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Determinants of CSR Disclosure in the Swedish Setting:

Effect of firm/industry characteristics along with media exposure on CSR Disclosure practices

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Abstract

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Five key words: Corporate social responsibility disclosure (CSRD), environmental rating, human rights rating, legitimacy theory, stakeholder theory

Purpose: The purpose of this research is to study the relationship of firm and industry characteristics as well as media exposure with CSRD based on the Swedish corporate setting. Second purpose was to find out which system oriented theory or combination of theories best explain the differences in practices among companies. Third purpose was to compare the results with studies previously done in other countries.

Methodology: To achieve our research goal we used combination of both qualitative and quantitative approaches.

Theoretical Perspectives: Our research is based on the literature related to the CSR disclosures in the context of system oriented theories, and summaries of the previous researches.

Empirical foundation: For empirical research, we collected data for variables related to public pressure, ownership structure & profitability and analyzed this data to find what type of relationship they have with CSR ratings.

Conclusions: Our research shows that size, industry sensitivity and media exposure are significant variables in explaining the differences in corporate social responsibility disclosures practices among Swedish companies. In terms of theories, legitimacy and stakeholder theories are found to be the most relevant theories for explaining the extent and content of social disclosures of Swedish companies.

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List of Acronyms

Assa Abloy	Assa (August Stenman Sverige AB) AB Lås Oy
CSP	Corporate Social Performance
CSR	Corporate Social Responsibility
CSRD	Corporate Social Responsibility Disclosures
DI	Dagens Industri
EBIT	Earnings before interest and taxes
EMS	Environmental Management System
ER	Environmental Rating
EU	European Union
GRI	Global Reporting Initiative
HEX	Helsinki Stock Exchange
HHI	Herfindahl–Hirschman Index
HRR	Human Rights Rating
ILO	International Labour Organization
IS	Industry Sensitivity
ISO	International Organization for Standardization
IT	Information Technologies
ME	Media Exposure
MSR	Management Systems Rating
OC	Ownership Concentration
OCSR	Observatory on corporate social responsibility
OECD	Organization for Economic Co-operation and Development
OI	Ownership Identity

P	Profitability
RCI	Responsible Competitiveness Index
ROA	Return on assets
ROE	Return on equity
S&ED	Social and environmental disclosure
S&P	Standard & Poor's
SCA	Svenska Cellulose AB
SEB	Skandinaviska Enskilda Banken
SEK	Swedish Krona
SIX	Scandinavian Information Exchange
SKF	Svenska Kullager Fabriken
SRI	Socially responsible investments
SSAB	Svenskt Stål AB
SvD	Svenska Dagbladet
UN	United Nations
UNICEF	United Nations International Children's Emergency Fund

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1. Introduction

This chapter provides an introduction to the topic by giving some information on the background, previous studies and Swedish corporate setting in the context of CSR. It also highlights why disclosures are important in current business scenario. The last part includes the problem discussion that will lead to research purpose.

1.1. Background

There has been an increase in focus and demand for information and transparency from the corporations over the decade. The influential role of mass media and the increased channels of communication (e.g. internet) have resulted in the increased public awareness and interest in social, environmental and ethical issues (Patten, 1991). Now the challenge these corporations faced is, what should be disclosed (content) and how much should be disclosed (extent) that can fulfill increased stakeholder demand for CSR activities and related issues. The extent and content of corporate social responsibility disclosures (CSRD) vary with firm and industry (Gray et al., 1995a, 1995b; Hackston and Milne, 1996). Different researchers have tried to explain the determinants of CSRD through different variables with varying levels of success. Patten (1991) and Hackston and Milne (1996) tried to relate disclosures to profitability while others tried to explain them through descriptive factors as culture and country setting (T. Tagesson et al., 2009).

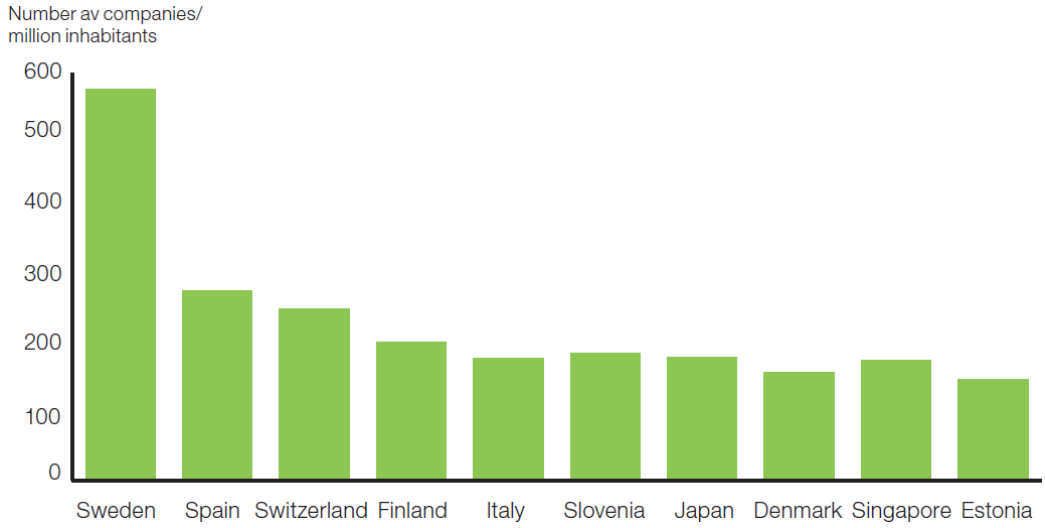
1.2. Previous Studies

Number of studies has been conducted on different country settings to see the impact of firm and industry characteristics on the CSRD. Patten (1991) worked on the data from the US corporations, Hackston and Milne (1996) conducted research on New Zealand market, and Reverte (2009) did it on the Spanish listed companies, while T. Tagesson et al. (2009) studied Swedish market. We conducted our research on Swedish listed companies to find out the significant determinants for CSRD. Our study is different from T. Tagesson et al. (2009) in number of ways explained in later sections.

