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Five key words: CSR, voluntary social disclosure, sustainability reports, Germany, Sweden.

Purpose: The purpose of this Master Thesis' research is to explain the potential differences in voluntary social disclosures in Germany and Sweden.

Methodology: This study is based on quantitative analysis of a sample of 215 annual reports and separate CSR reports of listed companies in Stockholm Stock Exchange and Frankfurt Stock Exchange. Voluntary disclosure of social information is measured using a GRI checklist.

Theoretical perspectives: Multi-theoretical approach will be used throughout the paper.

Empirical foundations: Regression analysis and Pearson correlation are used to test the hypotheses and examine the degree of voluntary disclosures in annual reports and CSR reports.

Conclusion: The research suggests differences in voluntary social disclosures in Germany and Sweden. It further supports previous empirical research findings that company size, industry and foreign listing influence disclosure practices. However, ownership structure, profitability and leverage show no correlation with voluntary social disclosures within this study.

CSR Reporting

A Comparison of German and Swedish Listed Corporations

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Own Work Declaration

We hereby declare that all information in this document has been obtained and presented in accordance with academic rules and ethical conduct; we have fully cited and referenced all material that is not original to this work. We further declare that this thesis is our own work and effort and that it has not been submitted anywhere for any award.

Lund, May 2010

Bahrie Lecaj *Mathias Heinrich*

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List of Abbreviations

AG	- Aktien Gesellschaft
CSR	- Corporate Social Responsibility
DAX	- Deutscher Aktien Index
GRI	- Global Reporting Initiative
IFRS	- International Financial Reporting Standards
ISIN	- International Securities Identification Number
IT	- Information Technology
MDAX	- Midcap Index
NASDAQ	- National Association of Securities Dealers Automated Quotations
OMX	- Option Market Exchange
ROA	- Return On Assets
SDAX	- Small Cap Index
TBL	- Triple Bottom Line
TecDAX	- Technology Index
US-GAAP	- United States Generally Accepted Accounting Principles

1. Introduction

Corporations not only have to comply with judicial regulations but also with social regulation and norms in order to be accepted by society (Brown & Deegan 1998). Voluntary CSR is "[...] *firm's acceptance of a social obligation beyond the requirements of the law"* (Davis, 1973, p.313) and it's disclosure offers a unique way to inform and explain corporate action to all stakeholders as well as enhance the corporations' acceptance and trust within its environment (Hooghiemstra, 2000). "*Corporate social responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large."* (Watts & Holme 2000, p.3). Thus, it might lie within the corporations self interest to disclose additional information; e.g.: compliance with codes of conduct and ethical standards, attraction of further resources, positive public interest, avoid new mandatory regulation, reduce information asymmetry, legitimacy threats (Deegan, 2002). According to the legitimacy theory and the stakeholder theory companies voluntary disclose information to manage their organisational legitimacy (Deegan, 2002). Voluntary disclosure is also viewed as an opportunity to present an organization in a positive light and to portray a positive picture of a corporation's social and environmental performance (O'Donovan, 2002).

Different stakeholders have different expectations towards companies' goals and performances. They want to be informed about the attitude and responsibility regarding social, ethical and environmental aspects of a company (Global Reporting Initiative). Often, these groups of stakeholder put pressure on the companies whose conduct is unacceptable and considered unethically, while seeking to hold them accountable for the social issues that often would cause a high financial risk for the companies (Tilt, 1994). When Shell was exposed trying to sink the oil platform Brent Spar in the North Sea in 1995, revenue plummeted by 50% due to public pressure and Greenpeace interference (Krägenow, 1998). Today Shell discloses broadly on its ethical, social and ecological engagement (Pleon, et al., 2005). In 2005, 360 different CSR-related shareholder resolutions were filed - on issues ranging from labour conditions to global warming (Porter & Krammer 2007).

In response to stakeholder's expectations companies disclose information on how the company is interacting with social, ethical and environmental issues and different stakeholders in general. Carrol's (1991) CSR pyramid and Triple Bottom Line accounting (Elkington, 1994) are the main frameworks and reasons for environmental, social and ethical disclosures. Companies usually use forms of CSR reporting like annual reports or separate CSR report called Sustainability Report (Reverte, 2009). 'Sustainability Reporting' serves as a voluntary communication tool between companies and society; it includes disclosing, measuring and accountability of an organisations performance in a given period towards internal and external stakeholders (GRI Guidelines, 2006). Therefore, "[...] *CSR can be much more than a cost, a constraint, or a charitable deed - it can be a source of opportunity, innovation, and competitive advantage*" (Porter & Krammer 2007).

The increasing demand for more transparency (Tagesson, et al., 2009) resulted in the disclosure of sustainability reports by many multinational corporations. Amongst the 250 largest companies globally 79% disclose CSR data and 77% of those companies use the Global Reporting Initiative (GRI) framework (GRI Report, 2010). The GRI provides guidance for organisations to disclose their sustainability performance. Further, "[...] *it facilitates transparency and accountability by organizations and provides stakeholders universally – applicable, comparable framework from which to understand disclosed information"* (Global Reporting Initiative). However, this transparency is not easily achieved across industries, companies and countries because a number of different, competing standards for non-financial disclosures, are existing (Chen & Bouvain 2009). Despite the existing pluralism of cultures and values the standard setters are challenged to provide legislation that will cover CSR disclosures universally, dispassionately and impartially (Scherer & Palazzo 2007).

The European Union is providing a legal framework for a common business place. In order to achieve transparency and comparability conditions that define the 'rules of the game' regulation has to be established by a state apparatus, thus a standard setter; because the market cannot establish the conditions of its own existence due to self interest and profit maximization (Scherer & Palazzo 2007). Self regulation aims to avoid mandatory regulation and increases the corporations' credibility (Rodríguez & LeMaster 2007). An unregulated fast growing sector of CSR reporting is promoting the disclosure of reports without materiality, decreasing transparency and comparability of all stakeholders (Lo, 2009).

1.1 Justification

Countries across Europe, due to unique histories and diverse socioeconomic cultures, use different political strategies and tools to consolidate the voluntary sustainable responsibilities of corporations (Habisch, et al., 2008). Our work aims to identify and explain potential differences between listed corporations from Germany and Sweden. We chose these two countries because some mandatory CSR reporting already exists in Sweden, while such regulation is absent in Germany. This factor as well as cultural differences lead us to believe it would be interesting to investigate CSR reports in both countries, especially considering the lack of mandatory European wide regulation. Thus the purpose of this paper is to detect differences in CSR reporting in Germany and Sweden. Leading to the main research question:

Does a difference in CSR reporting exist between German and Swedish listed companies?

Further, we try to add to the existing research, which uses business variables such as size, industry, ownership structure, profitability, leverage, listing status and cultural aspect that can explain the differences between countries. This approach will use the business factors within the context of their country specific culture, enabling us to explain potential differences in more depth.

2. Methodology

This chapter summarizes the research philosophy and research approach used to collect our data, steps and procedures taken to analyze them. We will discuss different theoretical approaches we will use to explain voluntary social disclosures. The Empirical approach will be conducted through the quantitative content analysis on the annual reports and sustainability reports of the sample of listed companies in both countries, Sweden and Germany.

2.1 Research Philosophy

The most important perspectives used by researchers are: Positivism, Interpretivism and Realism. Interpretivism is the approach that advocates that reality can be understood by our interpretation of the social occurrence in reality. Likewise an objective analysis is impossible since the researcher is also part of the research process. Interpretivism emphasizes on conducting research among people (Saunders, et al., 2007). This approach would require us to examine the social construction of people and provide their interpretation. Realism philosophy states that the truth is what our senses show us in reality. Further, that there is a reality quite independent of the mind (Saunders, et al., 2007). Interpretivism and realism show less correlation to our research because we need a broader, more generalized and objective perspective on the social disclosure practices among companies as institutions rather than concentrating on how individuals perceive and how they interpret the social disclosure practices. Hence, we will use the positivistic philosophy for our paper. Positivism is a theory of knowledge, which allows statements to be collected through experience and verified facts based on empirical data, free of researcher influence. This approach often uses quantitative methods with an emphasis on measuring as well as the use of factor analysis (Saunders, et al., 2007). The Positivistic approach is appropriate for our research and will allow us to objectively compare different variables and statistical data.

2.2 Research Approach

Literature on methodological guidelines recognizes two main research approaches: Deductive and Inductive. Deductive approach starts from more generalized observations to more specifics, from developing theory and hypothesis to designing a research strategy to test those hypotheses. Inductive approach starts from specific observations to broader generalization, from collecting data to developing a theory as a result of those data analysis (Saunders, et al., 2007). The purpose of our paper is explanatory rather than exploratory. Considering that broad theories and literature on voluntary social disclosures already exists, deductive method will be used. We will start by analyzing the existing theory on voluntary social disclosure; propose several hypotheses before conducting our research through empirical studies, and analysis.

2.3 Theoretical Approach

A number of empirical studies provide a wide range of literature on CSR, using different theoretical approaches in support of voluntary social disclosures, among which the most common are: decision usefulness, agency and positive accounting theory and system-oriented theories. The decision usefulness theory has been used to explain the demand for voluntary disclosures from the investors or in studies how disclosure information affects the stock price. According to this theory, the corporate disclosures are attempts to remove the informational asymmetries between the firm and external agents, primarily agents in the investment community (Brammer & Pavelin 2004). Agency theory views the firm as a nexus of contracts between various economic agents who act opportunistically within efficient markets (Reverte, 2009). This theory focuses on individual self-interest and can be used to explain why management choose to voluntary disclose information. From this perspective providing information can be useful to determining debt contractual obligations, managerial compensation contracts, or implicit political costs (Reverte, 2009). Positive accounting theory was first introduced by Watts and Zimmerman (1978; 1979) as a model for explaining the corporate financial reporting. They argue that '*the only accounting theory that will provide a set of predictions that are consistent with observed phenomena is one based on self-interest*'. Legitimacy theory, Stakeholder theory and Institutional theory are sometimes referred to as system-oriented theories. Within the system-based perspective the entity is assumed to be influenced by the society in which it operates.

Legitimacy theory and stakeholder theory are also called political economic theories and they both centre on the social, political and economic framework in which human life takes place (Guthrie & Parker 1990; Gray, et al., 1995). Legitimacy theory relies on the notion of social contract where the company will agree that it will comply with the social actions desired and expected by the public. The company will be successful only if it acts within these bounds of expectations (Deegan, 2002; Reverte, 2009). This theory seek to answer why companies disclose social and environmental information in annual reports (O'Donnovan, 2002), or what strategies managers use to legitimise a company's action (Deegan, 2000). While the legitimacy theory focuses on the society as a whole, stakeholder theory focuses on the particular group of people (Mitchel, et al. 1997). Stakeholder theory views social disclosures as a response to significant pressures from the firm's external and internal environment, social and political stakeholders (Brammer & Pavelin 2004). Institutional theory assumes that organizations will apply structures and practices that are considered legitimate by other organizations within its organisational field (DiMaggio & Powell 1983). This theory has proved useful in explaining the accounting choices (Collin, et al., 2009) or examining the affects that institutional environment have in firm's social behavior (Aguilera & Jackson 2003).

Disclosures are complex phenomenon that cannot be explained by a single theory (Cormier, et al., 2005). Different stakeholders have different interests, and different interests need different kind of theories to justify their needs (Deegan, 2002). All underlying theories concern the interaction between the company and the stakeholders and can be used to explain the same issue but from the different perspectives. These theories provide useful frameworks for studying corporate social behavior (Gray, et al., 1995). Furthermore, Gray *et al.* (1995) points out that when explaining an empirical phenomenon theories need to be looked upon as complementary instead of competitive. According to Collin *et al.* (2009) '*eclectic theories are analytical tools that make use of different theories in order to find the factors that can create a satisfactory explanation, without any commitment towards the need of integrating one theory's factors into another theory*'.

