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Voluntary CSR Disclosure: Expanding the Determinants with Behavioral Insights

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Abstract

This paper aims to theoretically discuss the determinants of voluntary corporate social responsibility (CSR) disclosure. It reviews and summarizes prior studies, focusing on key factors such as corporate governance, firm size, ownership structure, and external pressures. The paper also highlights the importance of incorporating additional variables, particularly those derived from behavioral theory. Behavioral theory has shown that psychological biases, notably dispositional optimism bias, can significantly impact decision-making and explain various corporate finance phenomena, such as overinvestment or the preference for specific financing methods. Moreover, this bias has been used to explain key phenomena in entrepreneurship, including success and opportunity recognition. Incorporating behavioral factors could bring a new dimension to the study of voluntary CSR disclosure, offering a holistic framework for examining its determinants. This comprehensive approach could also highlight a research gap that merits further investigation.

Keywords

Determinants of CSR disclosure; Behavioral Theory; Dispositional Optimism

JEL Classification: M40; M41; Q56

1. Introduction

Voluntary disclosure in the annual reports is one of the most rapidly growing research areas inthe accounting field (Ben Mohamed et al., 2020). Saudi capital market authority (CMA) as well as other stock market regulators around the globe require public companies to disclose financial information on an annual basis, which is typically achieved through the publication of their annual reports. The financially disclosed information contained in the annual reports is subjectto the Generally Accepted Accounting Principles (GAAP). Over the years, several companieshave found it worthy to disclose information over and above what is mandatorily required by GAAP, International Financial Reporting Standards (IFRS), Saudi capital market authority (CMA), or all. Voluntary disclosure of financial information could be thus seen as giving the reader of an annual report additional tools to more understand the company financial and non-financial information (Alturki, 2014). Also, voluntary disclosure refers to additional information delivered by firms besides the mandatory information. Voluntary disclosure is defined as information primarily outside the financial statements that is not explicitly required by accounting rules or standards (FASB, 2001). Meek et al. (1995) define voluntary disclosures as the disclosures made in excess of requirements. They represent free choices on the part of company management to provide information deemed relevant to the decision needs of users of their annual reports. Disclosure increases transparency while market transparency is observed as a fundamental mechanism in order to decrease the information asymmetry amongthe market's participants (Bleck & Liu, 2007).

In this regard, the reporting of corporate social responsibility (CSR) information to stakeholders has become a vital practice for firms (Hussain, Rigoni, & Orij, 2018) and has garnered significant attention from scholars in business and economics over the past three decades (Ali et al., 2017; Ali & Frynas, 2018; Fifka, 2013; Hussain, Rigoni, & Cavezzali, 2018;Parker, 2005). This growing focus on CSR reporting was largely driven by the exposure of major corporate scandals, such as the "Beyond Petroleum" campaign by British Petroleum and Volkswagen's "Dieselgate" scandal (Garcia-Sanchez et al., 2021), which highlighted the critical need for transparent corporate disclosures related to sustainability. Researchers have linked therise in social and environmental

disclosures to a variety of factors, including corporate social visibility, governance mechanisms, and broader political, social, and cultural influences (Ali etal., 2017). However, these factors often overlook the significant role of behavioral theory, which is also key to understanding CSR reporting dynamics.

Optimism, suggested by behavioral theory, is one of the most prominent personality traits thatis receiving increasing attention in the field of research on entrepreneurship and the economy in general. Scheier and Carver (1992) defined optimism as the generalized positive expectancythat one will experience good outcomes. This bias has gained interest due to a significant waveof studies (e.g., Ben Fatma et al., 2024; Angelini & Cavapozzi, 2017; Crane & Crane, 2007), particularly in psychology, which demonstrates that dispositional optimism exists in most people to varying degrees and clearly influences their decisions.

In this paper, we present the most important conventional determinants of CSR disclosure, andthen argue the importance of introducing behavioral theory and its impact on the disclosure decision, and how it is possible to introduce other theories such as the upper echelons theory within the framework of studying the variables that could be presented and their impact on disclosure.

2. Conventional Determinants of Corporate Social Responsibility Disclosure

Corporate social responsibility (CSR) refers to the voluntary efforts by companies to invest time and resources in environmental and social initiatives alongside their regular business operations, with the goal of establishing a positive reputation among stakeholders (P. & K.B.,2020). To communicate their CSR activities, companies utilize various reporting mechanisms,including environmental, social, and governance (ESG) disclosures, environmental and socialreporting, the Global Reporting Initiative (GRI), triple bottom line reporting, and sustainabilityreporting (P. & K.B., 2020).

