The Impact of Performance and CSR Assurance on Investment Decision Making

*[1]Hawariah Dal nial, [2]Anna Azmi , [3]Zarina Zakaria

ABSTRACT--- *This paper investigates the impact of performance as well as independent corporate social responsibility (CSR) assurance in making an investment decision and how investors perceive both factors when deciding on the investment amount allocation by using 2 x 2 factorial between-subjects design with individual investors as the participants. This has provided valuable outcomes on the effect of the Performance and CSR assurance on investment decision making specifically for Malaysian investors. Findings show both Performance and CSR Assurance influenced investment amount allocation and the absence or presence of the CSR assurance report is important in the investment decision as well as to determine whether a company is performing well or otherwise. By controlling the Performance factor, the influence of CSR assurance could be observed. Results have empirically informed that CSR assurance seemed to only reaffirm investor decision making, explaining the absence of any difference when it was present. Nonetheless, without CSR assurance, the investment was significantly devalued by investors. This offers a better understanding of the impact of CSR assurance in a specific performance condition as individual investors value CSR assurance differently based on whether the company is performing well or poorly.*

Keywords--- *CSR Assurance, Sustainability Reporting, Investment Amount Allocation, Independent CSR Assurance, Investment Decision Making.*

I. INTRODUCTION

The nature of information reported by companies has significantly evolved over the years. Prior literature has established that financial information has a significant influence on the decision-making process and such information is not exceptional in the case of non-financial information disclosure. Together with the financial information outlined in the firm's reporting, non-financial reporting is argued to influence investment allocation. This is evident based on the increasing numbers of firms that disclose their performance on non-financial reports on top of their conventional financial reporting and such information has been proven to impact the investment decision-making process (Reimsbach et al., 2018).

In addition, financial data alone is not sufficient to accommodate the needs of investors, as such, a firm is necessary to disclose more on CSR reporting. Companies communicate their CSR report voluntarily through CSR report alongside financial data. Nonetheless, due to the difference encompassing industries and investors' needs, the reporting varies. Also, debates have concentrated on the content of information in the CSR report where it has

[1]**Faculty of Business & Accountancy, University of Malaya, 50603 Kuala Lumpur, Malaysia, hawariah@siswa.um.edu.my*
[2] *Faculty of Business & Accountancy, University of Malaya, 50603 Kuala Lumpur, Malaysia.*
[3] *Faculty of Business & Accountancy, University of Malaya, 50603 Kuala Lumpur, Malaysia.*

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been found that the credibility of information can be questioned due to investors' perception on the actual depiction of the firm's actions against the content of the CSR report (Cheng et al., 2015). A notable exception goes to the research Reimsbach et al. (2018) which has found that combination of both reporting formats for financial and non-financial reports affects the investment decision making. This implies that although both reports are assessed separately, investors can recall information about non-financial information which contains CSR reports. Also, these findings highlight that both performances of a firm that is indicated by financial information and non-financial information are significant to investors in making investment allocation.

In recent years, many firms across the world have progressively adopted enhanced disclosure in the annual reports. Such voluntary disclosure practices are becoming a common phenomenon among commercial organizations. While these reports have increased in pages, information disclosed is varied from a simple statement to a narrative paragraph, which is criticized as not accompanied by the public trust (Hodge et al., 2009). It is observed that there has been a lack of uniformity of outcomes narrated in the previous research regarding the association between corporate sustainability reporting or the company's performance. In achieving economic and social performance, companies must identify the finest and meaningful way to communicate their sustainability practice or economic performance to the investors. The argument remains concentrated on the inability of the voluntary report in providing information that is accurate and complete, specifically on the performance of the company's sustainability performance.

