CORE OPTION VS COMPREHENSIVE OPTION: WHICH ONE IS BETTER?

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ABSTRACT

Starting from the Global Reporting Initiative (GRI) Generation 4, the Global Reporting Initiative offers organizations two options in preparing GRI-based sustainability reports, namely the core and comprehensive options. The core option requires organizations to include only important elements in their sustainability reports (SRs), while the comprehensive option requires more disclosures regarding governance and all material aspects identified. The options cause SR users to evaluate the quality difference between these two options and the impact of this option on firm value. This study aims to examine whether these core and comprehensive options exhibit different SR quality and the impact of these options on firm value. We ran the independent sample t-test and random effect multiple regression on 496 observations that prepare sustainability reports to the Global Reporting Initiative in 2014-2017 in major Southeast Asian countries. This study finds that sustainability reports with the comprehensive option have better reporting quality than the core report. Further analysis shows that this quality difference is not due to fundamental differences between the two options, but because firms that prepare sustainability reports with the comprehensive option focus more on the quality of their sustainability report. We also show that the presence of a sustainability report does not affect firm value. However, high-quality sustainability reports positively affect firm value only in the comprehensive option subsample. Also, this study demonstrates that shareholders initially perceive that the comprehensive SR option has better quality than the core SR option and tend to read the comprehensive SR option only to evaluate the SR quality. Overall, this study informs the different sustainability reporting quality between these two options and the role of SRs in increasing firm value.

Key words: Sustainability report quality, global reporting initiative, core option, comprehensive option, firm value

INTRODUCTION

Sustainability report (SR) has become a worldwide issue, including in ASEAN countries. In this respect, ASEAN has established the ASEAN CSR Network, and some ASEAN countries even mandate all publicly listed firms to prepare SRs (Ioannou & Serafeim, 2017; Loh et al., 2016; Tempo, 2017; Today Online, 2016). These actions increase the number of SRs, and most SRs use the GRI Guideline (KPMG, 2015).

In July 2018, the GRI Guideline was upgraded into the GRI Standard, the first global standard for SR. The GRI Standard is similar to the GRI Guideline G4, especially in allowing organizations to choose the core or comprehensive option in preparing SRs. Unlike the comprehensive option, the core option does not require organizations to disclose all disclosure standards. Consequently, the core option increases the number of GRI-based SRs in Asia (KPMG, 2015). However, the reduced information in the core option raises questions about the quality of the core option report.

This study seeks to test whether the quality of the comprehensive SR option is better than the core option. Firms need to report their corporate social (CSR) performance to their stakeholders (especially shareholders) through SRs. However, as the number of SRs in ASEAN countries increases, on average, SRs begin to lose the ability to increase firms' legitimacy. Additionally, shareholders tend to analyze a small portion of an SR because of their bounded rationality (Tseng, 2006). Thus, firms are motivated to differentiate themselves from others by presenting comprehensive SRs. Because comprehensive SRs are more costly than core SRs, firms present comprehensive SRs to signal their CSR performance to their shareholders (Alon & Vidovic, 2015; Lys et al., 2015). Thus, firms that present comprehensive SRs likely have better CSR performance. In other words, because high-quality reports inform truthfully, firms with better CSR performance will have higher SR quality(King, 1996; Man, 2015).

Previous studies have analyzed the quality of firms' SR disclosure (Comyns et al., 2013; Michelon et al., 2015; Rudyanto & Siregar, 2018; Sullivan & Gouldson, 2012). Recent literature about sustainability report disclosure in ASEAN countries compares the average quality of firms' SR disclosure (L. Loh & Thomas, 2018). However, those studies do not investigate the difference between the core and comprehensive options. As the core option and comprehensive options have different disclosure requirements, the use of either option likely leads to different SR reporting behaviors that will eventually cause different SR qualities. This paper fills the gap by analyzing whether the quality of the comprehensive SR option is better than that of the core SR option.

This paper also aims to test the impact of core or comprehensive SR option on firm value. The quality of a report depends on its users (Man, 2015). According to the psychology literature, humans have an initial perception of all information (de Lange et al., 2018) as the basis of their decision-making process. The process itself is strongly influenced by prior knowledge. Because shareholders as the most important stakeholders initially know that firms have two options to prepare SRs, they have an initial perception of those options and likely make judgments on SR quality based on their initial perception. As the comprehensive option requires firms to disclose more information than the core option, shareholders likely believe that the comprehensive SR option has a higher quality than the core SR option. The option selected by firms will signal to their shareholders and thus increase firm value. If shareholders believe that the core SR option has less quality than the comprehensive SR option, they will appreciate the comprehensive option more than the core option.