We believe that the eclectic approach will result in most comprehensive and objective results of our findings. Therefore, a multi-theoretical approach will be used throughout the paper. This explanatory eclectic approach shall add to the existing literature and ongoing discussion, scientific as well as public, regarding a possible mandatory legislation across Europe for CSR reporting.

3. Theory

3.1 Voluntary Corporate Social Responsibility Disclosures

Corporate Social Responsibility originated from the concept of sustainability, it is the application of sustainability by corporations within their entire environment. The European Commission defines it as *"Voluntary corporate initiatives, in a context of accepting social responsibility, which may enhance a sustainable development [...]"* (European Commission, 2006, p.31).

The term Corporate Social Responsibility has its origins in the United States of America in the 1950s, it dealt with the business and social research triggered by the industrialisation (Sachs, 2000). In the beginning 'CSR' referred only to individual social responsibility of managers; *"It refers to the obligations of businessmen to pursue those politics, to make those decisions, or to follow those lines of actions which are desirable in terms of the objectives and values of society."* (Bowen, 1953, p.6). In the 1960s and 1970s, with the beginning public awareness about environmental issues the public discourse about social and economical issues was increasingly widened by the environmental and sustainable aspect. The origin of modern CSR can be found in the environmental discussion and area. While Friedman (1970, p.236) still argues that social responsibility only serves profit maximization: *"[...] there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game."*; the World Commission of Environment and Development published the Brundtland-Report in 1983 defining the concept of sustainable development as *"Sustainable development is development, which satisfies the needs of the contemporary generation without risking that future generation won't be able to satisfy their needs"* (Hermanns, 2000, p.).

A contemporary definition of CSR usually uses the Triple Bottom Line concept on a corporate level; which the EU Greenbook defines as *"A concept, as a corporate foundation, to consider social and ecological concerns as well as integrate such in business activities and the interrelation with its stakeholders."* (European Commission, 2001, p.8). Today the term

CSR comprises aspects as broad as economical, political, cultural, social, ethical and environmental factors. It further covers concepts of corporate responsibility, corporate citizenship and (good) corporate governance (Rohde-Liebenau, 2009, p.1). This describes activities above and beyond sponsoring. The corporation is active citizen and social participant, which *"invests in its environment and takes regulatory responsibility [...] that includes besides financial support the engagement of all corporate resources – employee involvement, specialized knowledge, organisational expertise, information etc."* (Habisch, 2003, p.51).

Carroll (2000) categorizes CSR in a way that reflects its development in a historical context: The first priority of any corporation is the economical level, to sustain efficient economic management. This level refers to profit maximization and Adam Smith's 'invisible hand'. The second level is the legislative framework, which already imposes a 'codified ethical responsible code'. Carroll (1977) defines it as "Trustee Management", which includes the consideration of a balance between certain stakeholders such as employees, clients, investors, suppliers and the economical success. The third level takes legitimacy theory in consideration and states that certain values of a corporation such as the norms and expectations of its environment have to be respected and followed. This extends the 'Trustee Management' with the emerging globalisation and pluralistic society; values may be proposed by labour and trade unions, environmental groups as well as consumer initiatives. The fourth level goes beyond the latter three and refers to voluntary practices enhancing sustainable business doing and development. Carroll (1997) calls it 'Quality of Life Management', which reflects the contemporary understanding of CSR due to a changing society and its perceptions about globalisation, environment and development as well as modern day issues such as global warming, superannuation of the population, several crises of capital systems and social systems.

Voluntary Corporate Social Responsibility Reports and disclosures are a form of communication. Bruhns (2005, p.2) states that "*A corporations communication includes all tools and activities, which display the corporation itself as well as its performance to all relevant internal and external target groups and/or enables an interaction with such*." The primary goal of such disclosures is to promote and maintain legitimacy, gain trust and reputation as well as establish a positive image. In the past ecological and environmental reports were not paid great attention by corporations. Especially, during the 1990s, when corporations were criticised for environmental issues and exploiting the developing world, CSR report were mainly a tool to appease the public discussion and attention (Zerfaß, 1996).

A more contemporary approach to CSR reporting, mostly originated within shareholder and legitimacy theory, demands a much higher transparency and credibility presented in a pursuable manner (Institut für ökologische Wirtschaftsforschung, 2002). CSR reporting evolved from a pure mandatory financial performance oriented disclosure practice over an integrated mixed reporting to a separate mostly voluntary disclosure. Further, the separate report focuses on the completeness of disclosing interrelations between economical, ecological, ethical and social aspects (Schulz, et al., 2001).

3.2 Factors influencing voluntary social disclosures

The purpose of this paper is to explain potential differences in CSR reporting of corporations from Germany and Sweden. Our eclectic approach will cover macroeconomic and microeconomic factors as well as show their interaction. It is our understanding that these factors are inseparable for a complex and sophisticated analysis. Adams' (2002) prior literature and research on voluntary social disclosures suggests three categories:

1) Corporate characteristics (including size, industry group, financial/economic performance and share trading volume, price and risk)
2) General contextual factors (including country of origin, time, specific events, media pressure, stakeholders and social, political, cultural and economic context)
3) The internal context (including identity of company chair and existence of a social reporting committee)

Corporate characteristics concur to our microeconomic approach, while the general contextual factors reflect our macroeconomic approach. Nobes & Parker (2008) argue that macroeconomic factors directly and indirectly influence microeconomic factors; e.g. Corporate Sustainability can be broken down into economic, ecological and social sustainability. The long term goal of corporate sustainability is a balance between economic survival, ecological consonance and social responsibility (Elkington, 1998). It is further necessary to measure sustainability in order to evaluate and steer it (Spangenberg & Bonniot, 1998). Further, sustainability is defined as "*the maximum amount which can be consumed in any period without reducing the potential for future period's consumption by reducing the capital stock*" (Hicks, 1946 in Hanley 2000, p.5). Hanley (1995) argues that on a macroeconomic level the GNP or national accounts can be extended with environmental factors to generate a 'green national product', e.g.: Environmentally-adjusted Net National Product. Together with the concept of sustainable capital theories, which use man-made capital (machines etc.), human capital (knowledge, education) and natural capital (renewable and non-renewable natural resources) derived from the classic production factors (capital, labour, property) to generate economic sustainability indicators.

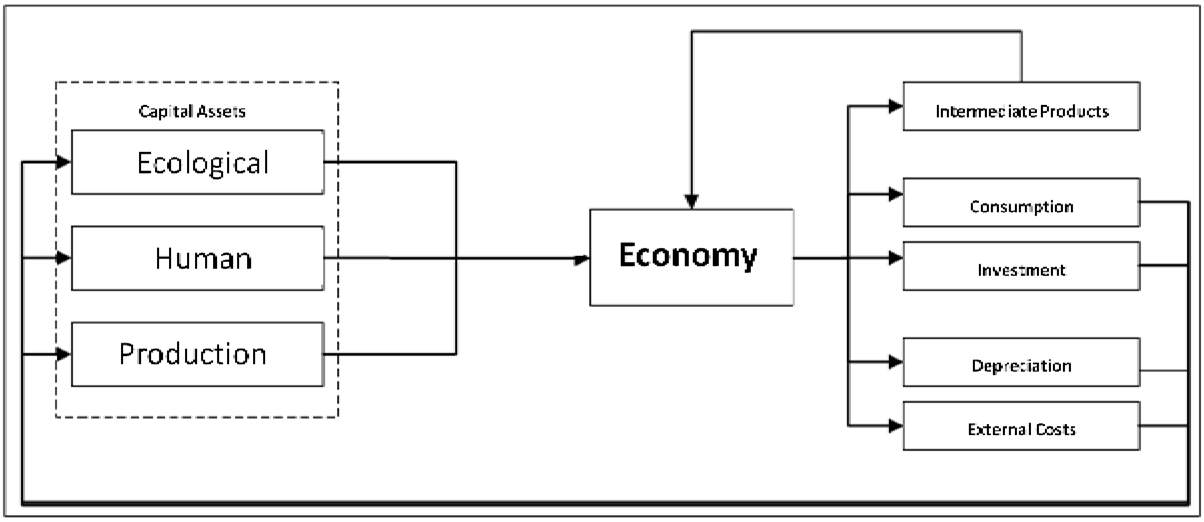

Figure 1: 'Assets and Flows within the Production Process' (own illustration according to van Dieren, 1995, p.83)

The human capital, usually knowledge and education, will be, for our argumentation, enhanced with the attribute of culture, which has an important influence on various aspects of life. Culture as an indicator or determinant of accounting practices is acknowledged throughout the literature (Haniffa & Cooke, 2005; Smith, et al. 2005; Nobes & Parker, 2008). The four capitals model of Spangenber and Bonniot (1998), a microeconomic approach, uses the three dimensions of Triple Bottom Line Accounting (natural, social and real capital) and extents it with intellectual or human capital. The interaction between all is displayed in Figure 3.

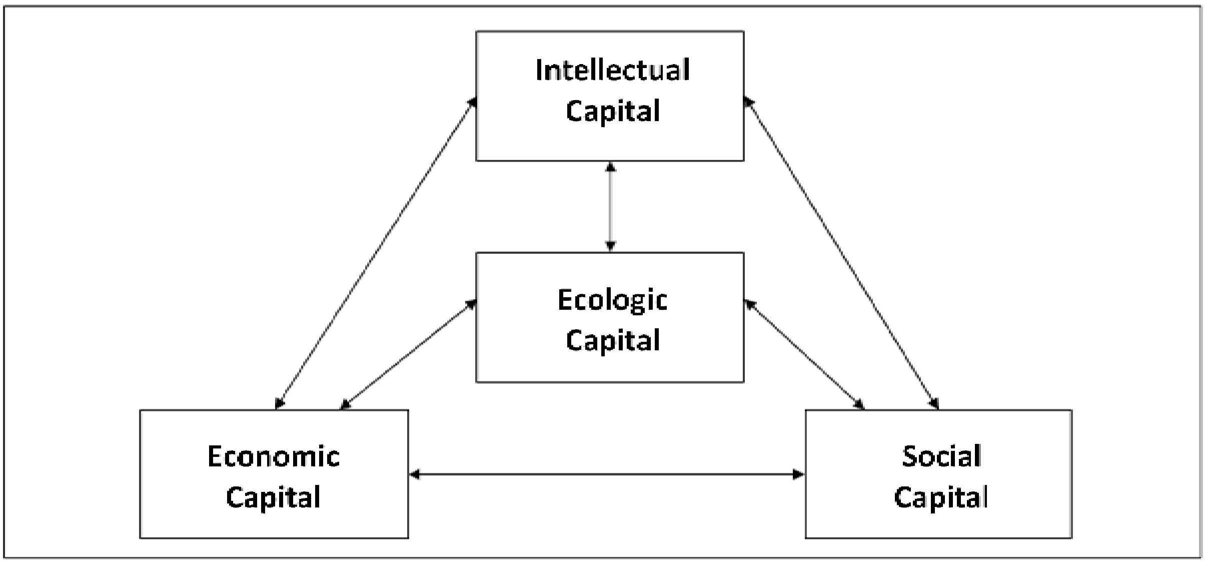

Figure 2: 'Four Capital Model' (own illustration according to Spangenberg & Bonniot, 1998, p.9)

We argue that the intellectual capital is greatly determined as well as influenced by culture. Therefore, all other factors are directly and indirectly affected by culture. Williams (1999) found that cultural factors as well as political, civil and legal systems are all significant determinants of corporate social disclosures. Adams *et al.* (1998) suggests that country- and culture-specific factors may weigh less than corporate- and industry-specific factors due to the increasing globalization of businesses and international harmonization of accounting standards. He suggests that analysis which focuses upon national differences may therefore hide more fundamental influences upon corporate social reporting practices. The interaction and interdependency of cultural differences and institutional factors, which contribute to differences among countries (Smith, et al., 2005), was a fundamental reason for our two level eclectic approach.