There has been a growing emphasis on socially responsible investment (SRI), which involves the ethical and sustainable screening of securities. This trend has, in turn, pressured companies to enhance both their environmental and social performance, alongside their financial outcomes. Four key theories help explain why companies choose to voluntarily disclose their CSR activities (P. & K.B., 2020).

First, agency cost theory suggests that voluntary disclosures help reduce agency costs by addressing conflicts between managers and shareholders, as well as between the company andits creditors (Jensen & Meckling, 1976; Cooke, 1989; Ness & Mirza, 1991; Raffournier, 1995).Second, signaling theory views voluntary disclosure as a strategy employed by managers to send positive signals to the market, thereby enhancing the firm’s image and reducing information asymmetry (Grossman, 1981; Spence, 1974). Third, political cost theory argues that managers disclose information to avoid both implicit and explicit taxes, regulatory scrutiny,and potential regulations (Watts & Zimmerman, 1978; Fields et al., 2001; Healy & Palepu, 2001). Finally, legitimacy theory posits that companies disclose information voluntarily to demonstrate their commitment to social responsibility, positioning themselves as good corporate citizens in order to secure their survival and ensure long-term continuity (Petty & Guthrie, 2000; Hooghiemstra, 2000; Brammer et al., 2006; Daub, 2007).

CSR disclosure has become a key differentiator for companies, allowing them to demonstrate their commitment to environmental and social issues (Adams & Zutshi, 2004; Brammer & Pavelin, 2008). It also enhances transparency, helps attract foreign investment, and builds investor trust (Qu & Leung, 2006). Several studies (Gray et al., 1987; Kolk, 2008; Brammer etal., 2006) have highlighted that CSR disclosure is influenced by a range of factors, including corporate characteristics, external factors and internal factors (Adams, 2002) as follows:

2.1 Corporate Characteristics and CSR disclosure

One of the most famous characteristics of the company that is known to influence the disclosureof CSR is the Firm Size. For instance, Rahman et al. (2011) studied the relationship of corporate characteristics of CSR disclosure of 44 government-linked companies listed on Bursa Malaysiafor 2005 and 2006. By using content analysis to develop a CSR disclosure index taking into account only 16 disclosure items. Results based on the multiple linear regression analysis showed that only the company’s size was positively associated with CSR disclosure index. Asis expected, the larger the company, the more it discloses CSR due to higher public visibility, greater resources, and more pressure from stakeholders (e.g., investors, regulators, and customers).

Firm Age is also another characteristic that affects CSR disclosure. For example, Fadilah et al.(2022) found that firm age has a positive impact on sustainability reporting based on 14 companies listed on Indonesia Stock Exchange in 2015-2019. This indicates that older, reputable companies may be more inclined to disclose CSR information as part of their long- term strategy to maintain stakeholder trust.

Haniffa and Cook (2005) found that type of industry was a significant factor that affected the extent of CSR disclosure by using regression analysis. This result indicates that some industries(such as energy, chemicals, and mining) face higher environmental and social risks and therefore tend to disclose more CSR information due to greater regulatory scrutiny and public pressure.

Another important determinant is profitability, Khan (2010) investigated the effect of corporate governance

characteristics on the extent of CSR disclosure in 2007-2008 for 30 Bangladesh private commercial banks. A CSR disclosure index was calculated by using content analysis method based on 60 disclosure items. He found that profitability correlates positively with the extent of CSR disclosure. Consequently, more profitable companies may have greater resources to invest in CSR initiatives and may benefit more from transparent CSR disclosures, such as improved reputation and access to capital.

By using panel least squares methodology, Dornean & Oanea (2018) suggested a positive relationship between CSR activities and market capitalization of firms, meaning that CSR exerts a significant positive impact on the firm value. This result indicates a predictable reciprocal relationship, meaning that higher market capitalization (value) is associated with more CSR disclosure, as these firms face higher scrutiny from investors, analysts, and the media.

Also, another company characteristic that may affect the disclosure of CSR is the ownership structure. Huafang & Jianguo (2007) found that higher blockholder ownership and foreign listing/shares ownership is associated with increased disclosure. Whereas managerial ownership, state ownership, and legal-person ownership are not related to disclosure. It is noteworthy that companies with a more diverse or public shareholder base may disclose more CSR information in response to shareholder pressure, especially when it comes to institutional investors.