Previous research has concluded that accurate and balanced information can only be produced through stricter reporting and assurance regime (Braam & Peters, 2018). One of the ways is to have the sustainability report assured by independent external parties (Janggu et al., 2013). Having the report assured, would improve the credibility of the report and subsequently influence investors to invest further (Shen et al., 2017). As such, a sustainability report is regarded as the most appropriate way to communicate how the company is managing its corporate sustainability practices with assurance in place. The main function of independent assurance of sustainability report is ensuring reliability, accuracy, and thus the credibility of the sustainability information provided to stakeholders. Those qualities of information can be enhanced by obtaining independent third-party assurance on the CSR report (Park & Brorson, 2005; Jones & Solomon, 2010).

Third-party assurance may be obtained through an external independent assurance organization whose expertise is related to the subject matter and assurance practices. There are commonly divided into three groups namely accountancy experts, engineering consultants, and sustainability services (GRI, 2013). To ensure the credibility of the report, companies have relied on third-party assurance (KPMG, 2013) since the report that is assured is view by individual investors as having higher credibility (Coram et al., 2009). The third-party assurance has been extensively discussed in the literature as well as promoting the abundance of studies that investigate the importance for independent third-party assurance (Adams, 2004; Simnett et al., 2009). A CSR report with assurance signals to investors the firm's value (Clarkson et al., 2008), reducing the risk for investing (Pinsker & Wheeler, 2009) as well as having the potential to offer positive cash flows to the company.

Based on the analysis of the importance of performance and independent assurance report by Jensen and Berg (2012) reported that in strong employment protection and more pronounced stakeholders' orientation, information on financial data is less valued. In market-based economies, shareholders in large group controlling big firms who make decision based on self-analyzed information. This situation requires firms to disclose their information not only regarding their operations but other aspects as well. As such, it is evident that financial performance and CSR reports are both crucial in the process of determining the investment amount allocation.

Based on the asymmetrical nature of information available to different actors within the organization, certain stakeholder groups may not have access to certain privileged information compared to others. More importantly, as external stakeholder groups are remote from company day to day business, they have a lack of control over what and which information to be publicized and as such, it can create distrust among external stakeholders on the disclosed information. Thus, it was also established that companies that decide to undertake external verification on their sustainability reports did it to improve the quality of reported information. In addition, since sustainability report is voluntary, companies should be applauded for their voluntary effort in allocating their resources in this process to maintain accuracy and reliability as well as better transparency on the organization practices and its impact on the various aspects of sustainability i.e. economic, social and environment.

While information asymmetry may be reduced by CSR reports (Cho et al., 2013), the credibility of information can be improved by having assurance on the information reported (Simnett et al., 2009). In addition, information asymmetries are said to occur whenever the company has more information than investors (Reimsbach, 2018). Consequently, a gap is produced when there are information asymmetries between two parties (Healy & Palepu, 2001). Another argument arises when non-independent CSR reports are produced for commercial self-interest. Cheng et al. (2015) have claimed that CSR reporting acts as a tool for the company to portray a positive image. This self-serving reporting may result in a misrepresentation of the company's real performance, causing investors to depend on additional sources of information (Dhaliwal et al., 2012). Furthermore, voluntary reporting is also accompanied by the issue of the firm's accountability. Since the reporting is voluntary, a firm cannot be held accountable; the accuracy and reliability will, therefore, be compromised.

Whilst adoption of assurance practice for sustainability reports has grown exponentially over the years, such practice is still being criticized for various aspects. An ongoing debate surrounding this issue deals very much with whether investors' willingness to invest in a firm is further encouraged by the adoption of assurance on the sustainability reports (Shen et al., 2017) and whether assurance is significant to investors. For instance, Cohen et al. (2011) indicated in their research that investors chose to attain information from a third-party source or from audited documents to anticipate the economic performance.