According to the legitimacy theory, firms prepare SRs to have better reputations and eventually to gain legitimacies from stakeholders. If stakeholders appreciate the core and comprehensive options differently, firms should select the most appreciated one. Thus, understanding the SR option that has a higher quality and appreciated more favorably by stakeholders is crucial for firms.

Additionally, this paper also aims to test the moderating role of the SR option on the effect of SR quality on firm value. As shareholders have bounded rationality, they tend to collect information based on their initial perception (de Bruin & Flint-Hartle, 2003). If shareholders initially consider the comprehensive SR option to have a higher quality than the core SR option, they tend to analyze comprehensive SRs, analyze the quality of each comprehensive SR, and react accordingly. Thus, the SR option likely moderates the positive effect of high-quality SR on firm value.

Previous studies have investigated the impact of SR quality on firm value (Guidry & Patten, 2010; Kuzey & Uyar, 2017; Reverte, 2012). The literature on report quality argues that the quality of a report is determined by the values it offers to the readers (Man, 2015). However, SR users tend to have an initial perception of the SR options that leads them to value the presence of SR and SR quality. Because firm value is not only affected by SR quality but also shareholders' initial perception of SR option, studies that test the impact of SR option on shareholders' perception on SR quality is necessary but understudied. This paper fills the gap by analyzing whether the comprehensive SR option positively affects firm value and the impact of SR option on shareholders' appreciation on SR quality.

This study contributes to the literature in several ways. First, this study analyzes the likely SR quality difference between the core and comprehensive options. To the best of our knowledge, this paper is the first that analyzes the quality difference between the core and comprehensive options. Second, we analyze the effect of SR options on firm value. Previous studies (Kuzey & Uyar, 2017; Nekhili et al., 2017) document the influence of SR on firm value, but they do not discuss the effect of SR options (core vs. comprehensive) on firm value. Our results inform firms, stakeholders, and GRI about SRs. In particular, for firms, this study sheds light on the effect of SR on firm value. The findings also inform stakeholders about the quality difference of the core and comprehensive SR options and further advises them on the accuracy of their perception of firms' SR options. Finally, our results advise the GRI to regulate the core and comprehensive options further.

The next section is the literature review. Section 3 discusses the research method, followed by the discussion of the findings. Lastly, the last section concludes.

LITERATURE REVIEW

LEGITIMACY THEORY

Legitimacy theory suggests that firms are bound by social contracts that represent the explicit and implicit expectations of the community about how they should run their operations (Deegan & Blomquist, 2006). Against this background, firms must meet community expectations to survive in communities in which they are located (Dowling & Pfeffer, 1975), including engaging in CSR activities and report them to gain public legitimacy.

Firms can report their CSR activities in various forms, and the sustainability report (SR) is the most extensive one. Firms report 3P (profit, planet, and people) in SRs that inform how their active roles in promoting public welfare and protecting the environment increase their profits (Jeurissen, 2000). The complexity of SR motivates the Global Reporting Initiative (GRI) to launch the GRI Guidelines. The GRI Guidelines list items to be included in SRs to facilitate organizations to prepare SRs. Almost all firms that prepare SRs follow the GRI Guidelines. However, because the guidelines contain so many items, organizations still find difficulties in preparing SRs. Consequently, the GRI offers two SR options for firms, namely the core and comprehensive options. The comprehensive option discloses all indicators of the aspects while the core option discloses only an indicator of each aspect.

Hybels (1995) argues that legitimacy is the residue of the exchanges between the community that provides resources and firms that operate business activities. Firms of which CSR initiatives barely meet community expectations will not generate legitimacies because there are no positive residues between community expectations and firms' operating activities. Against this background, legitimacy implies not only meeting but exceeding community expectations. The argument explains why firms engage in more activities than required, such as preparing comprehensive SRs (Steadman et al., 1995). Firms that select the comprehensive SR option are likely confident with their CSR performance (Jenawan & Juniarti, 2015; Nobanee & Ellili, 2016; Wuttichindanon, 2017). Such confidence motivates firms to disclose all their CSR activities into high-quality reports. Consequently, the comprehensive option has better quality than the core option.

