms, some com-

panies stand out from the rest, presenting indexes higher than the average QI and others offering weak indexes.

Dimension	Sample	Average
Diversity and equal opportunity	71	76.53%
Labour relations practices		69.01%
Human rights implementation and integration		68.43%

Figure 4. Most popular dimensions of the extension index.

The companies with a better quality of disclosure and that present higher indexes are the following: “Azul” and “Sul América” with a QI of 75%, “Banco Brasil” with a QI of 72%, and “Itau Unibanco” with a QI of 68%. Conversely, the companies with the lowest QI are “CA Gerdau” at 11%, “JHSF Part” at 5%, and, finally, “Cyrela Realt” at 2%.

Despite the poor quality of the disclosure, three dimensions of analysis stand out to the others: diversity and equal opportunities, training, education and personal skills, and benefits and employment characteristics (see Figure 5), while the remaining dimensions present low average values, such as the dimension health and safety practices and accidents that shows a QI of 46.1% and the dimension employees’ well-being that shows a QI of 25.4%.

Dimension	Sample	Average
Diversity and equal opportunity	71	65.02%
Training, education and personal skills		52.82%
Benefits and employment characteristics		48.77%

Figure 5. Most disclosed dimensions of the Quality Index.

In general, there are no significant discrepancies between the two indexes, i.e., if a company, in terms of EI, has a high index compared to the average one, this company also tends to present a high QI. It is also important to point out that four of the five companies with the best average classifications are coincident in both EI and QI, more specifically “Sul América”, “Azul”, “Banco Brasil”, and “Itau Unibanco”. On the other hand, regarding the companies with the worst scores, three are common to both extension and quality indexes: “Gerdeu”, “JHSF Part”, and “Cyrela Realt”.

The overall performance of the voluntary audit is seen as reasonable. According to the results, 59.2% of the companies audit their reports. However, this percentage is even more relevant, considering that auditing reports are not mandatory. Furthermore, the results show that most companies resort to independent auditors. They also show that, among the B4s, KPMG stands out (see Figure 6).

Auditor	Sample	Average
Independent auditor	16	22.54 %
Deloitte	3	4.23 %
EY	4	5.63 %
KPMG	14	19.72 %
Non-audited	29	40.84 %
PWC	5	7.04 %
Total	71	100%

Figure 6. Companies contracted to perform audits.

Furthermore, 94.4% of the sample (67 companies) use the GRI standards when preparing their reports. The number of members composing the BoD varies between 5 and 15 members. However, eight-member boards stand out the most, representing 23.9% of the total (see Figure 7).

No. of members of the BoD	Sample	Average
5	1	1.4%
6	6	8.6%
7	13	18.3%
8	17	23.9%
9	10	14.0%
10	6	8.5%
11	9	12.7%
12	4	5.6%
13	4	5.6%
15	1	1.4%
Total	71	100%

Figure 7. Number of members of the Board of Directors.

Regarding the type of industry, “services and energy” represents 22.5% of the sample. Conversely, we have basic materials, technology and telecommunications, and health industries with percentages of 4%, 4.2%, and 7%, respectively. Again, it should be noted that these three industries have been merged into a new category called “Other”.

4.2. Regression Results

First, an ANOVA (analysis of variance) test was performed. The results show significant mean differences between at least one of the independent variables, with a p -value < 0.001. Therefore, one should proceed with analysing and interpreting the proposed linear regression model (see Figure 8).

Model	Sum of squares	df	Mean Square	Z	Sig.
Regression	11.651	7	1.664	5.272	<0.001
Waste	19.890	63	0.316		
Total	31.541	70			

Figure 8. ANOVA.

The model’s explanatory power is relatively high, based on an approximate adjusted R² of 31.5 per cent. After conducting the ANOVA test, the variance inflation factor (VIF) was assessed. No VIF was higher than 5, indicating no severe multicollinearity between variables. Figure 9 presents the results of the MLR analysis.

Model	Coefficient	Standard error	B	t-statistic	p-value	VIF
Constant	-0.0666	0.445		-0.148	0.8833	
B4	0.381	0.151	0.275	2.518	0.014**	1.195
BoD	0.057	0.033	0.179	1.733	0.088***	1.068
GRI	1.098	0.315	0.380	3.487	<0.001*	1.186
INDCG	-0.043	0.211	-0.025	-0.204	0.8839	1.503
INDEOU	0.492	0.211	0.308	2.334	0.023**	1.743
INDHE	0.148	0.228	0.086	0.648	0.519	1.741
INDO	0.415	0.219	0.241	1.893	0.063***	1.618

Figure 9. Regression analysis. *— p -value < 0.01; **— p -value < 0.05; ***— p -value < 0.1. INDCG: “Consumer goods” industry; INDEOU: “Energy and utility” industry; INDHE: “Heavy engineering” industry; INDO: “Other” industry (basic materials, healthcare, IT and telecom). Excluded variable: “Consumer services” industry (INDCS).