Referring to stakeholders are concerned, only credible information that is assured is considered by investors (Healy & Palepu, 2001) and they are further persuaded to put more capital in the company (Cheng et al., 2015). This independent assurance can reduce forecast errors, improve the accuracy of data, and help to find key risks of the company (Jones & Solomon, 2010). Additionally, investors might find that assurance on CSR reports may increase the credibility of the company in conducting trade-off with the company's performance. In such cases, CSR reports that are independently assured signal good performance of the company, thus, increasing the magnitude of investment amount allocation. Accordingly, independent assurance has been identified as having the capacity to increase the level of confidence in the information disclosed; it can significantly affect investors' view and their investment decision making. The report on environmental and social performance is particularly beneficial for investors concerning their investment decisions; therefore, it is important to have independent verification of the disclosed information (Hodge et al., 2009).

As far as the literature is concerned, research concerning the performance and CSR assurance is very scarce. Most research examined a firm's performance and CSR assurance separately. Therefore, the objective of this study hopes to add in the existing literature by focusing on whether financial information and CSR report are perceived as equally important by investors. Also, external assurance can increase it's the credibility of information included in the report. For instance, Brown-Liburd & Zamora (2014) have discovered evidence of the received credibility of information when the report was independently assured in their study. Furthermore, information becomes more credible when assured by professional independent assurers (Pflugrath et al., 2011).

In light of these findings, the present study will primarily analyze the impact of performance and independent CSR report assurance on investment amount allocation. In agreement with the prospect theory that posits investors will acquire gains and losses in investment; this study suggests that the magnitude to invest will be higher after viewing independently assured CSR report as it is considered as credible information to stakeholders. A voluntary CSR report assurance can enhance corporate value by increase stakeholders' confidence in the credibility of the sustainable information (Reimsbach et al., 2018). This study examined the impact of CSR assurance and performance on investment decision making with regards to individual investors in Malaysia. Experimental research was employed to investigate investors' perceptions towards CSR assurance and performance on investment decision making using investors in the market as target respondents.

II. METHODOLOGY

This study intends to investigate the effect of performance and independent corporate social responsibility (CSR) assurance on investment decision making:

H1: The magnitude of the investment amount allocation will be higher after viewing independently assured CSR report for companies with similar financial performance.

H2: The magnitude of the investment amount allocation will be lower after viewing non-independent CSR report for companies with similar financial performance.

1) Sample

A total of 120 participants were solicited for this study. To certify that the recruited participants were appropriate for the current study, investment classes were targeted where the participants have had experience in stock market investments. As such, participants were recruited by contacting professional traders who conducted investment classes for investors who want to learn more about investing in the share market. After official requests explaining the purpose of the study were emailed to these professional traders, a few replies were received, expressing their agreement for the questionnaire to be distributed in their classes. To avoid intervening with the flow of the class, questionnaires were handed for investors to fill in before the class commenced.

2) Tool

A 2 x 2 factorial between-subject design was employed to examine investors responses for participant's individual investors in the company. It should be noted that the design of this study was adapted from Brown-Liburd and Zamora (2014) where all participants were assigned to a few experimental groups. Independent variables in this research included CSR investment total apportionment (operated as above or below the industry average) and CSR assurance (operated as present or absent) as depicted in Table 1.

Table 1: Experimental Groups

		CSR Investment Level	
		Above Industry Average	*Below Industry Average*
CSR Assurance	*Presen*	Top 10 Investment Level with CSR Assurance Report	Bottom 10 Investment Level with CSR Assurance Report
	Absent	Top 10 Investment Level without CSR Assurance Report	Bottom 10 Investment Level without CSR Assurance Report

On the other hand, sustainability and content of financial information were held constant in all investigations settings. Hence, participants were granted access to the exact to the company's same general introduction condensed financial summary, Selected Consolidated Balance Sheet, Selected Statement of Income figures, company's share price, and the price-to-earnings ratio preceding the announcement of these financialstatements. This publicly available information was derived froman actual company that provided a highly regarded CSR report.