SR QUALITY

SRs' information advantage is the result of SR quality. However, measuring SR quality is still widely debated (Francis et al., 2008) due to its complex and multifaceted concept (Beattie et al., 2004; Comyns et al., 2013). In this regard, two perspectives explain the SR quality concept. The first perspective is based on preparers'. This perspective argues that report quality is affected by preparers' interests because preparers are motivated to provide truthful information to develop their reputation (King, 1996). Therefore, SR quality is determined by the extent of information (number of words, pages, sentences in report) (Deegan & Gordon, 1996; Hackston & Milne, 1996; Meek et al., 1995), breadth of information (number of items disclosed) (Branco &

Rodrigues, 2008; Habek & Wolniak, 2016), and depth of information (qualitative vs. quantitative disclosure) (Ching et al., 2017; Quick, 2008), or the combination of these three indicators (Fernandez-Feijoo et al., 2014; Rudyanto & Siregar, 2018).
The second perspective is based on users, especially shareholders. This perspective argues that the quality of a report is based on the precision of shareholders' Bayesian beliefs after evaluating the report (Hopkins, 1996). This argument implies that SR quality is determined by the extent to which shareholders easily read and interpret the information, such as readability (Habek & Wolniak, 2016; Leitoniene & Sapkauskiene, 2015; F. Li, 2008), understandability (Lock & Seele, 2016; Man, 2015), and comparability (Chauvey et al., 2015; Daub, 2007).

THE BAYESIAN APPROACH

The first perspective has been widely used to measure report quality. However, the second perspective is rarely used as the users' perspective of the quality measurement is more difficult to measure. The reader perspective depends entirely on shareholders' beliefs. According to the Bayesian approach, humans use their prior knowledge to evaluate information and make decisions based on their perception (Cloherty et al., 2016). Prior knowledge affects expectations and creates perceptions of something. Previous studies have found that decision making depends on perception and expectation (Cyert et al., 1958; Sanfey, 2009).

The effect of prior knowledge on perception depends on the reliability of prior knowledge (de Lange et al., 2018). Decision-makers rely strongly on prior knowledge when the expectations are reliable. Because the GRI has announced that the comprehensive option requires firms to disclose more than the core option, shareholders will have their own prior knowledge on SR quality of both options. The prior knowledge is a reliable information quality measurement and leads shareholders to evaluate the comprehensive option favorably (Rigoli & Dolan, 2018). Thus, shareholders will appreciate the comprehensive SR option more than the core SR option.

SIGNALING THEORY AND BOUNDED RATIONALITY

The signaling theory states that managers aim to provide internal information to shareholders to reduce the information asymmetry between managers and shareholders (Connelly et al., 2011). Against this background, firms' CSR information can reduce information asymmetry because it is difficult for outside stakeholders to obtain credible CSR information (Hahn & Kühnen, 2013). Firms with better CSR performance are more motivated to report their CSR extensively (Chiu & Sharfman, 2011; Cuganesan et al., 2007). Thus, high-quality SRs signal better CSR performance (Hahn & Kühnen, 2013). However, because an increasing number of firms prepare SRs, SRs begin to lose their signaling power to shareholders (Plumlee et al., 2010; Quick, 2008), although high-quality SRs still manage to provide signals. Previous studies document that high-quality SRs give signals to shareholders about firms' CSR performance and increase firm value (Berthelot et al., 2012; Caesaria & Basuki, 2017; Clarkson et al., 2011; Lo & Sheu, 2007).

Quality is the ability of the signal provider to meet the information needs of shareholders who capture the signal (Connelly et al., 2011). Therefore, SR quality depends on shareholders' perception of these reports, and these perceptions determine the signals captured by shareholders. Because shareholders will appreciate the comprehensive SR option more than the core SR option, the comprehensive SR option will give more signals to shareholders than the core SR option.

Shareholders have bounded rationality in making decisions, suggesting that shareholders are intendedly rational but have limited capacity to be fully rational (de Bruin & Flint-Hartle, 2003). Thus, shareholders have a limited capacity to gather and process all information available and tend to choose accessible information. In this respect, information accessibility depends on the physical salience of information and natural assessment (Kahneman, 2003). Also, natural assessment is automatically recorded in shareholders' perceptual system unintentionally and effortlessly (Tversky & Kahneman, 1974). Several instances of natural assessments are similarity, causal propensity, surprisingness, affective valence, and mood (Kahneman, 2003). This paper highlights similarity as the cause of accessible information.