Our study adopts certain factors of the first and the second category. On a macroeconomic level we chose culture or socioeconomic determinants as well as country of origin as general contextual factors. The microeconomic determinants and corporate characteristics are ownership structure, size, industry, profitability, leverage and international listing.

3.3 Corporate Characteristics

3.3.1 Ownership structure

Patterns and trends in share ownership differ from country to country (Nobes & Parker 2008). Ownership structure, weather it is concentrated in the hands of few large investors or it is dispersed, it has been proposed as an influence on disclosure policy (Roberts, 1992). Agency theory has been used by many researchers to explain this type of corporate governance, while considering the firm as a nexus of contracts between various economic agents who act opportunistically within efficient markets (Reverte, 2009)

When ownership is dispersed, shareholders have little or no power in effectively monitoring the managers of a company. This absence of monitoring can result in the agency costs (Fama & Jensen 1983). Shareholders in this case, according to Eisenhardt (1989) have imperfect information to make qualified decisions; contractual limits to management discretion may be difficult to enforce; and shareholders confront free-rider problems where portfolios are diversified, thereby reducing individual incentives to exercise rights and creating preference for exit.

There is information asymmetries between the shareholders and managers, and according to the agency theory, agent (managers) always posses more information on the company than the principal (shareholders). According to the decision usefulness approach, corporate disclosures are attempts to remove informational asymmetries between the firm and external agents, primarily agents in the investment community (Brammer & Pavelin 2004). According to Prencipe (2004) corporations with many owners are in general expected to disclose more information than corporations with concentrated ownership in order to reduce information asymmetries between the organisation and its shareholders.

This absence of the monitoring ability by the shareholders and the information asymmetry that exists between the shareholders and mangers might bring to an adverse investor reaction (Brammer & Pavelin 2006), and this might result putting pressure in the managers to disclose more information. Following, Keirn (1978a) argued that the demands played by share owners become broader when distribution of ownership of a corporation becomes less concentrated. Roberts (1992) went further suggesting that the wider the dispersion of corporate ownership the better the corporation's social responsibility disclosures. As indicated by the literature above, the greater the split between the owners and managers in companies, the greater the need for voluntary social disclosures, likewise following from Prencipe (2004) and Reverte (2009) we expect that larger companies with dispersed ownership are significantly more likely to make voluntary social disclosures. Hence we make the following hypothesis:

On the contrary firms with concentrated ownership structure are not expected to disclose more information on social responsibility activities as a response to the shareholder's pressure or to reduce information asymmetries because the shareholders can get a direct hold on the information they need. Reverte (2009) suggests that managers in concentrated ownership structure are less motivated to disclose additional information on their web sites, insofar as the shareholders of these firms can obtain information directly from the firm. This type of ownership does not motivate the managers to disclose more information as the benefits of the company are more spread over fewer people owning the shares and the cost/benefit trade off is not an incentive in this case for the mangers (Cormier, et al., 2004).
The reasoning leads to the following hypothesis:

Hypothesis 1: A positive correlation exists between ownership structure and voluntary social disclosures

3.3.2 Size

Firm size has been used in many studies as a variable and factor that affects voluntary disclosures of information on social responsibility activities. Stakeholder theory views the social disclosures as a response to significant pressures from a firm's external environment. Cowen *et al*. (1987) suggest that larger companies have more shareholders who might be concerned about the social activities of the company and they might tend to communicate information about social programs through more formal channels to interested parties. Company size would be related to social responsibility activities because larger companies are more exposed to the general public (Watts & Zimmerman 1986). Hence they are under greater pressure to exhibit social responsibility and disclose information on their activities not only from the investment community but also from socially sensitive interest groups, government regulatory agencies, and other stakeholders that have an interest in a company (Trotman & Bradley 1981; Tilt, 1994; Roberts, 1992). For example Guthrie and Parker (1990), using a survey to examine cross national differences in social disclosure in U.K., U.S., and Australia, conclude most disclosures appear to be reactions to governmental or public pressure. Larger firms seem to have more incentives than the smaller ones. According to the agency theory larger firms have higher agency costs (Jensen & Meckling 1978). Watts and Zimmerman's (1986) political theory suggest that larger companies are more visible to the public likewise are more newsworthy.

According to the economic approaches social disclosures are seen as steps to mitigate adverse regulatory or legislative pressures in the future (Brammer & Pavelin 2004). Adams (1998, p.17) suggested that ' *If companies voluntarily disclose information, not only may they reduce external or public demands for greater controls on their freedom of action, but the Government may also be able to use such disclosures as a justification for not introducing more social legislation or regulations*'.

Even though company size has been criticized as a proxy because it correlates with many other corporate characteristics (Roberts, 1992), hence many empirical studies found positive relationship of the size factor with voluntary social disclosures. Tagesson *et al*. (2009) found a positive correlation of size with the content of social disclosure information on firm's websites. Reverte (2009) when analyzing the potential determinants of CSR disclosure practices by Spanish listed firms found that there is a positive relationship between firm size and CSR disclosure concluding that firms with higher CSR ratings present statistically significant larger size. Reasoning from the literature above we expect that company size is correlated with voluntary social disclosures, thus we make the following hypothesis:

> *Hypothesis 2: A positive correlation exists between size and voluntary social disclosures*

3.3.3 Industry

Some researchers believe that the nature of the industry is a more important factor impacting on social responsibility disclosures. The rate of participation in the different forms of voluntary disclosure varies significantly across industries (Brammer & Pavelin, 2004). Industry as a variable is used in voluntary social disclosure's literature mostly to explain environmental disclosures, rather than other ethical disclosures. Some industries are particularly environmental or socially sensitive therefore they are expected to disclose more information in response to external pressures. For example firms in consumer oriented industry (for example see Tagesson, et al., 2009; Holder – Webb, et al., 2009) are expected to act as a 'good corporate citizen' since consumer's power is strong in this industry, hence they will influence the revenue of the companies.

Companies sensitive to the environmental impact (chemicals, manufacturing etc.) are more likely to enhance their image through voluntary social disclosures. The tobacco and alcoholic drinks industries are associated with highly visible social issues and face particular social pressures from the government through taxes and legislations but also from the environmentalist pressure groups, and might consider necessary to disclose in order to assure the investors and other stakeholders. For example Tagesson *et al.* (2009) found that consumer goods industry disclose more about ethics, raw materials industry disclose more information on environment, whereas IT corporations disclose less information. KPMG (2008) reports that '*Corporate responsibility reporting has made progress in the last few years with more companies developing a corporate responsibility performance strategy, especially in those industry sectors with higher impact. In reporting these sectors have found a useful vehicle for both addressing stakeholder's concerns and managing exposure to risk'*. They further report that disclosures are still not a widespread practice across other industry sectors like forestry, pulp and paper, automotive and utilities[1].

Many empirical studies evidence that industry influences voluntary social disclosures (for example Cowen, et al., 1987; Belkaoui & Karpik 1989; Gray, et al., 1995; Adams, et al., 1998; Williams, 1999; Tagesson, et al., 2009; Broeberg, et al., 2009). Williams (1999) found that industry type significantly influence the amount of voluntary environmental and social disclosures provided by the company. Cowen *et al.* (1987) examined corporate disclosures made in the 1978 annual reports of a sample of Fortune 500 companies and found that industry affected the type of CSR disclosure. Furthermore Cowen *et al.* (1987) points out that industry category appears to influence some types of voluntary social disclosures in the industries he studied, namely energy and community involvement, whereas human resources, products do not appear to be significantly affected by industry category. Gray *et al.* (1995) also found that disclosure levels are influenced by industry while he studied U.S. and U.K. sample of industrial companies. Reverte (2009) found that CSR ratings belong to more environmentally sensitive industries. Holder-Webb's *et al.* (2009) empirical research on CSR

[1] KPMG International Survey of Corporate Responsibility Reporting 2008

reporting practices in U.S. companies support the previous findings that industry affects firms in terms of frequency and intensity of focus, and he also found that industry affects also the reporting format choice made by U.S. companies. Adams *et al*. (1989) finds evidence from his study that industry is related to the level of disclosure with companies in more sensitive industries disclosing more information.

As we can see from the literature above there are differences in extent and the type of voluntary social disclosure practices among different industries and following from previous empirical findings we make the following hypothesis:

> *Hypothesis 3: A positive correlation exists between industry and voluntary social disclosures*

3.3.4 Profitability

The association of profitability with voluntary social disclosure has been viewed from different theoretical perspectives, and this relationship is still unclear. According to legitimacy theory, it can be expected that profitable companies disclose more information to legitimise their existence, by showing themselves as socially responsible and their contribution to social issues and well-being in general. Another possible explanation can be drawn from the agency theory perspective that argues that managers disclose information in their 'good times' (Holland, 2005) to assure their shareholders about their good financial position of the company. Naser (1998) argues that management with good news is likely to disclose more information than management with bad news. Hence, can be suggested that management in a more profitable firm will disclose more information on firm's social responsibility activities to assure the shareholders that they achieved to maximise firm's values and that they can 'promote' their work, whereas firms with low profitability might disclose less because management want to secrete the information because of the bad performance and results.

Previous research and empirical studies evidenced the positive relationship between profitability and voluntary social disclosures (Ullmann, 1985; Cowen, et al., 1987; Belkaoui & Karpik 1989; Roberts, 1992; Tagesson, et al., 2009, Broeberg, et al., 2009). For example Cowen *et al*. (1987) when examining the relationships between several corporate characteristics and specific categories of social responsibility disclosures found a positive correlation between the number of voluntary social disclosures and profitability, however return on equity was not a significant variable explaining the categories of disclosures in annual reports. Tagesson *et al*. (2009) found that disclosures were significantly associated with profitability, and Broeberg *et al*. (2009) also found a positive relationship between profitability and the voluntary social disclosure information and share-related information in particular. Further it is argued (see Ullmann, 1985) that there is a correlation with social performance and economic performance thus social disclosure being a function of company profitability, and when economic performance is poor voluntary social disclosure will be low. Hence we expect a positive relationship with profitability and voluntary social disclosures by companies and we hypothesize the following:

> *Hypothesis 4a: A positive correlation exists between profitability and voluntary social disclosures.*

In contrast, several studies suggest a negative relationship or very low level of significance between profitability and voluntary social disclosures (Patten, 1991; Camfferman & Cooke 2002; Ismail & Chandler 2005; Brammer & Pavelin 2008; Reverte, 2009). For example Patten's (1991) study on voluntary social disclosures found that profitability variables included in empirical analysis were not significantly associated with the extent of social disclosures. In the other hand, Camfferman and Cooke (2002) found a significantly negative relationship between the British firm's profit margin and the extent of disclosures. Moreover they found no significant relationship between return on equity and the extent of disclosures. Furthermore Cormier *et al*. (2005) found no evidence that voluntary social disclosure behavior is different between more or less-profitable firms, and Reverte (2009) argues that profitability does not seem to explain differences in CSR disclosure practices between Spanish listed firms. Brammer and Pavelin (2008) found no association between profitability and quality disclosures. Reasoning from the above arguments we make the following hypothesis:

> *Hypothesis 4b: A negative correlation exists between profitability and voluntary social disclosures.*

3.3.5 Leverage

Prior studies have proved that highly leveraged companies would disclose more information than companies with low leverage. However these studies are inconclusive. Leftwich *et al.* (1981) argued that the monitoring demand for information increases as firm debt increases. From a perspective of agency theory it can be argued that highly leveraged firms will disclose more information in order to reduce the monitoring costs (Jensen & Meckling 1976) and satisfy the needs of debenture holders and trustees (Watson, et al., 2002). From the same perspective, Clarkson *et al*. (2008, p.321) argued that there is significantly positive association with leverage and voluntary disclosures suggesting that '[...] *debtholders exercise pressure on firms to disclose environmental related matters to assess potential future liabilities*'. Ismail and Chandler (2005) in their study of relationship between the extent of disclosure and the chosen characteristics of companies, found a significantly positive association of leverage with the extent of disclosure. These results suggest that there is a positive relationship between the leverage and voluntary social disclosures. Based on the literature expectations are that highly leveraged firms disclose more information, whereas low leveraged firms will disclose less information and we hypothesize the following:

> *Hypothesis 5a: A positive correlation exists between leverage and voluntary social disclosures.*

Nevertheless, some studies found a negative relationship or no relationship. Brammer and Pavelin (2006) in their study of environmental disclosures found that highly leveraged companies are significantly less likely to make such disclosures. Chow and Wong-Boren (1987) further argue that leverage offer no explanation of voluntary disclosure. Hence we hypothesise the following:

> *Hypothesis 5b: A negative correlation exists between leverage and voluntary social disclosures.*

3.3.6 International Listing

The previous literature on disclosures suggests that firms listed in more than one stock exchange outside their home country will face additional pressures to disclose information and additional disclosure requirements, compared to companies with a domestic listing only.

Meek and Gray (1989) suggest that these pressures can be institutional and from capital market. However, Meek *et al*. (1995) argues that listing status can be used in explaining voluntary strategic and financial disclosures but not nonfinancial disclosures.

Agency theory suggests a possible conflict between the manager and shareholders exist, because of the information asymmetry and monitoring. Agency theory is based on the self-interest and it suggests that it is possible that manager will use the information in his own advantage. Since internationally listed companies have more shareholders than domestic ones thus monitoring costs can be higher. Hence, they will use disclosures as a means of reducing these costs.

Cooke (1989) suggested that listing status is an important determinant in explaining voluntary social disclosures in Sweden because of the small number of multinational companies with multiple quotations. Previous studies proved that multinational listing will have an effect on firm's voluntary disclosures because rules are different among countries and stock exchanges, hence companies with foreign listing will disclose more information (Cooke, 1989). Haniffa and Cooke (2005, p.418) argue that '*in absence of rules and regulations on social disclosures in Malaysia, companies with listing on oversees stock exchanges adopt legitimation strategies to reflect societal concerns in the global market'*.

Hackston and Milne (1996) examined the possible association of multiple stock exchange listings on disclosure amount. They found that dual and multiple overseas listings may be associated with greater social disclosures made by New Zealand companies. Cooke (1992) found association of listing status with extent of disclosures by Japanese corporations and his empirical studies found that multiple listed corporations disclose more information in their annual reports than corporations listed only in domestic stock exchange. Further, he argues that '*an overseas quotation has an effect on the extent of information disclosed in the domestic annual reports of Japanese corporations rather than on reports prepared for the international reader or for a foreign stock exchange* [...][and that] *corporations are willing to behave in this way, not only because of the differences in needs to raise external capital, but to match foreign exchange risks and to increase international awareness of their existence'* (Cooke 1992, p.236). Reasoning from the literature above, we expect that listing status, whether it is international or domestic, will affect voluntary social disclosures of companies in Germany and Sweden and we hypothesise the following:

Hypothesis 6: A positive correlation exists between firm's listing status and voluntary social disclosures.

3.4 General Contextual Factors

Previous literature found a relationship with culture, political and legal influences with voluntary disclosures (Adams & Harte 1998; Burchell, et al. (1985); Adams & Kusirikun 2000; Haniffa & Cooke 2005). Knowing the significant influence of culture and political and legal influences among countries, we consider important to explain these factors in brief and how they shape one country's social behavior. However, due to the complexity of these factors and difficulty in isolating the contextual variables and the complex relationships between them (Adams & Harte 1998; Adams, 2000) we will explain these factors under the Country of Origin which will be testing variable for our study and make hypothesis.

3.4.1 Country of Origin

Despite increasing of standardization of global social reporting, variation in disclosure practices still remain significant among different countries. Country origin is considered as the main factor and a significant explanatory variable determining the differences among companies in different countries, and the extent and nature of voluntary disclosures (Gray, et al., 1996; Andrews, et al., 1989). Prior research have found that voluntary social disclosures varied across national boundaries and they provide evidence on the type and amount of disclosures (for example, Freedman & Stagliano 1992; Gamble, et al., 1996; Andrew, et al., 1989; Cowen, et al., 1987; Gray, et al., 1996; Adams & Kuasirikun 2000; Van der Laan Smith, et al., 2005). Gamble *et al.* (1996) when doing the research from an international perspective found that environmental disclosure practices varies extremely among and within the countries he studied. Freedman and Stagliano (1992) found inconsistence in the quality and level of the voluntary social disclosure of the companies in European Union.

Maignan and Ralston (2002) examined the extent and content of social disclosures of 100 companies from each country namely: France, Netherlands, U.K. and U.S. and they investigated the nature and CSR principles, processed and stakeholder issues discussed in their web pages. They found that businesses from different countries show different level of dedication to being perceived as socially responsible, and they identify variety of principles, processes and stakeholder issue in order to demonstrate their commitment to CSR. The extent of these differences sometimes is hard to be defined because of the characteristics that vary between companies (like size and industry) that are examined in the specific study (Adams, et al., 1998).

Motivations for disclosures are another factor that varies across countries (Adams, et al., 1998), and these variations have been studied using legitimacy theory. According to legitimacy theory companies choose to be socially responsible and disclose the information to legitimize their activities (Deegan, et al., 2000). However Adams *et al.* (1998) point out that legitimacy theory alone seems to be inadequate in explaining the differences across countries. According to his study, while Germany could be expected to disclose social information to legitimize its activities, same conclusion cannot be drawn for the UK companies, as UK companies might have different motivations for it. It might be that the image is a motivation for them to disclose social information (Adams, et al., 1998).

Country differences have also been explained using stakeholder theory. Different stakeholders ask for different information. In UK for example, annual reports are more aimed for the shareholders, and as a source of capital there are usual private individuals. In other European countries annual reports are aimed at a wider group of stakeholders. From a stakeholder perspective, Van der Laan Smith *et al.* (2005) argue that the extend and quality of corporate social disclosures in annual reports is affected by the manner in which a country defines the role of a corporation and its stakeholders in a society, based on content analysis of annual reports for 32 Norwegian/Danish companies and 26 US companies in the electric power generation industry. Variations in national and regional reporting requirements around the world can therefore manifest themselves in variations in voluntary disclosures as well (Gray, et al., 1995). Based on these findings, we hypothesize that there are national differences in voluntary disclosures in large companies in Germany and Sweden likewise:

3.4.1.1 Culture

Culture aggregates the most basic values and morals of individuals of a certain group. This group; exclusive by geographic, ethical, historical and/or social factors; significantly affects the structure and interaction with society, substructures and other groups. Accounting may be viewed as one of many substructures. In this context culture as a part of an accounting systems environment has a clear influence on accounting (Nobes & Parker 2008). This cultural context on a national level influences organizational structures and activities, as well as management assumptions. Further, it affects practices, objectives, developments and standards of a country's accounting system (Smith, et al., 2005). In order to understand an accounting system it is important to understand the motivations and values of those involved in the accounting policy formulation and execution (Haniffa & Cooke 2005).

Hofstede's four cultural dimensions

Hofstede conducted a survey among 100,000 IBM employees from 39 countries and concluded on 4 aspects of culture:

1) Individualism vs. Collectivism
2) Large vs. Small Power Distance
3) Strong vs. Weak Uncertainty Avoidance
4) Masculinity vs. Femininity

1) Individualism vs. Collectivism

This criterion describes the degree of interdependence among individuals within a society (Nobes & Parker 2008). It also refers to the expectation and acceptance of individuals possessing less power within institutions or organizations towards the imbalanced distribution of power. Individualism states a high degree of independence and collectivism refers to a significant 'we' feeling and perspective (Hofstede, 1997). Sweden with 71 and Germany with 67 points score medium on individualism. Meaning, social networks are loosely connected and individuals only take care of their immediate family.

2) Large vs. Small Power Distance

Hofstede (2006) refers to it as the emotional distance between employee and superior. Therefore, it is based on the values of the powerful and determined from the perspective of those who are being led (Hofstede, 2006). Germany and Sweden both score low on power distance with 35 and 31 respectively. The respective score indicates that both countries do not easily accept hierarchical structures without further justification (Nobes & Parker 2008).

3) Strong vs. Weak Uncertainty Avoidance

This dimension is the degree to which individuals are uncomfortable with ambiguity and uncertainty (Hofstede, 2006). Countries with strong uncertainty avoidance maintain complex rules and codes with little tolerance for deviation; while countries with weak uncertainty avoidance societies favour practices over principles and are more relaxed towards the unknown. A fundamental difference is the extant of attempted control of the future and uncertainty. Sweden scores a low 29 on uncertainty avoidance while Germany scores a rather high 65; reflecting a more relaxed attitude towards the future in Sweden and higher ambiguity towards the unknown in Germany.

4) Masculinity vs. Femininity

Masculinity refers to materiality, success and achievement. The opposite femininity describes modesty, caring for relationships and quality of life (Hofstede, 1997). While Germany scores a rather high 66, Sweden only scores a very low 5 on masculinity. The biggest difference between both countries using Hofstede's four cultural dimensions rating, expressing a preference in Germany for high income, recognition, promotion and challenges. Contrary, Sweden prefers a pleasant and comfortable environment, teamwork, relaxed work relationships and job security (Hofstede, 2006).

Maletzke (1996) argues that certain values, traits and preferences are common throughout individuals within societies but to conclude on such characteristics is at most speculative. He further states that comparisons on state levels are highly difficult because the variation of individual traits is far too broad. Taras & Steel (2006) acknowledge the extensive data collection but criticize the disregard of national differences as well as to conclusion that nationality equals certain cultural values. Reimer (2005) claims that the study has been biased by the western perspective of Hofstede, and demands an 'update' of the broad dimensions. Hofstede (2001) acknowledges the latter contradictions. However, this comprehensive study *"with more advantages and disadvantages"* (Triandis, 1982, p.90) will be the basic determinant of cultural values being used in our study of Germany and Sweden.

3.4.1.2 Political and Legal Influence

According to Nobes & Parker (2008), who use a categorizing approach to explain differences in accounting systems, categorize Sweden and Germany in the Continental accounting group, which has the following main characteristics: use of code law, bank financing, link between accounting and taxation, small accounting profession, no inflation accounting and legal method perspective. This implicates that both accounting systems are featured by prudence and the frequent use of reserves as well as having a calculative and measurable purpose with direct economical impact. The two countries can be categorized in the same main group of European accounting systems; different historical development, however, contributed to differences in contemporary accounting practices. Both, Germany and Sweden, belong to the Continental European Model but the accounting development was shaped predominantly by legalism in Germany, meaning it is statue based, and corporatism in Sweden, expressing an economic control.