Furthermore, the primary dependent variable was geared toward the change of decision making regarding the investment level after Corporate Responsibility Summary which highlighted the key performance indicators that were reviewed. Participants were requested to go through the financial data of the company before they can view positive CSR reports together with CSR investment level (operated as above or below industry average) and CSR assurance (operated as present or absent) in all of four groups. Accordingly, participants' activities were tracked as to whether the different reports have been accessed, in addition to the employment of manipulation checks to assess whether specific information in the material was correctly stored and recalled so that the acquisition of CSR information can be analyzed.Following the work of Brown-Liburd et al. (2018), participants were then asked to make initial judgments that included the investment amount allocation.

The questionnaire booklet was divided into 3 parts: Part A represents Company Background and Financial Summary; Part B: Perceptions towards Risk and Return; Part C: Demographic Questions. A set of Appendix was also provided at the end of the questionnaire booklet outlining. A manipulation check questions were prepared to the participants after they were allowed to verify their previous decision made Participants were then asked about their employment details with any firms that engage in CSR, self-assessed awareness about CSR, investment in CSR companies or funds, followed by demographic inquiries at the end of the questionnaire.

Investment Amount Allocation

Participants were requested to provide details regarding their initial investment amount allocation before viewing CSR disclosure items. Subsequently, investors were asked to allocate resources for the company after viewing the CSR disclosures. Besides, based on methods employed in prior research, participants were later asked for the long-term investment dollars (out of $1,000) that would be allocated for the company after viewing the CSR disclosures.

CSR Investment Level

Following the work of Brown Liburd et al. (2018), the statement was presented as follows: "Plantation Berhad, remain ranked at the Top (Bottom) 10 percent in the industry in terms of the percentage of pretax income dollars invested to achieve corporate social responsibility goals." CSR Assurance. The CSR assurance item was stated in terms of the presence or absence of an abbreviated version of a commonly used assurance report for nonfinancial information.

III. RESULTS AND DISCUSSION

Two manipulation checks were employed to identify which of the 110 participants encoded the independent variables as intended. 78 subjects (80 percent) answered the question in the first manipulation check correctly: "the contents of this disclosure have NOT (have) been independently audited". In the second manipulation check, the following question was used. It was found that 81 subjects (84 percent) answered this question correctly. The full sample was used as there was no significant difference between full samples and the sample which excluded those who failed the manipulation test. After nine extreme outliers were eliminated, the study proceeded with a final sample size of 97 participants.

Table 2: Demographic Information

Demographic	N = 97 Levels	Percentage
Age	≤25 years	10
	26-30 years	27
	31-40 years	38
	41-50 years	17
	> 50 years	7
Gender	Male	78
	Female	22
Education	Undergraduate	77
	Graduate	23
Invested in common stock or debt securities	No	64
	Yes	36
Invest in a mutual fund or pension fund	No	69
	Yes	31
Company engage in CSR	No	49
	Yes	52
Knowledge in CSR	Below average	47
	Average	50
	Above average	3
Invested in CSR Companies	No	29

	Yes	71
Invested in CSR Funds	No	30
	Yes	70

Participants' demographic information is illustrated in Table 2. It can be summarised that participants' mean age was 35 years old, 22 percent of them comprised of females, 77 percent had a bachelor's degree, and 36 percent of them had three or more years of experience investing in individual stocks and/or bonds. Additionally, 52 percent have worked for an employer who engaged in CSR. 50 percent (3 percent) reported having an average (above-average) knowledge of CSR, and 71 percent (70 percent) have invested in CSR companies (funds).