2.2 External factors influencing CSR disclosure

The external environment plays an important role in the extent of CSR disclosure. Mohamed Adnan et al. (2018) argued that corporate social responsibility reporting is more prevalent in companies in countries in which the society is individualistic and also in societies where there is low power distance. Meaning that, the cultural context, including societal values and norms regarding CSR, influences the level of CSR disclosure. Companies in more individualistic and socially conscious cultures may be more proactive in reporting their CSR activities.

In countries with strict regulations or where CSR compliance is legally mandated or incentivized (e.g., mandatory non-financial reporting laws), companies tend to disclose more CSR-related information. Conversely, in countries with weak regulatory frameworks, companies may voluntarily disclose less information. For instance, Huang & Zhao (2016) reached that companies with political connection are significantly better than the ones without political connection in society-oriented and customers-oriented responsibility.

Reverte (2009) investigated the determinants of CSR disclosures by companies listed on the Madrid Stock Exchange and included in the IBEX35 index for 2005 and 2006. Using the linear regression model, his results showed that the most influential determinants were media exposure, the company's size and the type of industries where the companies operated. Suggesting that companies that face greater media scrutiny or public attention to their environmental or social impact are more likely to engage in CSR disclosure to protect or enhance their reputation. As well as external pressures from stakeholders such as consumers, investors and governments may push companies to disclose their CSR activities. Expectations of transparency, particularly regarding environmental or social impacts, often influence companies to report on their CSR activities.

2.3 Internal factors influencing CSR disclosure

Corporate governance is one of the most important internal determinants that plays a significant role in influencing disclosure practices. Fahad & Rahman (2020) found that the corporate governance variables such as board independence, CEO duality and sustainability committee improve CSR disclosure. Which confirms that a strong governance framework, including an independent and diverse board of directors, will lead to increased CSR disclosure. Good governance practices are often linked to a commitment to transparency and accountability.

The board composition is also an important internal determinant. Rouf & Hossan (2020) observed a significant relationship between the proportion of female directors and CSR disclosure. Conversely, they found that board size has no significant relationship with the CSR disclosure, but the proportion of independent directors has found a significant relationship with the CSR disclosure in the annual report by the listed banking sectors in Bangladesh. Their results indicate that having independent directors or directors with expertise in social or environmental issues may encourage greater disclosure of CSR, as these individuals can advocate for greater transparency and accountability.

A study conducted on manufacturing and service organisations in Malaysia by Yusliza et al. (2019), they found a significant positive relationship between top management commitment and CSR. It is noticeable that the position and vision of senior management (such as the CEO or board of directors) play an important role in shaping CSR strategy and determining the level of disclosure. Leaders who prioritize sustainability are more likely to foster a culture of transparency in CSR. This factor is similar to the dispositional optimism factor proposed by behavioral theory.

Another internal determinant of the company is the extent of the company's exposure to risks according to the industry in which it operates, Mahmoud et al. (2024) investigated how risk disclosure and CSR are related in Jordan's banking industry. They found that risk disclosure is a useful strategy for enhancing CSR in the banking sector. We conclude that companies with high financial stability or those exposed to significant environmental and

social risks (e.g., companies operating in highly polluting industries) are more likely to disclose CSR information as a risk management strategy.

It is also worth noting that internal CSR policies and initiatives may affect CSR disclosure. Companies with strong internal CSR policies and initiatives are more likely to disclose CSR activities, as the reporting process often aligns with their corporate values and strategies. Adu- Gyamfi et al. (2021) found that health and safety, workplace diversity, and training and development positively and significantly impact social performance.

3. Managerial discretion and Manager Job Demands

In addition to the well-established factors that influence Corporate Social Responsibility (CSR) disclosures such as firm size, industry type, corporate governance, and external pressures, thereare other critical elements that can shape the extent and nature of CSR reporting within a company. Two such factors are managerial discretion and manager job demands. These elements are especially important as they pertain to the decisions made by individual managers, whose choices regarding CSR disclosures can significantly impact how transparent andcomprehensive a company's reporting is.

Upper Echelons Theory, a psychological theory that originated in the field of organizational behavior and management. Proposed by Donald C. Hambrick and Phyllis A. Mason in 1984, the theory suggests that the experiences, values, and personalities of top executives, often referred to as the "upper echelons" of an organization's leadership hierarchy, significantly influence the strategic decisions and actions of the organization.