Similarity refers to generalizing information from the same group (Tversky & Kahneman, 1974). For example, if A is part of the B group, A is considered to have the same characteristics as other firms in the B group. Similarity is the consequence of the prior perception of the B group. For example, librarians love books, and A is a librarian. Thus, A is more likely to love books. Humans tend to collect similar information to their prior perceptions. When shareholders aim to generate CSR information, they will rely on SRs that they believe have higher quality. If shareholders have prior perceptions that comprehensive SRs have higher quality than core SRs, they will rely on the comprehensive SR option and make decisions based on these SRs. As a result, they will appreciate the high-quality comprehensive SR option more than the high-quality core SR option.

HYPOTHESIS DEVELOPMENT

Firms can select the core or comprehensive option in preparing SRs. The core option only contains the important elements of SRs and informs the background against which firms use to communicate their economic, environmental and social performance, and governance. Meanwhile, the comprehensive option extends the core option by requiring additional standard disclosures on organizational strategy and analysis, governance, and ethics, and integrity. The difference between the core and comprehensive options lies in the fact that the comprehensive option requires firms to disclose the standards for strategy and analysis, governance, ethics, and integrity and to report all indicators related to the material aspects selected. Both options emphasize material aspects, but the comprehensive option explains all specific disclosure indicators for material aspects, while the core option only explains at least one specific disclosure indicator for material aspects (Global Reporting Initiative, 2013).

A report's values offered to its users indicate report quality (Man, 2015). A report is valuable if its users can make decisions based on the data contained in the report. Thus, SR quality depends on whether stakeholders, as SR users, can use the data in SRs to make decisions. The GRI Index is designed based on stakeholders' needs (Bradford et al., 2017), and its comprehensive option aims to fulfill all these needs. However, most organizations select the core option because its requirements are easier to meet. The core option simplifies voluntary CSR disclosures suggested by the GRI Index. If the core option does not disclose all important items, then the core SR option will have worse quality than the comprehensive SR option (Michelon et al., 2015).

Notwithstanding, one of the high-quality report characteristics is density that refers to the compactness of the report (sufficiently fulfill shareholders' information needs and not providing excessive information) (Michelon et al., 2015). According to the GRI, the core option should contain material information based on stakeholders' needs. Because the core option is sufficient for shareholders, the comprehensive option likey discloses excessive information because it requires firms to report too many indicators that potentially distract SR users from important matters and eventually reduces the relevancy and credibility of SRs (Husillos et al., 2011).

However, the legitimacy theory proposes that firms prepare SRs to obtain legitimacies from their stakeholders. Firms need to present SRs differently from their other firms to enhance their legitimacies. According to the bounded rationality theory, firms need to have shareholders' attention to motivate shareholders to access their SRs.

According to the legitimacy theory, because the comprehensive option costs firms more than the core option, firms that present comprehensive SRs are more likely to expose and provide more detailed information on their CSR activities than those that select core SRs (Jenawan & Juniarti, 2015; Nobanee & Ellili, 2016; Wuttichindanon, 2017). Consequently, comprehensive SRs have a better quality than core SRs not because of the disclosure requirements by the GRI, but because firms that select this option are confident with their CSR performance.

H1. The comprehensive SR option has better quality than the core SR option.

CSR disclosure reduces CSR information asymmetry between managers and stakeholders (Bushman, 1991; Diamond, 1985; Lundholm, 1991). This information asymmetry reduction is a signal to shareholders that likely increases firm value. Additionally, SRs also facilitate firms to obtain legitimacies from stakeholders to ensure their survivability (Swinkels, 2012). Studies show that SRs increase firm value (Fodio et al., 2013; Guidry & Patten, 2010; Kuzey & Uyar, 2017; Swinkels, 2012). However, as the number of SRs in ASEAN countries increases continuously, SRs begin to lose their signaling role to shareholders (L. Loh & Thomas, 2018). Previous studies also demonstrate that firms prepare SRs symbolically to increase their reputations without disclosing their real CSR performance (Lopez & Romero, 2014; Michelon et al., 2015). Therefore, shareholders only capture SRs' signal only if SRs have a good quality (Guidry & Patten, 2010).