Table 3: Analysis of CSR-based Investment Amount on Top 10 and Bottom 10 Company

Mean (Standard Deviation)		*CSR Assurance*							
N		*Absent*		*Present*			*By Row*		
CSR Investment Level	*N*	*Mean*	*SD*	*N*	*Mean*	*SD*	*N*	*Mean*	*SD*
Panel A: Investment Amount Allocation before viewing the CSR disclosure items									
Bottom 10	29	453.45	-341.98	23	331.87	-263.95	52	392.66	-302.97
Top 10	27	502.59	-285.87	25	302.00	-217.22	52	402.30	251.54
By column	56	478.02	-313.92	48	316.93	-240.58	104	397.48	277.25
Panel B: Investment Amount Allocation after viewing the CSR disclosure items									
Bottom 10		325.86	-303.14		342.74	-248.78		334.30	275.96
Top 10		414.44	-296.16		336.00	-295.64		375.22	-295.90
By Column		370.15	-299.65		339.37	-272.21		354.76	-285.93
Panel C: Paired Sample T-test									
					t	*p*			
Bottom 10 and Present: Before and after viewing				H1	-0.59	0.28			
Top 10 and Present: Before and after viewing					-0.59	0.28			
Bottom 10 and Absent: Before and after viewing				H2	1.64	0.06			
Top 10 and Absent: Before and after viewing					1.43	0.08			

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Panel A as shown in Table 3 presents the amount allocated for the investment's descriptive statistics for the investment before the CSR disclosures. The entire sample mean of financial data-only-based investment amount allocation is \$397. Also, the untabulated mean comparisons indicated no significant differences between the investment amount allocation based on the CSR investment level conditions, the CSR assurance conditions, or across any pair of possible cell conditions. These results have already been expected as there was no presence of CSR factor manipulations at this point in the experiment.

Panel B as demonstrated in Table 3 presents the descriptive statistics for the investment amount allocation after viewing the CSR disclosure factors. Untabulated mean comparisons indicated no significant differences between the investment amount allocation based on the CSR assurance conditions or across any pair of possible cell conditions with two exceptions. As expected, the first exception was that the investment amount allocation with CSR investment level above industry of \$375 was significantly higher than the CSR investment level below industry of \$334 ($p<0.05$, one-tailed). Secondly, the investment amount allocation in the CSR investment level above industry/CSR assurance present of \$336 was moderately higher than that in the CSR investment level below industry/CSR assurance absent of \$26 (p<0. 05, one-tailed). Furthermore, the untabulated mean comparisons of financials-only allocations in Panel A versus with-CSR disclosures in Panel B showed no significant differences with one exception. Again, as expected, the CSR-based investment amount allocation with CSR investment level above the industry of \$375 was lower than the financials-based investment amount allocation of \$402 from Panel A (p=0. 28, one -tailed). These findings have provided the initial evidence that investment amount allocation is lower for the firms that do not have their CSR assurance report audited.

Panel A reported the by-cell dollar mean investment amount allocation before viewing the CSR disclosure items (.e., with financials-data only), (standard deviation), and the number of participants. CSR investment level was manipulated as either Top or Bottom 10 company, while CSR assurance was either present or absent and manipulated with or without an assurance statement for positive CSR disclosure. Panel B reported the by-cell mean and (standard deviation) of the CSR-based investment amount allocation that is based on the long-term investment dollars (out of \$1,000) that participants would allocate to the company after viewing CSR disclosures. Moreover, Panel C reported the t-value and p-value for the hypotheses.

To test Hypothesis 1, participants' investment decision was observed before they viewed CSR for two types of companies with different financial performance: Top 10 and Bottom 10. For the Bottom 10 Company, the magnitude of the investment amount allocation was not significantly different after viewing the audited CSR assurance report.

Following the hypothesis, a paired-sample t-test was directed to assess the impact of the intervention on the investment amount allocation following investors' view of audited CSR disclosure items for the Bottom 10 Company. There was no statistically significant increase recorded in the investment amount allocation from before ($M= 331.87$, $SD = 264.00$) to after viewing CSR information ($M=342.74$, $SD=249.00$), $t(22) = -0.59$, $p=0.28$ (one-tailed). The mean increase in the investment amount allocation was -10.87 with a 95 percent confidence interval ranging from -48.86 to 27.12. Also, the eta squared statistic (.01) indicated a small effect size. In contrast, for the Top 10 Company, the magnitude of the investment amount allocation was higher after viewing independently assured CSR report despite showing no statistical significance. Following the hypothesis, a paired-sample t-test was conducted to evaluate the impact of the intervention on investment amount allocation following investors' view of audited CSR disclosure items for the Top 10 Company. There was no significant increase recorded in the investment amount allocation from before (M=302, SD = 217.22) to after viewing CSR information (M=336.00, SD=; 295.64), t (24) = -0.59, p=0.28 (one-tailed) in Panel C as displayed in the table above. The mean increase in the investment amount allocation was -34.00 with a 95 percent confidence interval ranging from -153.86 to 85.86. As the eta squared statistic (.05) indicated a small effect size, H1 was, therefore, not supported.