The accounting system in Sweden has a macroeconomic framework; it developed as a supplement of internal economic policies (Nobes & Parker 2008). This suggests that Sweden includes CSR reporting in its accounting and since 1.January 1999 legislation exists regarding mandatory environmental information within the administration section of annual reports. Corporations must commonly report on legitimization issues of their business and with an obligation to report also have to include the environmental impact of their practices on the nature. Further, environmental information is subject for auditing in Sweden (Nyquist, 2003). Germany's accounting system was developed through uniform accounting, a development in which governments used accounting to measure, steer and control various aspects of businesses. This includes high standardization of measurements and definitions (Nobes & Parker 2008). In Germany the government and banks are dominant within the accounting sector, therefore the German accounting system aims to serve tax authorities and debt holders rather than equity holders (Chen & Bouvain 2009).

Hypothesis 7: A positive correlation exists between country origin and voluntary social disclosures

Summary of Hypotheses

Hypothesis 1: A positive correlation exists between ownership structure and voluntary social disclosures

Hypothesis 2: A positive correlation exists between size and voluntary social disclosures

Hypothesis 3: A positive correlation exists between industry and voluntary social disclosures

Hypothesis 4a: A positive correlation exists between profitability and voluntary social disclosures.

Hypothesis 4b: A negative correlation exists between profitability and voluntary social disclosures.

Hypothesis 5a: A positive correlation exists between leverage and voluntary social disclosures.

Hypothesis 5b: A negative correlation exists between leverage and voluntary social disclosures.

Hypothesis 6: A positive correlation exists between firm's listing status and voluntary social disclosures.

Hypothesis 7: A positive correlation exists between country origin and voluntary social disclosures

4. Empirical Methods

Content analysis, a method of classifying the content of a document into various categories will be used in this study (Haniffa & Cooke 2005). It is a *"research technique for making replicable and valid inferences from data to their context"* (Krippendorf (1980) in Deegan et al., 2002). It has been argued that a content analysis can only be as good as the document the observers use for their study. Further, quantitative research has been criticised its reliance on procedures and instruments that aggravate a direct connection between research and day to day life; in a sense that people and institutions interpret their environment and reflect on it as well as on themselves – a feature that cannot be found within natural sciences (Bryman & Bell 2007). We argue that the critique does not directly apply to our research as we take public available information, sustainability reports and annual reports from company websites. These documents have been prepared by the companies not knowing that it will be part of a research project or content analysis, therefore the information is taken unbiased out of the natural world. This unobtrusive method makes it highly objective as the participants [listed corporations in Sweden and Germany] do not qualify for a reactive effect, which is the knowledge of being studied or the awareness of an observer present (Bryman & Bell 2007). However, we as well as the readers of this paper have to consider the information asymmetry between the company and the report users [Stakeholder Theory] as well as the tendency of not disclosing unfavourable information [Legitimacy Theory]. This relates to all corporations and can be disregarded when assuming that all listed corporations apply such practices to a certain extent; correlations implicating such behaviour have been done e.g. by Deegan *et al.* (2002) and Silberhorn & Warren (2007). The latter assumptions refer to materiality as well as external certification of sustainability reports, which cannot be determined or evaluated within this study and thus are not part of this research framework. The correctness of all disclosed information is assumed.

Voluntary disclosure will refer to all reports or/and parts of annual reports that qualify it for additional disclosed information as defined in Chapter 3. For simplification reasons a distinction between sustainability report; ethical, social, environmental disclosure, corporate governance and TBL accounting has not been done. We assume an international understanding of sustainability according to our definitions to have a common base for the data collection; in line with the study of Silberhorn and Warren (2007).

Content analysis is a transparent research form, as the coding and classifications are specific and pursuable. However, critics raised the concern of reliability and validity. Reliability, the consistency of measures, includes stability, internal reliability and inter-observer reliability (Bryman & Bell 2007). To ensure overall reliability we administer a test-retest measure for stability as well as inter-observer consistency, which both consist of the re-counting of a random 20% of all corporations for one owns first data collection [stability] and again for the other observers data collection [inter-observer consistency] with a maximum of an entire 10% deviation. Internal reliability refers to the scope, aim and coherence of our research. Validity is the issue if the concept and research design are appropriate for what we try to measure (Bryman & Bell 2009). The use of multiple indicators and their relation to the research question have been proven by several studies before (Deegan, et al., 2002; Cormier, et al., 2004; Haniffa & Cooke 2005; Silberhorn & Warren 2007; Tagesson, et al., 2009).

4.1 Research Method

The coding of content analysis should be derived from a fixed construct of rules to eliminate ambiguity and overlapping (Deegan, et al., 2002; Williams & Ho Wern Pei 1999). Exhaustive and mutually exclusive will further ensure reliability and validity. The data collection for this empirical study has been done through the internet during May 2010, using information provided by annual reports and sustainability reports available on corporate websites. We considered the last available reports regardless of the fiscal year end date. Most fiscal years ended on 31.December 2009 or 31. March 2010. However, few reports were scattered over 2009 with the latest annual report from 31.March 2009. Currencies have been converted into Euro with the average daily exchange rate on 30. April 2010 using oanda.com currency converter.

<u>Swedish Sample Selection</u>

First, we have taken the list of all companies listed in Stockholm Stock Exchange from the NASDAQ OMX Nordic web page. We categorised the companies into large, medium and small companies. Next, companies were categorised by the industry consequently naming: Consumer Discretionary, Consumer Staples, Energy, Financials, Health Care, Industrials, Information Technology, Materials and Telecommunication Services.

From the total number of 258 listed companies in Stockholm Stock Exchange we have drawn a sample of ninety-two companies, by using a stratified random sampling technique. According to Saunders et al. (2007, p.221) '*stratified random sampling is a modification of random sampling in which you divide the population into two or more relevant and significant strata based on one or a number of attributes* [...] *a random sample (simple or systematic) is then drawn from each of the strata'*.

After companies have been categorised by size and industry, we used the systematic sampling and selected every third company in the list for our sample. Companies that did not have an English version of their annual report or sustainability report were removed from the sample, and have been replaced by a company of the same size and industry.

German Sample Selection

The main German stock exchange in Frankfurt, the Deutsche Börse, includes more than 1000 listed companies. These are grouped into different indices, such as DAX, MDAX, SDAX, TecDAX, and different standards, such as Regulated and Unregulated Market with Prime Standard, General Standard and Free Float. The indices are determined by the company's size and influence within the German economic market. The Regulated Market demands certain standards of transparency from the companies included. Therefore, our preselection was the Prime Standard with the highest demands on transparency. These demands include:

(i) application of international accounting standards (IFRS or US-GAAP)
(ii) extensive interim reports for first and third quarter
(iii) publishing a company calendar
(iv) ad-hoc notifications in English
(v) at least one analyst conference a year
(vi) financial reports and company calendar have to be prepared and published in German and English as well as have to be made available in electronic form
(vii) restricted options for financial reporting and therefore higher transparency

These are the highest standards within the German stock exchange and condition to be accepted into the indices mentioned above (Deutsche Börse Group).

The Prime Standard has about 300 listed companies from which we took every third company to be included in our German sample. Companies with a non German ISIN were removed from the list before sampling. The final sample size comprises 123 companies. A further preselection considering size or industry type was not possible for Germany. Therefore the sampling was random sampling. However, the sampling approximately reflects the gross domestic production by industries for 2009 as determined by the Federal Bureau of Statistics.[2]

The Frankfurt Stock Exchange uses 63 sub sectors to determine the industry type. These are grouped into 18 sectors and 9 super sectors. The 9 super sectors have been converted into the Swedish sectors in order to simplify the comparison (Deutsche Börse Group). Therefore, the German sector 'Services' was distributed amongst the other Swedish sectors according to the main area of business and 'Consumption' was divided into Consumer Staples and Consumer Discretionary. All other German super sectors matched the Swedish ones.

Table 1: Industry Sectors according to the German and Swedish stock exchange; own graphic

Germany	*Sweden*
Utility	Utilities
Telecommunication	Telecommunication Services
Financial	Financials
Industry	Industrials
Information Technology	Information Technology
Pharmacy and Health	Health Care
Raw Materials / Materials	Materials
Consumption	Consumer Discretionary Consumer Staples
Service	Energy

The rather small sample size allows for a comparison in greater detail, more complex data and thus a more comprehensive analysis and more reliable conclusion.

[2] Budesamt für Statistik http://www.destatis.de/jetspeed/portal/cms/Sites/destatis/Internet/DE/Content/Statistiken/VolkswirtschaftlicheGesamtrechnungen/Inlandsprodukt/Tabellen/Content75/Gesamtwirtschaft,templateId=renderPrint.psml

4.2 Dependent Variables

The dependent variable Voluntary Disclosures is measured by using a checklist (Appendix I). The checklist was composed of GRI factors. The inclusion of all GRI factors was not possible due to the time constraint. We chose, what we believe, are the most important factors. However, we excluded emissions and waste as these have been extensively discussed throughout the public and media. Therefore, are of higher interest to be disclosed by companies and thus would bias the final outcome (Deegan, et al. 2002).

The recording unit will be the variable 0/1, where 0 is recorded when a category is not disclosed and 1 if a category is disclosed within the annual financial statements or the separate sustainability report (Tagesson, et al., 2009). Other 0/1 variables will be used to determine the existence of a separate sustainability report or not, 0 is indicating that all CSR related disclosures are within the financial statements and 1 indicates the existence of a separate report (Haniffa & Cooke 2005).

The respective score for each corporation is additive and unweighted (Meek, et al., 1995). Contrary to previous findings, which indicate a difference regarding the importance of certain disclosure item (Tagesson, et al., 2009) preferences across countries and of different report users are not known. Previous studies indicate no or only a small difference between ranked and unranked disclosure scores (Meek, et al., 1995). To preserve a high degree of objectivity an unweighted data collection has to be preferred over a weighted one. The approach to scoring items has been criticised for being dichotomous in that one single disclosure related to a certain categories is treated the same way [1 = disclosed] as many or a higher quantity of disclosures (Haniffa & Cooke 2005). A large amount of items partly overcomes this problem.

4.3 Independent Variables

- *Ownership Structure* is measured by the existence of concentrated ownership – a single shareholder that owns at least 25% of capital, with the variable 0 = non existing and 1 = existing. Companies with concentrated ownership are expected to disclose less information as the owners have easy and fast access towards information (Cormier, et al. 2004). Ownership structure above 50% seemed unlikely among large listed corporations therefore we decided for 25%, reflecting a quarter of ownership includes a large amount of exercising power over the entity assuming it is the largest single share.

- *Size* is measured in terms of total assets and employees (Jaggi & Low 2000; Watson, et al., 2002; Cormier, et al., 2005; Tagesson, et al., 2009) instead of turnover (Gray, et al., 1995; Adams et al. 1998;) because of the large differences of turnover according to industry type.

- *Industry* will be grouped according to the following categories: (i) Consumer Discretionary, (ii) Consumer Staples, (iii) Energy, (iv) Financial Services, (v) Health Care, (vi) Industrials, (vii) Information Technology, (viii) Materials, (ix) Telecommunication Services according to the Swedish stock exchange system.

- *Profitability* is measured in return on total assets [ROA] (Ljungdahl, 1999; Tagesson et al., 2009). This accounting based measure is subject to higher management manipulation compared to other market based measures. However, ROA considers more stakeholders and consequently is more representative (Reverte, 2009).

- *Leverage* is determined by the current year's equity debt ratio (Meek, et al., 1995).