The analysis of the results suggests that, concerning the independent variable B4, for a p -value < 0.05, there is a β of 27.5 per cent; that is, there is a significant and positive impact of this variable on the QI, thus supporting H1. Concerning the BoD variable, there is also a positive and significant impact on the QI when considering a p -value < 0.10 per cent (see H2). That is, the number of members of the BoD reflects a 17.9% increase in the QI. Similarly, we find support for H3. Regarding the GRI variable, the results also show a

positive and significant impact on the QI (at a p -value < 0.01 per cent), which indicates that if the GRI standards are used by the companies that make up the sample, the QI will increase, on average, 38%.

Finally, regarding the type of industry, it should be noted that a reference industry (base industry) was considered the “Consumer services” industry. Thus, when comparing the industries “Energy and utility” and “Other” with the reference industry (“Consumer Services”), a positive and significant impact is observed for a p -value < 0.01 per cent and 0.05 per cent, respectively, with a β of 30.8% and 24.1%, which means that the disclosure quality provided by these industries is higher than that the one provided by the reference industry (“Consumer Services”). A similar interpretation can be given for the “Heavy engineering” industry, where a positive but not significant impact is observed, meaning that the disclosure quality is higher than the reference industry. Conversely, for the “Consumer goods” industry, a negative but not significant impact on quality disclosure is shown, which means that the disclosure quality is lower than the reference industry (“Consumer Services”).

One can also state that there are no relevant differences between the disclosure made by the companies belonging to these two industries and those belonging to the base industry. In summary, the MLR analysis shows that the results confirm the four hypotheses in question, with the last being partially confirmed (see Figure 10).

Hypothesis	Result
H1: Audit firm size positively influences the quality of voluntary social information disclosure.	Confirmed
H2: Board size positively influences the quality of voluntary disclosure of social information.	Confirmed
H3: Adopting a reporting model based on GRI standards positively influences the quality of voluntary disclosure of social information.	Confirmed
H4: There is a positive relation between the type of industry and the quality of voluntary disclosure of social information.	Partially confirmed

Figure 10. Result of the hypotheses.

5. Discussion and Concluding Remarks

This study aims to determine the extent, quality, and auditing of social sustainability disclosure of the Brazilian companies listed on the IBOVESPA Stock Exchange and to examine some factors influencing the QI. In particular, it examines whether to be audited by a B4 member, the number of members on the BoD, the use of GRI standards in the preparation of reports, and the type of industry influence the disclosure QI. Some of these factors, particularly auditing, are still under-researched when applied to emerging economies.

The results present a reasonable EI (62.5%) and a low QI (44%) for the companies encompassing the sample. Although the extent of the disclosure made by these companies is deemed reasonable, it is not accompanied by its quality. Concerning the disclosure indexes by social dimension, we conclude that the dimension “Labour practices and relations” has the highest EI, while, in terms of QI, the most disclosed dimension is “Diversity and equal opportunities”. Conversely, the least-disclosed dimension in both indexes is the “Well-being of employees”. It was also found that most companies resort to voluntary auditing of their reports, with 26 out of 42 audited by a B4 company. Moreover, among the companies belonging to the B4s, KPMG stands out.

The positive percentage (59.2%) of voluntary auditing can be explained by several reasons, including the intention to improve communication with relevant stakeholders (O'Dwyer et al. 2011; Cohen and Simnett 2015), as well as their trust (Kaya 2017), the perception that companies have regarding the benefits they can obtain through auditing, the improvement of the information disclosed and the increase in its credibility (Park and Brorson 2005), or even the disclosure of more reliable, accurate, and transparent information (O'Dwyer et al. 2011; Cohen and Simnett 2015). On the other hand, the percentage of companies that still do not use external auditing to secure their reports is also

high, at about 40.8%. This result is in line with the study of [Casey and Grenier \(2015\)](#), in which they report that a high percentage of companies choose not to resort to auditing their reports. The lack of interest may be justified by its high cost and the lack of evidence that it increases the credibility of the information ([Park and Brorson 2005](#)).