To test hypothesis 2, for the Bottom 10 unaudited CSR report, a paired-sample t-test was carried out to assess its impact on the investment amount allocation. There was a statistically significant decrease in the investment amount allocation from before (M= 453.45, SD = 341.98) to after viewing CSR information (M= 325.86, SD=303.14), t (28) = 1.64, p<0.10 (one -tailed). The mean decrease in the investment amount allocation was 127.59 with a 95 percent confidence interval ranging from -31.50 to 286.68. Also, the eta squared statistic (0.09) indicated a small effect size. As far as the Top 10 Company is concerned, the magnitude of the investment amount allocation would be lower after viewing the non-independent CSR report. A Paired-sample t-test was conducted to evaluate the impact of the intervention on investment amount allocation following investors' view of unaudited CSR disclosure items for the Top 10 Company.

There was a statistically significant decrease in the investment amount allocation from before (M= 502.59, SD = 285.87) to after viewing CSR Information (M= 414.44, SD=296.16), t (26) = 1.43, p < 0.10 (two-tailed). The mean decrease in the investment amount allocation was 88.15 with a 95 percent confidence interval ranging from -38.28 to 214.57. As the eta squared statistic (0.07) indicated a small effect size, H2 was, therefore, supported.

IV. CONCLUSION

This research has presented the findings of experimental investigation concerning the effect of the performance and CSR assurance on investment decision making. The participants have made investment-related judgments based on financial, assured, and unassured CSR information about a listed company (identity concealed) in the presentation format. This study verified dual hypotheses, and the outcomes indicated that the presence of the CSR assurance report is important when making an investment decision to assess whether a company is performing well or not. Nonetheless, it was discovered that the presence of CSR assurance did not lead to an increase in investment allocation. This may be attributed to the fact that an independent CSR report seems to reaffirm the decision of investors. Furthermore, according to Casey and Granier (2014), investors are skeptical of CSR reports as they are viewed as impressive management in addition to the belief that companies will operate accordingly due to government involvement. Meanwhile, Park and Brorson (2005) argued that having a CSR report assured might reduce future profits. This is because investors perceived assurances as unnecessary and that they do not signal superior performance, but rather, an unwanted cost. CSR report assurance is deemed to become an integrated investment decision making.

Nonetheless, the absence of a CSR assurance will significantly lower the value placed on such investment by investors. In line with the previous study, it can be said that the unassured information will lead to the reduction of the credibility of information (Coram et al., 2009) which consequently causes investors to shy away from investing in the particular firm. This has been proven based on results result for the second hypothesis; the investment amount allocation will be significantly lowered when investors do not have their CSR reports assured.

This study concludes that having CSR report assured enhances the credibility of the report, theoretically improves the firm's reputation, and makes investment easier, especially for investors.

In this study, we focus on disclosures of positive and negative CSR information and assurance. Thus, adding to the literature of Cheng et al. (2015), Brown Liburd et al. (2018) and Cohen et al. (2011) on the impact of CSR information and assurance in different performance conditions. This study implies for practice. This study provides possible insights for reason companies significantly increase their CSR investment levels and seek professional service firms to assure their report as it has the potential to attract investors who care both not only performance but also the environmental and social impact of the company. The CSR information is also a signal to these investors that the company expects positive future financial performance and as such, they can undertake CSR activities but this can backfire if the company not doing well. However, this effect is nonexistence when CSR information and CSR assurance are presented.

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