Both neoclassical and agency perspectives in finance and accounting research postulate the predominantly rational behavior of management (e.g., Bronfenbrenner, Sichel, & Gardner, 1990; Lieberson & O'Connor, 1972; Mas-Colell, Whinston, & Green, 1995). This perspectiveleaves little room for discretion, personal idiosyncrasies, erroneous or irrational conduct, and decision outcomes. However, numerous psychological and socio-economic studies of judgment and decision-making behavior have provided evidence that individual characteristics influence decision outcomes (e.g., Gordon, 1966; Saunders & Stanton, 1976; Stumpf & Dunbar,1991).

First, Hambrick and Finkelstein (1987) introduce the concept of managerial discretion to integrate different views about how much influence individual executives can exert on corporate-level decision outcomes. Managerial discretion refers to the degree of freedom that managers have in making decisions, particularly in ambiguous situations where clear rules or guidelines may not exist. This discretion gives managers the flexibility to shape CSR strategies, including whether, when, and how to disclose CSR activities. A manager with high discretion may see CSR disclosure not only as a tool for compliance but as an opportunity to strategically position the company in the eyes of stakeholders, demonstrating a commitment to sustainability or social responsibility. This freedom allows managers to align CSR reporting with long-termstrategic goals, perhaps using disclosure to enhance the company's reputation, build stronger relationships with stakeholders, or appeal to socially conscious investors. In contrast, if managerial discretion is limited perhaps by rigid corporate policies or strict regulatory requirements the CSR disclosure might become more formulaic or restricted to minimal compliance with the law.

However, the level of managerial discretion isn't always a straight forward advantage. While discretion can provide an opportunity for more strategic and comprehensive CSR disclosure, italso means that decisions about what gets disclosed are sometimes influenced by personal values or the priorities of top management. For example, a CEO with a strong commitment toenvironmental sustainability may push for detailed reporting on the company's environmental impact, while a manager more focused on short-term financial performance might prioritize cost-cutting over sustainability initiatives, leading to less robust CSR reporting.

Second, Hambrick, Finkelstein, and Mooney (2005) introduce executive job demands. Alongside managerial discretion, managerial job demands also play a crucial role in determining the extent and quality of CSR disclosure. Job demands refer to the various pressures and responsibilities that managers face in their roles ranging from the need to meet financial targets, manage operational issues, and engage with stakeholders. When managers face high job demands, they often have to balance competing priorities, and CSR disclosure might fall lower on the list of immediate concerns. In such scenarios, the manager may opt for a more simplified or less detailed CSR report, particularly if the company is under pressure tofocus on short-term financial performance or operational challenges. If the managerial job is demanding, for instance, in terms of managing a crisis, dealing with market competition, or meeting regulatory requirements, the time and resources available for preparing a thorough CSR report might be constrained.

Yet, excessive job demands can sometimes lead to more extensive CSR disclosure when external pressures push managers to meet stakeholder expectations. For example, companies in highly scrutinized industries, such as oil and gas or manufacturing, may face increased pressure from environmental groups, investors, or regulators to report on CSR activities transparently. In this case, the demands of the job such as responding to regulatory bodies or maintaining a positive public image might compel the manager to prioritize CSR reporting, even if it means allocating time and resources away from other tasks.

Thus, the relationship between managerial discretion, job demands, and CSR disclosure is nuanced. On the one hand, managerial discretion may correlate with more strategic and transparent CSR reporting, as managers

have the flexibility to disclose information that alignswith the company's broader values. On the other hand, the pressures associated with high job demands can either limit the scope of CSR disclosures due to competing priorities or, conversely, drive managers to focus more on CSR reporting in response to external stakeholder demands. The interplay between these two factors—discretion and demands—adds a layer of complexity to understanding CSR disclosure practices, suggesting that companies with both empowered managers and a supportive environment are better positioned to deliver robust and meaningful CSR reports.

4. Dispositional Optimism Bias and CSR disclosure

Contemporary financial economics operates under the assumption of absolute rationality in human behavior, yet empirical evidence indicates otherwise (Baccar et al., 2016; Lajnef et al.,2017; Ben Mohamed and Shehata, 2017; Ben Mohamed et al., 2020; Ben Mohamed, 2021). These departures from rationality often follow discernible patterns. Behavioral finance addresses this discrepancy by revising the conventional assumptions of financial economics, integrating observable, systematic, and distinctly human deviations from rationality into standard models of financial markets (Barber & Odean, 1999).