According to the Bayesian approach, shareholders react to SR quality based on their prior knowledge of SR option choice and SR quality. Thus, shareholders will value the comprehensive SR option than the core SR option because of its greater complexity. In this regard, shareholders believe that firms select the comprehensive option to report better CSR performance (Jenawan & Juniarti, 2015; Nobanee & Ellili, 2016; Wuttichindanon, 2017).

H2. The comprehensive SR option positively affects firm value

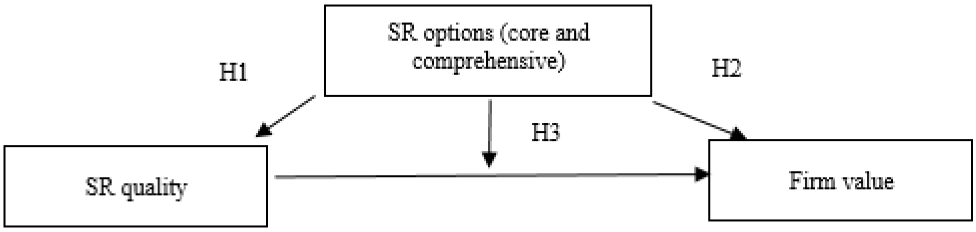
According to the bounded rationality assumption, shareholders tend to select information based on their initial perception because of their bounded rationality (Kahneman, 2003). Previous findings show that shareholders will react based on their initial perception of information (Birkey et al., 2016; Clacher & Hagendorff, 2012; Lackmann et al., 2012). Consequently, shareholders will react by evaluating SRs, and they only evaluate SRs that they believe of high quality (Bosse & Phillips, 2016; Tseng, 2006). Therefore, they are more likely to evaluate the comprehensive SR option than the core SR option. Eventually, the high-quality comprehensive SR option will be more appreciated than the high-quality core SR option.

Previous studies have analyzed the effect of SR quality on firm value (Carroll & Einwiller, 2014; Dando & Swift, 2003; Dingwerth, 2010). However, they do not consider the moderating role of SR options on the impact of SR quality on firm value. Shareholders make decisions based on the initial perception and new information (Kahneman, 2003). Thus, the initial perception of the quality of the core or comprehensive SR options will affect the impact of SR quality on firm value.

H3. SR options moderate the effect of SR quality on firm value

METHODOLOGY

The following figure illustrates the research framework:



Hypothesis 1 predicts that the comprehensive SR option has better quality than the core SR option. Hypothesis 2 predicts the positive effect of the comprehensive SR option on firm value. Lastly, hypothesis 3 predicts that the SR option moderates the impact of SR quality on firm value. In this study, we did not analyze the impact of SR quality on firm value because several previous studies have investigated the issue before.

This study used publicly listed firms in major ASEAN countries (Indonesia, Vietnam, Malaysia, Singapore, Thailand, and the Philippine) from 2014-2017 that also issued sustainability reports. We started our observation in 2014 because in 2013 the new G4 Global Reporting Initiative Index was introduced, and we considered firms to need a year to implement the new index. Meanwhile, the observation period finished in 2017 because, in 2018, Singapore mandated all publicly listed firms to prepare sustainability reports, and Indonesia followed in 2019. We then downloaded the GRI Report List that covered firms that issued sustainability reports from the Global Reporting Initiative website while the SR data was downloaded from www.database.globalreporting.org. This study only used SRs that used English as the language of communication and clearly stated the type of SRs used (core or comprehensive). To test the second and third hypotheses, we excluded firms that were not listed on the stock exchanges and Thomson Reuters. All financial data were extracted from Thomson Reuters and were converted into US dollars for comparability.

This study used STATA 14 to analyze the data statistically. To test the first hypothesis, we used the independent sample t-test by comparing the quality of the core SR option with the comprehensive SR option. This study measured SR quality with the content analysis of the GRI G4 report and the firm's compliance with the ISO 26000 provisions (ISO, 2010). More specifically, we used the rank developed by Gunawan et al. (2007) to measure each disclosure item. This study scored 1 if the SR contained only monetary information, 2 if the SR contained non-monetary information, 3 if it contained qualitative information, 4 if it contained qualitative and monetary information, 5 if it contained qualitative and nonmonetary information, 6 if it contained information monetary and nonmonetary, 7 if it contained qualitative, monetary and nonmonetary information. With a total of 28 items, the maximum value of this measure was 196.