- *Foreign Listing* is recorded as a 0 / 1 variable, with 0 = no foreign listing and 1 = foreign listing (Cooke, 1989, Tagesson, et al., 2009; Broeberg, et al., 2009)

4.4 Statistical Tests

In order to describe and explore the relationship between the variables we will be using some statistical techniques that we consider will best suit our study. Agresti and Finlay (1987) evidence that ordinary least squares (OLS) linear regression model is suitable for analyzing the relationships between quantitative variables. They further introduces Pearson correlation test, used for measuring the association for quantitative variables. These tests have been used also in other studies examining the voluntary social disclosures (Cooke, 1989b; Gray, et al., 1995; Watson, et al., 2002). We will use the above-mentioned tests and analysis to test our hypothesis and analyse the relationship between disclosures and each of the variables we mentioned earlier.

5. Analysis

5.1 Descriptive Statistics[3]

The overall final sample size is 215 companies, of which 40 provided a separate CSR report in addition to their annual reports. The average disclosure rate is almost twice as high in Sweden. This indicates that the higher average disclosure rate in German separate CSR reports is triggered by the lack of such information in annual German reports. Furthermore, company size seems to be correlated with the amount of voluntary disclosure.

Table 2: Sample Size; own graphic

	quantity	average disclosure
Germany	123	25,95%
Sweden	92	43,19%
	215	33,33%

Table 3: CSR Reports; own graphic

	quantity	% of sample	average disclosure
Germany	26	21,14%	81,27%
Sweden	14	15,22%	70,81%
	40	18,60%	77,61%

Table 4: Company Size; own graphic

	large	avergage disclosure	medium	avergage disclosure	small	avergage disclosure	
Germany	46	51%	44	12%	33	10%	123
Sweden	26	55%	26	48%	40	32%	92
	72	53%	70	30%	73	21%	**215**

Table 5 shows the avergage disclsoure is, except for one category, always larger in Sweden, ranging from about twice as much up to three times as much. Only the category 'Strategy and Profile' ranks higher in Germany with 100%. The full disclosure rate is mandatory and therefore should be considered carefully under the voluntary disclosure aspect. The listed German companies have to include an Organizational Profile and a Strategy and Analysis part into their financial statements as requiered by the German Corporate Governance Code, which is mandatory according to §161 Stock Corporation Act (AktG) and the Tranparency and Disclosure Law.

[3] All percentages are approximates; only the final percentages were determined with a four digit accuracy from the original data. The approximates serve a better visibility of our results.

Table 5: Disclosure by Category; own graphic

	Strategy & Profile	Environ-ment	Labour Practices	Human Rights	Society	Product Respons.	
Germany	100%	23%	21%	15%	17%	17%	25,95%
Sweden	86%	40%	65%	23%	29%	38%	43,19%
	94%	30%	40%	19%	22%	26%	**33,33%**

Table 6 and Table 7 illustrate that although only a small number of companies were listed on foreign stock exchanges these companies averaged the highest disclosure rate. Even higher if they published a separate CSR report; indicating a relation between foreign listing and extent of disclosure.

Table 6: International Listing; own graphic

	quantity	% of sample	average disclosure
Germany	7	5,69%	75,16%
Sweden	6	6,52%	60,14%
	13	12,21%	68,23%

Table 7: Int. Listing and CSR Report; own graphic

	quantity	% of sample	average disclosure
Germany	5	4,07%	86,23%
Sweden	2	2,17%	89,13%
	7	6,24%	86,98%

The composition of the industries types and their respectice disclosures can be extracted from Table 8 and Table 9. The disclosure rate for 'Materials' in Germany is not representative because it includes only one company. It has no significance for the results and further analysis. The Swedish sample did not include any companies that were classified within 'Utilities' a comparisson is not possible for that category. With the exclusion of these two categories Sweden again scores higher on average throughout the industries. Notibly, only 'Health Care' and 'Energy' did not disclose separate CSR reports in both countries. This can partly be explained by the small numbers of companies included in the sample.

The tables also provide an overview of differences among the rate of disclosures between countries and industries. Moreover, the variation of percentage among industries in Germany seems to be large, whereas less significant among Swedish industries.

Table 8: Industries; own graphic

	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Industrials	IT	Materials	Telecom-munications	Utilities	
Germany	11	4	5	15	15	46	14	1	10	2	123
Sweden	12	2	2	16	9	26	17	5	3	0	92
	23	6	7	31	24	72	31	6	13	2	**215**

Table 9: Disclosure by Industry; own graphic

	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Industrials	IT	Materials	Telecom-munications	Utilities	
Germany	34%	48%	15%	19%	11%	34%	18%	83%	18%	11%	**25,95%**
Sweden	41%	67%	41%	30%	34%	54%	51%	53%	64%	n/a	**43,19%**
	38%	54%	22%	25%	20%	41%	33%	58%	28%	11%	**33,33%**

Table 10: CSR Reports by Size; own graphic

	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Industrials	IT	Materials	Telecom-munications	Utilities	
Germany	3	2	0	2	0	15	2	1	1	0	26
Sweden	3	0	0	1	0	5	1	2	2	n/a	14
	6	2	0	3	0	20	3	3	3	0	**40**

Industry that reports the most in Sweden is Consumer Staples (67%), and is followed by the Telecommunications (64%). Interestingly, Telecommunications industry in Sweden discloses a high percentage of information compared to other industries. Telecommunication companies are among largest companies in Sweden and disclosures can be viewed as a response to the company's environment and reflects the size correlation possibly more than an industry relation. Financials and Health Care industries in Sweden disclose the least.

In Germany, however, Consumer Staples (48%) and Consumer Discretionary (34%) are the industry types with the highest disclosure rate. As these companies produce for consumption and therefore have a responsibility towards customers the external pressures are higher than in other industries. The amount of stakeholders that can have a direct relation to the impact of products is considerably higher than among other industries. Industrials disclose on average as much as Consumer Discretionary (34%) as the tied second highest. This can be explained by Legitimacy Theory and media pressure. Industrials usually have a large impact on a community's environment.

The Disclsoure Industry Matrix depicts the differences and correlations of industries and their respective disclsoures as well as the disclosure categories throughout the industry types. 'Materials' and 'Utilities' as well as 'Strategy and Profile' are of no significance for a comparisson due to the influencing factors described above. The matrices show in greater detail the higher disclosure rates of Sweden compared to Germany.

Table 11: Disclosure-Industry-Matrix Germany; own graphic

	Strategy & Profile	Environ-ment	Labour Practices	Human Rights	Society	Product Respons.	
Consumer Discretionary	100%	27%	27%	27%	27%	27%	34%
Consumer Staples	100%	50%	50%	50%	13%	50%	48%
Energy	100%	20%	10%	0%	0%	0%	15%
Financials	100%	11%	15%	7%	15%	10%	19%
Health Care	100%	8%	3%	0%	2%	0%	11%
Industrials	100%	33%	32%	23%	26%	24%	34%
IT	100%	14%	7%	7%	7%	14%	18%
Materials	100%	100%	100%	0%	100%	100%	83%
Telecommunications	100%	10%	10%	10%	10%	10%	18%
Utilities	100%	0%	13%	0%	0%	0%	11%
	100%	23%	21%	15%	17%	17%	**25,95%**

Table 12: Disclosure-Industry-Matrix Sweden; own graphic

	Strategy & Profile	Environ-ment	Labour Practices	Human Rights	Society	Product Respons.	
Consumer Discretionary	92%	35%	63%	29%	27%	29%	41,30%
Consumer Staples	100%	45%	50%	25%	13%	25%	67,39%
Energy	75%	25%	44%	0%	13%	13%	41,30%
Financials	78%	24%	50%	14%	19%	19%	29,62%
Health Care	61%	16%	81%	17%	8%	42%	34,30%
Industrials	96%	57%	65%	34%	45%	48%	54,18%
IT	94%	29%	59%	15%	16%	37%	51,09%
Materials	80%	72%	70%	25%	50%	30%	53,04%
Telecommunications	100%	27%	42%	13%	29%	42%	63,77%
Utilities	n/a	n/a	n/a	n/a	n/a	n/a	n/a
	86%	40%	65%	23%	29%	38%	**43,19%**

Table 13 shows the mean values and the standard deviation for the independent variables. The industry variable is excluded. The variability of size seems to be high from 1.103 to 2.266 because of the different size of the companies took in our sample, and German companies are rather larger than Swedish ones. Even standard deviation seems to be higher than maximum for the variable size. Profitability and Leverage includes negative numbers, as several companies concluded the financial year with a loss.

Table 13: Independent Variables: Means and Standard Deviation; own graphic in accordance with SPSS results

Variables	N	Minimum	Maximum	Mean	Std. Deviation
Ownership Structure	214	0.000	1.000	0.481	0.501
Size	215	1.103	2.266	5.509	2.559
Profitability	215	-1.671	5.780	0.008	0.467
Leverage	215	-4.010	131.620	2.860	10.725
International Listing	215	0.000	1.000	0.056	0.230
Valid N (listwise)	214				

5.2 Hypothesis Testing

Table 14 presents correlation coefficients among dependent variable (Voluntary Disclosure) and independent variables. SPSS computer based system was used to analyse our data. Industry variable was converted into a dummy variable to be able to compare with other ratio variables and numerical data. In addition regression analysis ´was conducted to test the strength of the relationship between variables using the Pearson correlation test. Total amount of disclosures (in percentage) is used as Dependent Variable and independent variables used are: country of origin, ownership structure, size 1 (measured by the total assets) and size, (measured by the number of employees), profitability, leverage and international listing. Size variable measured by the number of employees was used only in the correlation matrix, then for the following regression models we have used size variable measured by the total assets.

Regression analysis and bivariate tests showed that country of origin, size industry and international listing have a positive correlation with the voluntary social disclosures. However, the results show no association between voluntary disclosures and profitability, leverage, and ownership structure.

Table 14 Correlation Matrix show a strong correlation between some variables and this indicates a problem of multicollinearity. There are eight pair wise correlations between independent variables at the Person Correlation coefficients 0.181 – 0.370. Significant correlation at 0.564 can be seen between two size variables, measured at the total assets and the number of employees. Profitability has strong correlation of 0.688 with Leverage. This affected the results of the regression analysis, and interferes in the regression models.

