

TITLE: CSR DISCLOSURE, QUALITY MEASUREMENT

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Synonyms

CSR Reports Quality; Evaluation; Classification; Dimensions; Definition; Sense-making

Definition

Over the decades, there has been growing contention on how to define or measure disclosure quality. Scholars such as Beattie et al. (2004), Beretta and Bozzolan (2008), Yekini and Jallow (2012), and Yekini et al. (2015) all documented varied definition constructs and measurements of disclosure quality including describing disclosure quality as a problematic concept to construe. However, looking at disclosure quality from the perspective of the users of the reports, Yekini et al. (2021) provided a definition that looks at CSR disclosure quality from the context of sensemaking, arguing that the ability of users to draw meaning and the sense they can make out of the disclosed information, should characterize the measure of quality (Yekini et al. 2021, pp. 879). Defining disclosure quality this way, therefore, raises some fundamental questions regarding the varied quantitative measures employed in previous studies.

Introduction

Extant literature documented diverse measures of disclosure quality. Some scholars measured quality by relying on certain criteria in the annual reports. For example, evidence disclosed, or the nature or themes of the disclosure. Others believe that the location of the information could be indicative of its quality. Similarly, some authors used the volume of disclosure as a measure of quality, they argued that the quantity of information can influence the quality. Furthermore, while some used analyst ratings, others constructed their own index by taking into consideration a combination of the various criteria. Nevertheless, the validity, scope, reliability, and comparability of the various measures have been queried and of concerns not only to researchers but also to

corporate stakeholders, such as regulators, investors, and the media amongst others. Similarly, scholars have engaged in research relating to quality and reliability over the years. They seek out the best approach and measure for the quality of CSR reports given the narrative nature of the reports (Yekini et al. 2015). They questioned the cogency of the quantitative measures employed by previous studies. Some of the issues raised are whether, CSR disclosures should be measured in terms of their quantity (i.e., their volume or their length) or their quality (i.e., their authenticity or reliability)? And, if we decide on measuring its quality (authenticity or reliability), what should be the best measure or the best way to measure quality?

Key Issues

A thorough review of extant approaches to the measurement of CSR disclosure quality reveals that measuring the quality of CSR disclosures would depend on several factors. For example, Yekini and Jallow (2012) and Yekini et al. (2015) provided extremely useful criteria for quality measures. First, they considered the nature of the disclosure, whether financial, physical, or narrative. They defined physical as the display of verifiable evidence, for example, a photograph of the CSR theme such as a community project displayed to support the narrative or financial disclosure on community projects. Further, they considered the relevance of the disclosure, which they measured by the section of the annual report the disclosure is located. Gray et al. (1995) argue that the chairman's statements, for example, being a strategic section of the annual report, would usually contain information considered to be of high importance and of which management intends to have it widely read. Similarly, Yekini and Jallow (2012) argued that specificity rather than quantity should characterize the quality of disclosures, that is, providing detailed description of the specific CSR activity is considered more important in measuring the quality of such disclosure. They argued further that, to measure disclosure quality, there is the need to adopt a weighting system whereby higher scores are assigned to verifiable disclosures and lower scores to narratives that have little or no substance in them (Yekini and Jallow 2012). However, extant literature did not provide a consensus on the allocation of points to disclosure quality classifications. Although, Yekini and colleagues were able to justify their differential weighting scheme, arguing that classifications have different level of information, while some contain more information, others contain fewer. Nevertheless, some school of thoughts believe that scoring system is suitable only for the measure of the extent of disclosure as opposed to the quality of disclosures due to their subjective nature. In the last decades, however, this viewpoint, has led to conflicting findings on the content and quality of CSR reports (Yekini 2017). The construct validity of the various measures used in the literature has been the subject of debates and contentions. The argument is that these various approaches lack fundamental theoretical conception and methodology. Price and Shank (2005, p. 90) believe that a comprehensive approach to measuring disclosure quality should take into consideration, the point of view of the recipient of the information. Similarly, Yekini et al. (2021) argued that the focal point of quality measure should be the sense that users are able to make of the information.

Sensemaking involves being able to conceptualize organisational values, which are otherwise incomprehensible, in a way to influence the perception of users of the information. Coupland and Brown (2004, p. 1328) described organisational values as '*linguistic social constructs*' and maintained that the best way to evaluate such constructs is through dialogical processes. Consequently, Yekini et al. (2021) proposed Semiotics (a linguistic-based methodology and analytical tool) as a useful approach to examining the quality of CSR reports.

Future Directions

Research on measuring and defining CSR disclosure quality is gradually shifting focus towards the meaning or sense that the users of the reports can draw from the reports and the usefulness of the reports to the users. This was clearly illustrated in Yekini et al. (2021), through the application of semiotics, a linguistic analytical tool. Certainly, the need for a linguistic methodology in drawing meanings and thus making sense of corporate disclosures is very vital to the determination of CSR disclosure quality. However, advancement in technology, artificial intelligence, and machine learning, is beginning to redefine future research in this area. The application of Artificial Intelligence (AI) is rapidly gaining ground in text analysis and mining and has become a very powerful tool for investigating human cognition and therefore disclosure quality measurements.

Cross-References

- Communicating with Stakeholders
- Corporate Community Involvement
- CSR disclosure quality, the role of NEDs
- Making sense of CSR Reports: A Methodological Perspective from Semiotics
- Stakeholder Accountability

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