For the second hypothesis, this study used the following empirical model:

$$Q_{(it+1)} = \beta 0+\beta 1 CHOICE_{it}+\beta 2 QUAL_{it}+\beta 3 SIZE_{it}+\beta 4 GROWTH_{it}+\beta 5 CASH_{it}+\beta 6 ROE_{it}+\beta 7 COUNTRY_{i}+e_{it} \quad (1)$$

While for the third hypothesis, this study used the following empirical model:

$$Q_{(it+1)} = \alpha 0+\alpha 1 QUAL_{it}+\alpha 2 SIZE_{it}+\alpha 3 GROWTH_{it}+\alpha 4 CASH_{it}+\alpha 5 ROE_{it}+\alpha 6 COUNTRY_{i}+e_{it} \quad (2)$$

where:

Q: firm value as measured by Tobin's Q.
CHOICE: SR option, 1 if the firm used the core option and 2 otherwise.
QUAL: SR quality.
Control variables:
SIZE: firm size
GROWTH: sales growth
ROE: Return on Equity (profitability)
CASH: cash and cash equivalent
COUNTRY: country of origin

H2 is supported if $\beta 1$ is significantly positive, while H3 is supported if $\alpha 1$ of the core option subsample is significantly different from that of the comprehensive option subsample. This study referred to Li et al. (2018) in including the control variables. In particular, we controlled for firm size (SIZE) because shareholders value larger firms more favorably (Bebchuk et al., 2009). Larger firm size also indicates firms' better operational ability. This study included ROE to measure firms' profitability. Similar to firm size, shareholders also appreciate more profitable firms more favorably. Next, GROWTH was the percentage of sales growth. High sales growth likely increases firm value because investors take firms' prospects into account when estimating firm value. Further, CASH was the natural logarithm value of the cash and cash equivalents amount. Firms with higher cash amounts are more likely to survive during an economic downturn. Additionally, we also added COUNTRY (the country of origin of the SR) to control for country differences. Lastly, . the study also ran separate regressions for two subsamples (firms with the core and comprehensive options) to investigate further the effect of selecting these two options.

RESULTS

The following Table 1 demonstrates the results of our sample selection.

Table 1: Sampling Result

CRITERIA	TOTAL
Companies in GRI Report List 2014-2017	258
Total observation for four years	1,032
SRs which are not listed in 2014-2017	(455)
SRs which do not use English as language	(60)
SRs which do not use GRI G4	(4)
SRs which do not state option used	(9)
SRs that cannot be accessed	(8)
Total observation for H1	**496**
Companies that are not listed in stock exchange	(172)
Data that are not listed in Thomson Reuters	(5)
Total observation for H2&H3	**319**

Some firms that prepare SRs are not publicly listed ones and consequently have no available data. The following are the descriptive statistics of the sample.

Table 2: Statistic Descriptive

	N	MEAN	SD	MIN	MAX
QUAL (hypothesis 1)	496	0.464336	0.118474	0.011583	0.7567568
CHOICE (hypothesis 1)	496	1.062249	0.241850	1	2
Q	319	4.646305	9.317707	0.296375	83.34902
CHOICE (hypothesis 2)	319	1.066038	0.2487395	1	2
QUAL (hypothesis 2)	319	0.4810835	0.1040352	0.1737452	0.7567568
SIZE ($)	319	9210114	1.96E+07	27974	2.35E+08
SIZE (ln)	319	14.88202	1.667497	10.23903	19.27589
GROWTH	319	0.0137054	0.2698918	-0.746689	2.366574
CASH ($)	319	1009467	1856387	135	1.68E+07
CASH (ln)	319	1106.767	19483.65	4.905275	346909
ROE	319	0.1980278	0.4627151	-0.574041	4.482481
COUNTRY	319	3.179245	1.764336	1	6

Note: QUAL= SR quality; CHOICE = SR option (core or comprehensive); Q = firm value; SIZE = firm size; GROWTH = sales growth; CASH = cash and cash equivalent; ROE = return on equity; COUNTRY = country of origin

Table 3: SR Option Data

	N (H1)	% (H1)	N (H2)	% (H2)
CORE	465	93.75	297	93.39
COMPREHENSIVE	31	6.25	21	6.61
TOTAL	496	100	318	100

Table 2 suggests that on average, firms' SR quality is below 50%, and even the minimum value of SR quality is only 1%. The figures indicate that SR does not necessarily imply greater CSR activities or firms implement CSR activities but decide not to report these activities in greater detail. As predicted, more firms select the core option (more than 90%) than the comprehensive option. Further, Indonesia exhibits the highest proportion of total sample firms that present SRs. However, no Indonesian firms choose the comprehensive option report. İn this respect, Singapore has the highest proportion of firms that select the comprehensive option report. Users of SRs need to take firms' different behaviors in selecting these two options when analyzing SRs.