Table 14: Correlation Matrix; own graphic in accordance with SPSS results (n=215)

	Variable	1	2	3	4	5	6	7	8	9a	9b	9c	9d	9e	9f	9g	9h	9i	9j
1	SD	1																	
2	CO	0.279**	1																
3	OS	-0.049	-0.185**	1															
4	S 1	0.370**	-0.181**	-0.004	1														
5	S 2	0.468**	-0.142*	-0.017	0.564**	1													
6	P	-0.011	-0.063	-0.056	-0.002	0.006	1												
7	L	-0.014	-0.071	-0.086	.141*	0.009	.688**	1											
8	IL	.302**	-0.006	-0.113	.300**	.527**	0.019	0.007	1										
Industry																			
9a	I - CD	0.049	0.07	.270**	0.038	0.077	0.007	-0.027	0.047	1									
9b	I - CS	0.116	-0.03	.176**	-0.002	.180**	0.038	-0.026	-0.041	-0.059	1								
9c	I - E	-0.048	-0.032	0.063	-0.035	-0.05	-0.029	-0.03	-0.041	-0.059	-0.029	1							
9d	I - F	-0.118	0.073	-0.078	0.118	-0.102	0.016	0.075	-0.042	-0.142*	-0.07	-0.07	1						
9e	I - HC	-0.155*	-0.038	-0.076	-0.071	-0.071	-0.118	-0.068	-0.022	-0.123	-0.060	-0.060	-0.145*	1					
9f	I - I	0.185**	-0.088	-0.162*	-0.001	0.088	0	-0.003	0.002	-0.243**	-0.119	-0.119	-0.288**	-0.249**	1				
9g	I - IT	-0.073	0.1	-0.012	-0.079	-0.085	-0.051	-0.067	0.016	-0.142	-.070	-0.070	-0.168*	-0.145*	-0.288**	1			
9h	I - M	0.136*	0.139*	-0.05	-0.026	-0.034	-0.01	-0.027	-0.041	-0.059	-0.029	-0.029	-0.07	-0.06	-0.119	-0.07	1		
9i	I - TC	-0.041	-0.101	0.029	0.047	0.055	0.187**	0.191**	0.108	-0.088	-0.043	-0.043	-0.104	-0.090	-0.178**	-0.104	-0.043	1	
9j	I - U	-0.071	-0.084	0.101	-0.02	-0.031	0.003	-0.021	-0.024	-0.034	-0.016	-0.016	-0.04	-0.034	-0.068	-0.04	-0.016	-0.025	1

**Correlation is significant at the 0.01 level (2 tailed); *Correlation is significant at the 0.05 level (2 tailed\)

Notes: SD: Social Disclosures; CO: Country of Origin; OS: Ownership Structure; S1: Size, Total assets; S2 – Size No. Of employees; P: Profitability; L: leverage; IL: International Listing; Industries: I-CD: Consumer Discretionary; I-CS: Consumer Staples; I-E: energy; I-F: Financials; I-HC: Health Care; I-I: Industrials; I-IT: Information Technology; I-M: Materials; I-TC: telecommunications; I-U: Utilities

To avoid the misinterpretation of regression coefficients, different models to test this correlation by excluding each independent variable one by one, have been used.

Table 15 shows a regression analysis model where all the variables are included. This model tests the correlation of total disclosures against all independent variables. Adjusted R square is at 0.356, and the model shows significance. Stronger significance at 0.001 level of significance is presented for the country of origin, size and international listing variables. The other variables do not show a correlation.

Table 15: Regression Results all variables; own graphic in accordance with SPSS results

Model 1
Full Model including all variables (n=215)

Variables	B	SE	Sig.	Tolerance
Country of Origin	0.229***	0.037	0.000	0.855
Ownership Structure	0.022	0.038	0.554	0.800
Size (Total assets)	0.000***	0.000	0.000	0.813
Profitability	0.028	0.051	0.582	0.498
Leverage	-0.002	0.002	0.457	0.490
International Listing	0.258***	0.079	0.001	0.866
Consumer Discretionary	-0.023	0.184	0.900	0.087
Consumer Staples	0.217	0.203	0.286	0.253
Energy	-0.043	0.202	0.830	0.255
Financials	-0.145	0.182	0.427	0.070
Health Care	-0.103	0.183	0.572	0.086
Industry	0.085	0.178	0.635	0.041
IT	-0.072	0.181	0.691	0.072
Materials	0.176	0.204	0.390	0.251
Telecommunications	-0.062	0.189	0.744	0.140
Utility	-0.117	0.247	0.638	0.502
R^2/ Adj. R^2/ F-value/ Sig.	0.404/0.356/8.354/0.000			

† Correlation is moderately significant at the 0.10 level ; * correlation is significant at the 0.05 level; ** correlation is significant at the 0.01 level; *** correlation is significant at the 0.001 level

From Table 15 above, we can see that regression coefficients have high standard errors, especially the industry variables. As a result we have tried different models to test various combinations of independent variables and test the results. Another model, Model 2 (Table 16) presents the regression results excluding industry.

Table 16: Regression Results excluding Industry variable; own graphic in accordance with SPSS results

Model 2
Model excluding Industry variable (n=215)

Variables	B	SE	Sig.	Tolerance
Country of Origin	0.221***	0.037	0.000	0.926
Ownership Structure	0.022	0.037	0.543	0.943
Size (Total assets)	0.000***	0.000	0.000	0.840
Profitability	0.050	0.053	0.349	0.512
Leverage	-0.003	0.002	0.252	0.500
International Listing	0.253***	0.082	0.002	0.891
R^2/ Adj. R^2/ F-value/ Sig.	0.301/ 0.280/ 14.827/ 0.000			

† Correlation is moderately significant at the 0.10 level ; * correlation is significant at the 0.05 level; ** correlation is significant at the 0.01 level; *** correlation is significant at the 0.001 level

Adjusted R square for this model is at 0.280, and the model has 0.000 significance. Results from this model show the same results of significance as the previous model. Country of origin, size and international listing variables again show a significant association with voluntary social disclosures. This in line with the results of Pearson tests of correlation (see Correlation Matrix, Table 14; p.39). However Ownership Structure, Profitability and Leverage have no significance.

The next models will test the regression results by excluding some of the variables that show no significant correlation with voluntary social disclosures variable but they show a strong correlation with other independent variables. This is the case with Profitability and Leverage variables.

The third model in Table 16 will test the correlation by excluding the variables of Industry and Profitability. This model presents more significant model, where the coefficient of determination or Adjusted R Square is at 0.281 and Durbin Watson lies at 1.675. Again, these analysis show the same results as the previous two models that variables like country of origin, size and international listing are significantly correlated with social disclosures. This model shows no correlation with ownership structure and leverage with voluntary social disclosures variable.

Table 17: Regression Results excluding Industry and Profitability variables; own graphic in accordance with SPSS results

Model 3 Model excluding Industry and Profitability variables (n=215)				
Variables	**B**	**SE**	**Sig.**	**Tolerance**
Country of Origin	0.220***	0.037	0.000	0.928
Ownership Structure	0.023	0.037	0.540	0.943
Size (Total assets)	0.000***	0.000	0.000	0.862
Leverage	-0.001	0.002	0.490	0.967
International Listing	0.258***	0.082	0.002	0.895
R^2/ Adj. R^2/ F-value/ Sig.	0.298/ 0.281/ 17.626/ 0.000			

† Correlation is moderately significant at the 0.10 level ; * correlation is significant at the 0.05 level; **correlation is significant at the 0.01 level; ***correlation is significant at the 0.001 level

The following, Table 18 presents the regression results of the model excluding leverage variable. The adjusted R square is at 0.279 and Durbin Watson at 1.673. The ANOVA test shows significance. The results from this model show different correlation and significance with other two previous models. A significant correlation between country of origin, size and international listing variables with voluntary social disclosure variable is present in this model as well, which is in line with the Pearson's test of the correlation and the other three models. Neither this model shows any significance correlation with the ownership structure and profitability with the voluntary social disclosures.

Table 18: Regression Results excluding Industry and Leverage variables; own graphic in accordance with SPSS results

Model 4 Model excluding Industry and Leverage variables (n=215)				
Variables	**B**	**SE**	**Sig.**	**Tolerance**
Country of Origin	0.222***	0.038	0.000	0.926
Ownership Structure	0.026	0.037	0.486	0.948
Size (Total assets)	0.000***	0.000	0.000	0.877
International Listing	0.261**	0.082	0.002	0.896
Profitability	0.008	0.038	0.845	0.990
R^2/ Adj. R^2/ F-value/ Sig.	0.296/ 0.279/ 17.501/ 0.000			

† Correlation is moderately significant at the 0.10 level ; * correlation is significant at the 0.05 level; **correlation is significant at the 0.01 level; ***correlation is significant at the 0.001 level

5.3 Summary and Discussion of Results

Statistical results provide evidence to our Hypothesis 2, 3, 6 and 7, that size, industry, international listing and country or origin are related to voluntary social disclosures. And also to our hypothesis 4b and 5b that's suggest a negative correlation between the profitability and leverage with voluntary social disclosures. These factors proved to be important in explaining voluntary social disclosures, especially country of origin proved to be a determinant factor that explains the variation between countries.

The bivariate and regression tests show that Ownership structure is not correlated with voluntary disclosures, and this is opposite of what was expected in our Hypothesis 1 that suggests a positive correlation between the latter two. Our results show that Ownership structure, weather it is concentrated or dispersed does not seem to influence the voluntary social disclosures in listed companies in Germany and Sweden. However, it shows that it has a significant correlation with country of origin which can be explained by the fact that ownership structure differs between the two countries studied.

In line with our Hypothesis 2, bivariate tests and regression results show that company size is correlated with voluntary social disclosures, which means that large companies disclose more information than small companies. This is in line with previous findings, which proved that size is related to voluntary social disclosures (Cowen, 1987; Reverte, 2009; Tagesson, 2009).

Two types of size variables, measured by the total assets and number of employees, have been used to test the correlation by using Pearson's test that showed a high correlation between them, which is normal when both measure the same variable. Because of the multicolleniarity between them, only size variable measured by the total assets has been used in regression models. However, the size variable - number of employees has been tested for correlation and it is interesting to see that it correlates with the Leverage variable, showing that larger companies usually have a higher degree of leverage. According to the correlation coefficients size is also correlated with country of origin and international listing status.

The results of regression analysis show that industry is positively correlated with voluntary social disclosures, and there is a significant variation also among different industries. This is in line with the Hypothesis 3 and provides evidence that some industries disclose more information than the others, as illustrated in descriptive statistics. It is also correlated with size, which partially can be explained by the fact that some industries have larger companies, e.g. telecommunication companies in Sweden.

Neither Profitability nor Leverage seems to be significant variables that explain the voluntary social disclosures. It shows that voluntary social disclosures are not different between more or less profitable companies and neither between highly or less leveraged companies. These results are in line with the Hypothesis 4b that suggest a negative association with the profitability and VSD and hypothesis 5b that suggests a negative association between leverage and VSD.

In line with Hypothesis 6, bivariate tests and regression analysis between variables found that International Listing is correlated with voluntary social disclosures. This means that there is a difference between the companies listed in other stock exchange outside their home country and companies listed only in the domestic stock exchange. This suggests that there are additional international market pressures, due to the increased number of stakeholders, media attention and other external as well as internal pressure groups. This variable is also correlated with size, as usually companies with foreign listing are large companies.

Bivariate tests and the regression analysis also showed that country of origin is significantly correlated with the voluntary social disclosures, and this tests our Hypothesis 7. This explains that there is a difference in voluntary social disclosures in Germany and Sweden. Correlation seems to be at 0.279 when the significance is at 0.05.

6. Conclusion

This study sought to determine the amount and the possible differences in voluntary social disclosures in Germany and Sweden using a GRI inspired checklist and CSR reports as well as annual reports from corporate websites. Our analysis has been conducted in a sample of 215 listed corporations in Sweden and Germany.

Based on statistical result, this study found that factors like: country of origin, size, industry and international listing are related to voluntary social disclosures. However, profitability, leverage and ownership structure did not prove to be associated with voluntary social disclosures. The main finding in our study is that there are differences in both amount and type of voluntary social disclosures in Germany and Sweden.

This can partly be explained by the different accounting systems in each country. Germany has a statute based accounting system, which suggests operates within the rules and rarely operates beyond the minimal requirements (Nobes & Parker, 2008). That is supported by Hofstede, who classifies Germany as a very masculine country, implying materiality, success and achievement as main goal. In association with a high degree of uncertainty avoidance it is very reasonable for German companies to operate within the legal boundaries and do not spend extra costs on additional disclosures. Further, no legal requirements for additional social disclosure exits in Germany. All guidelines concerning environmental and social disclosures are voluntary and inspired by non-profit organizations and/or non-government institutions. However, our data implies that despite the strict framework drawn above, companies do issue separate CSR reports and disclose additional information. Not up to the Swedish level, this is can be explained by the internal and external pressures that have been determined in previous studies (Tagesson, et al., 2009; Deegan, 2002). Some of these factors may coincide, such as size, international listing and industry. We assume that companies, in a globalized world, in order to legitimize themselves, have to go beyond the legal requirements and consider all stakeholders.

