

## **Too good to be true: Influencing credibility perceptions with signaling reference explicitness and assurance depth**

SDG target 12.6 encourages companies to “integrate sustainability information into their reporting cycle” (United Nations General Assembly 2015, p. 22). As disclosure is an important instrument to provide useful, complete and clear information for stakeholders, the OECD recommends an annual independent audit of the published sustainability information (OECD 2011, pp. 28–29). Investors, consumers, and other stakeholders require transparent communication of sustainability activities to form opinions and make informed decisions. They oftentimes rely on sustainability assurance in evaluating the information in sustainability reports (Hodge et al. 2009).

In most cases, the voluntary character of sustainability assurance offers considerable flexibility for firms. Firm and assurer jointly determine assurance depth and can thereby restrict assurance processes to selected topics of a sustainability report. Furthermore, no uniform standard exists for clearly marking and referencing the topics which have actually been subject to assurance. Firms can choose to indicate the assured topics in a more or less explicit form. However, sustainability assurance needs to be conducted in accordance with ethical sustainability assurance practices and presented in a transparent and unambiguous form to foster reliability and comparability of reporting (OECD 2011, p. 29).

In light of the stakeholder’s need for credible information, the paper investigates how the selection of assurance topics and the format of their communication influences sustainability report readers’ credibility perceptions. Therefore, it examines the communication of assurance (Mock et al. 2007; Mock et al. 2013; Grtrk and Hahn 2016) and variations in assurance depth (Hummel et al., 2019). Reference explicitness and assurance depth represent two strategic choices by management which can either contribute to disclosure clarity and credibility or, on the contrary, create the risk of confusion between assured and non-assured information.

Based on signaling theory, and using an experimental  $2 \times 2 + 1$  between-subjects design approach, the paper critically assesses sustainability assurance and investigates whether it truly signals credible information or instead provides room for false credibility signals (Connelly et al. 2011, p. 45). It thereby shows that the two variables that reference explicitness and assurance depth jointly influence the assurance signal and the perceived credibility of a sustainability report. The results show that readers are not at risk of false signaling but can make incorrect interpretations of the assurance signal and might respond negatively to well-intentioned signals. The main implications of the findings are that firms should refrain from increasing reference explicitness and should select only the most material topics.

The paper contributes to the literature on sustainability assurance and ethical assurance practices in several ways. First, it extends prior research on sustainability assurance (e.g., Hodge et al. 2009; Manetti and Becatti 2009; Perego and Kolk 2012; Fuhrmann et al. 2017; Maroun 2020) by specifically investigating the practice of assuring only selected topics of a sustainability report. Second, extant literature comprises few studies that explicitly consider the communication of assurance (Mock et al. 2007; Mock et al. 2013; Grtrk and Hahn 2016). It is the first paper to examine different degrees of reference explicitness in the context of sustainability assurance. In particular, this research adds value for companies in terms of a better understanding of the way in which sustainability assurance should be signaled to stakeholders. Third, the experiment demonstrates that reference explicitness and assurance depth interact with each other. The results of these strategic management choices are reflected in the unethical practice of false signaling. The paper adds to the literature on managerial capture (Owen et al. 2000; Smith et al. 2011; Hummel et al. 2019) by experimentally examining potential distortions of readers’ credibility perceptions for variations of reference explicitness and assurance depth. Fourth, the paper contributes to studies investigating signaling theory in the context of sustainability assurance (e.g., Cheng et al. 2015; Zerbini 2017; Clarkson et al. 2019; Hummel

et al. 2019) by analyzing variations in signal observability and signal fit (Connelly et al. 2011). The results provide new insights on the unethical practice of false signaling and provide an example of an incorrect signal interpretation by readers.

## References

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