Table 4: Country Data

	N (H1)		% (H1)	N (H2)		% (H2)
	CORE	COMPREHENSIVE		CORE	COMPREHENSIVE	
INDONESIA	166	0	33.47	100	0	31.45
MALAYSIA	37	2	7.86	25	2	8.49
PHILIPPINE	86	5	18.75	29	2	9.75
SINGAPORE	37	13	9.88	48	7	17.3
THAILAND	115	10	25.2	77	9	27.04
VIETNAM	23	1	4.84	18	1	5.97
TOTAL	465	31	100	297	21	100

We tested hypothesis 1 by using the independent sample t-test to compare SR quality between firms that choose the core and comprehensive options. The results show that the comprehensive SR option has better quality than the core SR option (p=0.0637), implying that H1 is empirically supported. We then used multiple regression methods to test hypotheses 2 and 3. The results of the Lagrange Multiplier test suggest that the random effect regression is more appropriate (p = 0.000). Our tests to detect whether the classical assumption is violated indicate no serious violation of the classical assumption. Table 5 below displays the results of the multiple regression test.

Table 5: Multiple Regression Test Result

	COEFFICIENT	CHOICE=1 (N=297)	CHOICE=2 (N=21)
Cons	7.170991**	6.597343**	20.64878*
CHOICE	0.9856921		
QUAL	-0.534882	-2.352689	19.98051**
SIZE	-0.3209054*	-0.1968413	-1.891427*
GROWTH	-0.4942533	-0.571323	1.563784
CASH	-2.93E-06***	-3.00E-06***	0.7198991
ROE	12.59889***	12.4309***	22.11385***
COUNTRY	-0.3166304	-0.1362661	-2.526583**
Prob>chi2	0.0000	0.0000	0.0000
R square	0.8218	0.8338	0.9558

The table indicates that the core or comprehensive option does not affect firm value. Thus, H2 is not empirically supported. SR quality also does not affect firm value. However, if we ran the regression in both subsamples (the core and comprehensive option) separately, only the comprehensive option subsample exhibits the positive effect of SR on firm value. Therefore, H3 is empirically supported.

SENSITIVITY TEST

As an alternative test, we also used price to book value as the proxy of firm value (Charlo, Moya, & Muñoz, 2017; Lee, 2012). The results are qualitatively similar to the main tests.

Table 6: The Results of the Multiple Regression Test (Price to Book Value as the Proxy of Firm Value)

	COEFFICIENT	CHOICE=1	CHOICE=2
Cons	6.564661**	6.256803**	22.16245
CHOICE	1.293317		
QUAL	0.4272943	-1.556905	18.40473*
SIZE	-0.3925352**	-0.2613396**	-1.92052
GROWTH	-0.4662765	-0.5466838	1.346392
CASH	-2.67E-06***	-2.73E-06***	0.6134704
ROE	12.51778***	12.45767***	22.06732**
COUNTRY	-0.3178586	-0.1372893	-2.410851
Prob>chi2	0.0000	0.0000	0.0000
R square	0.8228	0.837	0.9479

Note: QUAL= SR quality; CHOICE = SR option (core or comprehensive); Q = firm value; SIZE = firm size; GROWTH = sales growth; CASH = cash and cash equivalent; ROE = return on equity; COUNTRY = country of origin; *,**,***= significant in 10%,5%, 1%

DISCUSSION

The quality of SR should be analyzed from two perspectives, the preparers and users. From the preparers' perspective, the breadth and depth of the report measure report quality. As the comprehensive option requires greater breadth than the core option, firms that prepare comprehensive reports are more likely to generate greater legitimacies than firms with core reports. Thus, firms with comprehensive reports will prepare more extensive and intensive reports than that of the core option. We then hypothesize that the comprehensive option has higher quality than the core option. The results support this hypothesis. Besides, this study also tests the quality difference for each country. Except for Indonesia (with no firms prepare comprehensive option report) and Singapore (in which the core option has better quality than the comprehensive option), other countries show that the comprehensive option has higher quality than the core option. This study also made an additional test to investigate further whether the quality difference is due to fundamental guidelines or reporting differences. Particularly, the difference in the core and comprehensive options' guidelines, as explained in ISO 26000, only refers to governance (the process and structure of decision making). This study reexamined the quality difference by excluding governance items, and the results remain qualitatively similar (p = 0.0705). These results indicate that the reporting quality difference is not due to the fundamental differences in the core and comprehensive options. Firms select the comprehensive option because they are confident of their CSR performance and disclose CSR performance in greater detail in their SRs that results in high-quality reports.