Contrary, Sweden has an economic based accounting system; which suggests that accounting practices are strongly influenced by the market (Nobes & Parker 2008). The market in

Sweden on one side consist of the legal requirements that public companies have to fulfill regarding social disclosures and the market development itself. The latter suggest that Institutional Theory is applied in order to compete within the market. Hofstede underlines the economic approach. Sweden scores a very low 5 on masculinity, therefore it is a highly feminine country, which by definition prefers teamwork, good relationships, a relaxed approach and considers the environment a lot. Further, Sweden scored low on the uncertainty avoidance, yielding an open mentality towards new perspectives and practices. Our data supports the argument that Sweden discloses more due to peer pressure and a different cultural approach towards disclosure practices in general and the environment in particular.

Our findings are supported by the arguments made in previous research and the multi-theoretical approach suggests the following conclusions:

(i) Size positively influences the degree of voluntary social disclosures

Stakeholder theory suggests that larger companies disclose information in response to pressures from firm's external environment. Reasoning based on legitimacy theory we can suggest that larger companies have more pressures from their stakeholders likewise the need to disclose information and legitimize their action is high.

(ii) International Listing positively influences voluntary social disclosures

The number of companies with international listing was rather small, but yet statistical results show a positive relationship with this factor and voluntary disclosures. However Cooke (1989) suggests that the small number of multinational companies with multiple quotations in Sweden is a reason that international listing status is an important determinant in explaining voluntary social disclosures. Our finding about listing status are in line also with the previous empirical findings and in line with the previous theory that suggest that international listing status of a company have an impact on company's decision to disclose or not disclose the information, knowing that companies with the multiple listing face more pressures from the stakeholders and the public in general, and have additional requirements and regulations to comply than domestic listed companies

(iii) Profitability, Leverage and Ownership Structure may be negatively associated with voluntary social disclosures

The negative association of profitability, leverage and ownership structure with voluntary social disclosures is supported by the previous empirical findings that showed a low level of significance or negative relationship between these factors and voluntary social disclosures (Patten 1991, Camfferman & Cooke 2002, Ismail & Chandler 2005; Brammer & Pavelin 2008; Reverte 2009). The possible explanation can be found in institutional context. Germany and Sweden both belong to Continental European model, that is marco economic drives and tax based (Nobes & Parker 2008). This means that they are code law based countries and they rely on bank financing, contrary to countries in Anglo-Saxon model that rely heavily in the stock market financing. This suggests that Continental European countries have to disclose mainly financial information, which is important to creditors as banks, rather than disclosing further information such as CSR reports, which are of importance to other creditors such as shareholders.

(iv) Ownership Structure may not be related to voluntary social disclosures

The ownership structure's negative relationship with voluntary social disclosures is contrary to our hypothesis that companies with a widespread ownership structure owned by a shareholders that do not have direct access to the company's information, disclose more information either due to the external pressures or, as was suggested by the agency theory, to reduce information asymmetries. Most of the companies in both, Germany and Sweden are owned by the private shareholders, which declines the need for an extensive publication of additional information (Nobes & Parker 2008). This is in line with our findings about the correlation of size and disclosures. Larger companies have more and a broader variety of shareholders and therefore need to disclose more information. Smaller companies with only few or concentrated shareholders do not have such a large information asymmetry and expectation gap to overcome with their annual reports and disclosures.

(v) Cultural differences imply an explanation on different CSR reporting practices in Germany and Sweden

It was the purpose of this research to extend existing studies with an additional explanation of differences between voluntary social disclosures on a micro level and countries on a macro level. Country of Origin proved to be an important determinant for explaining differences in voluntary social disclosures among different countries. It shows that despite increasing standardization of global social reporting, variation in disclosures practices remains significant among different countries. This supports the prior findings that voluntary social disclosures varies among countries (for example: Freedman & Stagliano 1992; Gamble, et al., 1996; Andrew, et al., 1989; Cowen, et al., 1987; Gray, et al., 1996; Adams & Kuasirikun 2000; Van der Laan Smith, et al., 2005). Further, we feel confident that the cultural component to this study suggests a reasonable influence on differences of social, environmental and ethical disclosure practices. Generally, a distinct difference was noticable when collecting the data. The annual reports showed a different approach to environmental and ethical issues. While in Sweden it seemed the whole annual report was written from a sustainability perspective, this was never the case in German annual reports, which only focused on financial information and disclosed social, environmental and ethical information, if at all, in a separate section. Moreover, information about waste and emissions were permanent throughout all reports and had been excluded from the checklist. The main reason Fwas that these issues underwent too much media attention lately and therefore have not been disclosed objectively (Deegan, et al., 2002).

Voluntary social disclosures are influenced by cultural components, such as history, development, identity, peer pressure and accounting system (Nobes & Parker 2008). All these factors are interdependent and can be summarized under the term culture. We feel confident, that if our data collection and processing remained error free, we established a connection that partly explains the effect of cultural factors on disclosing practices. Further, we hope to have provided an argumentation, which suggests culture as an underlying factor to the well established correlation of corporate factors and the degree of disclosure.

Limitations and Further research

This study has been focused only on annual reports and sustainability reports. Corporations today use many other forms of media for communicating their information to stakeholders and the public in general. The sample size is rather small, for allowing a more generalized conclusion about the degree of CSR reporting it would be useful to include all domestic listed companies. Our study includes some factors that might potentially explain the differences in voluntary social disclosures, but there are more factors influencing voluntary social disclosures, e.g. corporate governance.

Despite the limitations this study can serve as a base for further research on comparing the voluntary social disclosures of companies. Such studies may test (i) the extent of GRI factors used in annual reports or CSR reports (GRI compliance); (ii) the amount and liability of external certification; (iii) other sources of information; (iv) other countries and (v) the need for uniform regulation.

Appendix I - Checklist

✓ **Strategy and Profile**

1. Strategy and Analysis
2. Organizational Profile

✓ **Environmental**

1. Materials
2. Energy
3. Water
4. Products and Services
5. Compliance

✓ **Social and Ethical**

Labour Practices and Decent Work

1. Employment
2. Health and Safety
3. Training and Education
4. Diversity and Equal Opportunity

Human Rights

5. Investment and Procurement Practices
6. Non-Discrimination
7. Child Labour
8. Security Practices

Society

9. Community
10. Corruption
11. Public Policy
12. Compliance

Product Responsibility

13. Customer Health and Safety
14. Product and Service Labeling
15. Marketing Communications
16. Customer Privacy

Appendix II – List of Companies

List of Swedish Companies

AarhusKarlshamn AB
Acando AB
ÅF AB
Alfa Laval AB
Alliance Oil Company Ltd. SDB
Artimplant AB ser. B
Aspiro AB
Atlas Copco AB
Autoliv Inc. SDB
Axis AB
BE Group AB
Bilia AB ser. A
Billerud AB
BioGaia AB ser. B
BioInvent International AB
Bong Ljungdahl AB
Brinova Fastigheter AB
Cardo AB
Catena AB
Cision AB
Clas Ohlson AB
Cloetta AB
Concordia Maritime AB
Cybercom Group Europe AB
Diamyd Medical AB
East Capital Explorer AB
Elanders AB
Elekta AB
ElektronikGruppen BK AB
Elos AB
Ericsson, Telefonab. L M
Fabege AB
Geveko, AB
Hakon Invest AB
Haldex AB
Hemtex AB
Hennes & Mauritz AB
HL Display AB
HMS Networks AB
Holmen AB
HQ AB
Industrial & Financial Systems AB
Industrivärden, AB
Intrum Justitia AB
Investor AB
Jeeves Information Systems AB
Karo Bio AB
Kungsleden AB
Lammhults Design Group AB
Latour, Investment ab.
LinkMed AB
Luxonen S.A. SDB
Medivir AB
Mekonomen AB
Metro International S.A SDB
Micronic Laser Systems AB
Millicom International Cellular S.A. SDB
Modern Times Group MTG AB
Munters AB
NCC AB
Nederman Holding AB
Net Insight AB
Nolato AB
Nordea Bank AB
Note AB
Opcon AB
PartnerTech AB
Peab AB
Pricer AB ser. B
ProfilGruppen AB
ReadSoft AB
Rederi AB Transatlantic
Rezidor Hotel Group AB
RNB RETAIL AND BRANDS AB
Rottneros AB
Sandvik AB
Seco Tools AB
SECTRA AB
Sensys Traffic AB
SinterCast AB
Skandinaviska Enskilda Banken
SKF, AB
SSAB AB
SWECO AB
Swedbank AB
Tele2 AB
TeliaSonera AB
Transcom WorldWide S.A SDB
Tricorona AB
Volvo, AB
Vostok Nafta Investment Ltd, SDB
Wihlborgs Fastigheter AB

List of German Companies

3u holding AG
A.springer AG
Abwickl.biogas
Adlink internet
AGennix AG
Aire gmbh+co.kgaa
Aleo solar
Alphaform AG
Amadeus fire AG
Artnet AG
Augusta technolog.AG
Basf
Bay.motoren werke Baywa AG na.
Beate uhse AG Beiersdorf AG Bilfinger berger AG
Biotest AG
BrenntAG
Cancom it systeme AG
Carl-zeiss meditec AG
Centrosolar group AG
Ceotronics AG
Colon.real estate AG
Compugroup hol.AG
Continental AG
Cropenergies AG
D + s europe AG
Daimler AG
Delticom AG
Deutsche Boerse AG
Deutsche postbank AG
Deutz AG Dic asset AG
Draegerwerk Dt.telekom AG
Dyckerhoff vzo Ecotel Communicat. AG
Elmos semiconductor AG
Epigenomics AG
Euromicron AG
Evotec AG
Fielmann AG.
Fraport AG ffm.airport
Fresen.med.care kgaa Fuchs petrol.AG .
Gea group AG
Geratherm Gesco AG
Gildemeister AG
Grammer AG
Gwb immobilien inh.
Hamburg.hafen u.log.a-sp
Hci capital
Heiler software
Henkel AG+co.kgaa
Hochtief AG
Hornbach hold
Hugo boss AG .
Ifm immobilien
Indus holding AG
Integralis AG
Intica systems AG
Itelligence AG
Jaxx AG
Joyou AG
Kabel dt. holding AG
Koenig + bauer AG
Krones AG Lanxess AG
Linde AG Lpkf laser+electron.
Lufthansa AG Man .
Masterflex Medigene .
Metro AG Mlp AG
Morphosys AG Muehlbauer hold.
Nemetschek AG
Novavisions AG
Ovb holding AG
P u.i per.u.info.AG Patrizia immobilien na on
Pfleiderer AG
Polis immobilien AG
Procon AG
Psi AG f.pr.u.sys.
Pva tepla AG .
Qsc AG .
Realtech AG .
Rhoen-klinikum
Ruecker AG
Salzgitter AG
Sap AG
Sartorius AG
Secunet security AG
Sgl carbon se o.n.
Singulus technol.
Sixt AG Sma solar technol.AG
Softing AG
Solar-fabrik AG .
Stada arzneimitt.
Suess microtec Sygnis pharma AG
Syskoplan AG
Ta triumph-adler AG
Technotrans AG Teles AG inform.techn.
Tognum AG
Travel24.com AG
Ums Utd.internet AG
Versatel AG na Volkswagen AG
Vtg AG Wacker chemie
WestAG + getalit Wincor nixdorf Xing AG
ZHONGDE waste technology

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