Following our expectation, the results regarding the influence of the report being audited by a company belonging to the B4 on the QI are in line with what is referred to by several authors, who argue that the quality of the information voluntarily disclosed improves significantly if it is audited by a company belonging to the B4 ([Ackers and Eccle 2015](#)). Also, these companies are more reliable in providing truthful information since they offer quality auditing of reports, improving their credibility and reducing manipulation of information ([Dechow et al. 2010](#); [Hammami and Zahed 2020](#); [Moalla et al. 2021](#); [Kolsi et al. 2022](#)). Some implications can be drawn: companies audited by B4 firms tend to disclose more credible information. First, there is the pressure of quality imposed by these auditing firms which have their own reputation to preserve. Also, by having their reports voluntarily assured, companies can transmit an image of trust to their stakeholders. Finally, and based on the legitimacy theory, these companies can strengthen their image, namely regarding transparency. Hence, a movement towards greater transparency and quality in financial and non-financial reporting, which becomes even more relevant as large companies in developed countries face mandatory CSR disclosure and independent audit regulations, should be followed by countries such as Brazil to ensure legitimacy and alignment with global standards.

The relationship between the number of MoB and the QI is also positive and statistically significant. This is in line with the literature, considering that there is a positive relationship between the size of the board and CSR performance (see [Jizi et al. 2014](#); [Formigoni et al. 2021](#); [Ali et al. 2022](#)). Furthermore, the relationship between the size of the board and the level of disclosure of social information is positive, meaning that a larger board exercises better monitoring, including the disclosure extent of social information ([Giannarakis 2014](#)). Some important insights can be provided: boards with a larger number of members can, potentially, have more competencies and other types of resources needed to make better decisions and ensure disclosure transparency, thus increasing stakeholders' trust in the companies, again in line with the stakeholders and legitimacy theories. In resume, larger boards may provide companies with important benefits in terms of social responsibility and governance. Despite this fact, and in line with various authors, we acknowledge that boards with fewer members can potentially, be more efficient during the decision-making process.

Results regarding adopting the GRI standards when preparing the report align with past studies. GRI standards were designed to reduce uncertainty and increase legitimacy ([Brown et al. 2009](#); [Wachira et al. 2020](#)). The positive impact of these standards on the quality of disclosure is notorious ([Joseph 2012](#)), with studies proving that almost 80% of the reports prepared by the world's largest companies are governed by the GRI standards ([Boiral 2013](#)).

Finally, in what concerns the variable "Type of industry", it was verified that, when compared with the reference industry ("Consumer Services"), there are industries with positive and significant impacts, as is the case of the industries "Others" and "Energy and utility", meaning that the disclosure quality is higher than the one of the reference industry and others with negative and not significant impact, as is the case of "Consumer goods", which means that the disclosure quality is lower than the reference industry (see [Rivera-Arrubla et al. 2017](#); [Aggarwal and Singh 2019](#)). Overall, this means that the type of industry can influence the disclosure quality. Also, it should be noted that some industries with high environmental impacts, such as the energy sector, tend to emphasise reports of socially responsible behaviour to divert attention from their environmental performance.

This study provides important implications since, as far as the authors are aware, voluntary social disclosure in developing economies is a not-so-explored area of research (see [Nath et al. 2024](#)). Studies within the scope of CSR in countries in an emerging con-

text enrich the literature and are relevant to practice, and may be useful from a political perspective for the institutions (bodies) that regulate these aspects (Ali et al. 2022).

By exploring, in a thorough manner, the disclosure of the social dimension of CSR in an emerging economy setting—Brazil—this study not only contributes to the existing body of knowledge on the extent and quality of corporate disclosure but also provides specific insights into how different factors influence disclosure quality. By identifying that auditing by a B4 company, adoption of GRI standards, number of BoD, and industry positively influence disclosure quality, this study provides guidelines that can be applied in other listed companies pertaining to emerging economies.

In fact, it also contributes to the extant literature by examining a thus far unexplored determinant of disclosure quality: the fact of reports being audited by a company belonging to the B4. At a practical level, it contributes to raising awareness of this theme among managers and increasing the perception of the importance of auditing reports. Furthermore, companies can use the results to improve their disclosure practices, especially those that wish to improve the quality of their disclosed information to better meet stakeholder expectations. Regulators and policymakers can use the insights to develop guidelines or regulations that encourage improved disclosure quality, particularly in emerging markets. Finally, social information disclosure in an emerging country such as Brazil is deemed vital for providing new recommendations to government and stakeholders on the way forward in sustainable development and national security. For example, implementing mandatory reporting can potentially avoid future political catastrophes (see Nath et al. 2024).

This study is not without limitations, as only one stock exchange from a single country was studied. Also, 21 companies were removed from the sample due to not presenting any report or data for 2020. Thus, future research should replicate the present study using other CSR dimensions and adopting different sources of data collection, such as web pages, and explore the effect of variables on disclosure extent and quality. Future studies may also include comparisons between emerging and developed economies or longitudinal approaches. Finally, further research should address a longitudinal stance and make use of more advanced econometric methods, such as panel data analysis.

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