From the users' perspective, the quality of a report can be measured by the values it offers to shareholders. According to the signaling theory, as shareholders have initial perceptions that the comprehensive SR option has higher quality, the comprehensive reporting option will positively affect firm value. The results demonstrate that the comprehensive option does not affect firm value. If shareholders do not have initial perceptions of the quality of the comprehensive reporting option, the option will not moderate the effect of SR quality on firm value. However, the results show that SR quality positively affects firm value if firms use the comprehensive option. The findings indicate that shareholders have initial perceptions that the comprehensive SR option has higher quality than the core SR option but remain skeptical of the contents of the report. The combination of the comprehensive option and SR quality likely increases firm value. Because COUNTRY negatively affects firm value in the comprehensive option subsample, we reran the regression for each. The results indicate that the results are only relevant to Malaysian countries (p=0.020). Thus, we conclude that only the shareholders of Malaysian firms concern about the SR options and SR quality.

For the control variables, cash (CASH) negatively affects firm value only for firms companies that implement the core option. The findings indicate that shareholders assume that firms have excess cash but do not use the excess cash to prepare comprehensive SRs. Also, firm size (SIZE) negatively affects firm value only for firms with the comprehensive option, suggesting that shareholders appreciate smaller firms that select the comprehensive option more favorably.

CONCLUSION

Firms tend to use the core option that is easier to prepare. However, do the core option's fewer requirements result in poor reporting quality? This study seeks to analyze whether the core and comprehensive options have different SR quality. Our findings indicate that the comprehensive SR option has a better reporting quality than the core option. However, these results do not imply that the GRI guidelines mistakenly offer the core option. Firms that select the comprehensive SR option are more certain about their CSR performance and consequently focus on improving their SR quality. Thus, firms aim to generate more legitimacies by preparing comprehensive SRs. Our findings support the legitimacy theory. This study also aims to investigate the impact of the comprehensive option on firm value and the moderating role of the comprehensive option on the relationship between SR quality and firm value. We document that shareholders appreciate the comprehensive option more favorably than the core option if SRs have higher quality. These results indicate that shareholders do not make decisions based on the presence of comprehensive SRs but the quality of comprehensive SRs. Thus, our findings support the Bayesian approach and bounded rationality theory.

Our results advise firms on the importance of selecting the SR option. Firms that seek to increase their value through SRs (especially Malaysian ones) need to consider the comprehensive option. However, these firms need to prepare high-quality comprehensive SRs to increase their value. This paper also informs stakeholders by highlighting the reliability of their initial perceptions of the SR quality difference between the core and comprehensive options. The comprehensive SR option has a higher quality than the core SR option. Therefore, stakeholders do not have to revise their initial perception of comprehensive SR quality. Our findings also advise the GRI of the behavioral effect of the SR options on firms. Firms that select the comprehensive option will prepare higher quality SRs than those with the core option. Although the core option motivates more firms to prepare SRs, this option also leads to lower SR quality. Thus, the GRI needs to consider to invalidate the core option once all countries have mandated firms to prepare SRs.

This paper is subject to the following caveats. First, the selection of the SR options is endogeneous, and we did not seek to mitigate this issue. We advise future studies to overcome the endogeneity problem. Second, this study did not analyze the industry differences in the analysis. Studies that take industry differences into account will offer valuable insights. Additionally, we also only compared the quality differences quantitatively. We encourage future studies to use the qualitative approach to provide more insights into SR quality. Also, future studies can extend the analysis by investigating firms from other countries or continents (Northern American or European countries) or firms with different characteristics from our sample firms.

Apart from these issues, this study underscores SR quality differences of the core and comprehensive of firms from selected Southeast Asian countries and the impact of the difference on firm value. Thus, this study informs firms to select SR options that affect their value.

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