Behavioral finance investigates how psychology shapes the actions of financial professionals and the resulting impact on market efficiency (Sewell, 2007). By examining social, cognitive, and emotional biases, this discipline seeks to comprehend economic decision-making and its influence on market dynamics, including prices, returns, and resource distribution. Its main focus lies in questioning the assumption of rationality among economic agents, recognizing that investors often make errors influenced by their emotions and those of others during financial decision-making (Chandra, 2008).

The psychology literature offers extensive insights into the subject of optimism. According tothe Centre for Confidence and Well-being (2006), an optimist is "someone who sees the silverlining in every cloud and views the world through rose-tinted spectacles (or a glass that's always half full)." Dispositional optimism is the bias to hold positive expectations across timeand situations. People with a dispositional optimism tend to believe that, overall, they will achieve their goals in various situations (Sujan, 1999).

The definition of dispositional optimism, often categorized as a personality trait, is relatively consistent in previous literature, where it is defined as an individual's tendency to adopt a positive outlook toward future events, often predicting that good events will occur without any clear logical reason. For example, as established in psychological literature, if you ask an individual about the likelihood of contracting a serious illness, they will provide a very low probability or deny the possibility altogether. Similarly, investors expect to make profits, and managers often predict that they will achieve good results, all without a logical basis.

In terms of the impact of dispositional optimism, it has been shown to have a positive effect on entrepreneurial success (Ben Fatma et al., 2015; Ben Fatma et al., 2021; Ben Fatma et al., 2024) identifying investment opportunities, and the overall success of companies. Optimistic managers, influenced by this bias, tend to invest in entrepreneurial opportunities because theyhold this positive, optimistic outlook that always leads them to believe that things will turn outin their favor. On the other hand, several studies in psychology have demonstrated that these individuals are more capable of achieving success, finding solutions to complex problems, andcreating innovative solutions, as they are psychologically more relaxed and positive.

Hence, it was necessary to introduce the behavioral financial theory and study its impact on accounting decisions (Lajnef et al., 2017). Disclosure of social responsibility is a widely debated variable in accounting research. And one of the psychological concepts that is often studied in managerial psychology research is dispositional optimism. Therefore, studying a variable such as dispositional optimism on disclosure of corporate social responsibility is of great importance especially when previous studies did not give it enough attention.

5. Discussion

The decisions made in financial accounting represent critical outcomes for a company's evaluation by capital markets and various stakeholders. Numerous studies have empirically demonstrated the importance of accounting figures in reflecting value (e.g., Barth, 1994; Barth& Beaver, 1996; Park, Park, & Ro, 1999).

In this regard, the majority of studies in financial accounting have historically adhered closely to the principles of financial economics, assuming a global standard of complete rationality in human behavior. This paradigm has dominated research methodologies and approaches acrossvarious regions. However, a noticeable gap exists in the literature concerning the psychological and behavioral dimensions of accounting decisions, particularly in relation to voluntarydisclosures made by companies.

Therefore, even those studies focused on examining the impact of conventional determinants such as corporate governance, company size, ownership structure, have provided invaluable insights into the structural and institutional factors that influence how companies disclose their social and environmental activities. But it is necessary not to limit the study to the conventionaldeterminants of CSR disclosure, and to expand the field to study the variables suggested by behavioral theory, such as dispositional optimism.

6. Conclusion

This paper presents the conventional determinants of CSR disclosure and discusses the need toopen the field to the variables proposed by behavioral theory and upper echelons theory to study a new and unprecedented determinant of CSR disclosure.

Based on the definition of dispositional optimism (rose-colored view/half-full view of the glass), it is expected that this trait will enhance the desire of decision-makers to disclose social responsibility more, because they see the positive side of making the decision to disclose, as they believe that achieving high levels of transparency will undoubtedly benefit their organization, whether it is strengthening the relationship with investors, the preferred image inthe market, the stability of the share price, etc., and like other conventional determinants of CSR disclosure, which have been studied very widely, it is believed that the relationship between dispositional optimism and CSR disclosure will be positive.

In fact, very few studies have ventured into this field, despite its significance. Addressing this gap is crucial, as it underscores the importance of understanding the psychological underpinnings that influence accounting practices in today's era. Such exploration not only enriches our comprehension of accounting behaviors but also enhances our ability to interpretand evaluate financial information more effectively.

As organizations navigate the scope of corporate governance and accountability, fostering a culture that considers psychological factors may prove essential in unlocking greater levels of transparency and trust in the marketplace.

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