1.3. Swedish Corporate Setting in Context of CSR

Swedish corporate culture is known for its honesty, transparency and fair dealing. They treat Corporate Social Responsibility (CSR) as a Strategic CSR rather than Responsive CSR[1]. Sweden was the first country to make sustainability report mandatory for state owned companies. AccountAbility's 2007 Responsible Competitiveness Index (RCI) ranked Sweden as the country that is doing most to increase its business competitiveness through responsible business practices among 108 countries included in RCI (Sweden.se, 2011). The RCI is based on degree of corporate responsibility in relation to climate, working conditions, corruption (various studies cite Swedish society as one of the least corrupt worldwide (CSR Fact Sheet by Sweden.se, 2008)) and social issue. Six Swedish companies, Atlas Copco, Fabege, H&M, Holmen, SCA and Scania are ranked among 100 most socially and environmentally responsible companies in the world in 2008. According to survey results of 100 large corporations (in Sweden) conducted by Swedish business magazine *'Veckans Affärer'* in 2007, 88% of the companies claim that their work with CSR issues had increased, with 81% mainly focusing on climate and environment and 78% on being a good employer (CSR Fact Sheet by Sweden.se, 2008). According to Swedish agency for Economic and Regional Growth (Nutek), Sweden is world leader in terms of number of environmentally certified companies / million inhabitants in December 2006/January 2007.

Exhibit 1: Highest number of environmentally certified companies



Source: Fact Sheet: CSR, Sweden.se

[1] According to Porter & Kramer (2006), strategic CSR refers to the phenomenon when firm consider CSR as a part of its overall strategic planning, while, responsive CSR is limited by its nature & remains incidental to the firm's business

Some of the examples of how seriously CSR measures considered by Swedish companies are given below (Fact Sheet: CSR, Sweden.se, 2008).

Assa Abloy has received a top rating from Amnesty International in March 2008 for its work on human rights.

COOP Supermarket chain has expanded its range of organic products and fair trade goods. The sale of organic products is increased by 18% in 2007. Coop is also working on project *'Energijaketen'* to reduce energy consumption by refrigerators, deep freezers and lighting.

IKEA is supporting social initiative project of *UNISEF* in northern India from where it buys carpets, to prevent child labor.

Indiska has been working with its suppliers to improve working conditions, based on International Labour Organization (ILO) and UN conventions on children's rights.

However, there are Swedish companies which are not doing well in terms of their social responsibilities. One example of such company is given below.

Lundin Petroleum is the Swedish oil company and the consortium to which it belonged to have been involved in war crimes and also in the crimes against humanity in Sudan (The Local, 2010).

Hence, we can conclude that although there certain examples of not so good CSR practices by the Swedish companies, however the overall picture is not bad. Rather we should say that Swedish companies are doing pretty well in comparison with other developed countries.

1.4. Disclosure and their importance

Disclosure means information given to the outside world/stakeholders through annual reports, corporate websites, press releases and other communication channels (T. Tagesson, 2011). There are mainly two types of disclosures; (1) Statutory (required by legislation or some professional body) and (2) Voluntary (disclosed by company on its own). There is an evidence of the trend towards increasing levels of the disclosure and also it has been observed that former voluntary disclosures later become statutory (T. Tagesson, 2011).

According to Patten (1991) 'Disclosure is a means of addressing the exposure companies' face with regard to the social environment'. Whereas Hooghiemstra (2000) state that

companies use disclosure to enhance their 'corporate image' & strengthen their 'corporate identity'[2]. The CSRD is another aspect of CSR that tries to make a business more transparent and fair. It gives information to the stakeholders regarding the company's activities which relate to the society. The examples can be information of the companies' commitments to reduce the hazardous impacts on the environment, to comply with different regulations, for instance 'Environmental Quality Regulation', which looks at the waste management and show how firms protect their employees and other social and environmental issues which affect the public. Companies which report CSRD can gain an edge in labor, capital, customer and supplier markets compare to their peers who don't report. Disclosure may improve a reputation of the company especially within the CSRD's frames. An example can be an image of environmental responsibility which will lead to an improved access to clients and buyers with the "green" purchase policies. Moreover, CSRD helps to make the stakeholder relations stronger since the reporting promotes a corporate transparency and brings more confidence and trust among the stakeholders. Hence, we can say that through CSRD companies try to cater to the needs of investors who are more focused on doing only 'socially responsible investments' (SRI). In addition to that, CSRD is like a channel for involving the stakeholders in a dialogue, and enabling the companies to identify and to address the key issues of concern to the stakeholders. There is a general perception that the higher the level of the CSRD, the more transparent the company is. It means that companies' managements will be more accountable in running the business, which will be beneficial for the stakeholders (Scribd.com, 2011).

1.5. Problem Discussion

Over the past decade corporate social responsibility has become an important aspect of how companies conduct their businesses. Not only society and media but also firms themselves are now paying more attention to it (Gray et al., 1996; Hooghiemstra, 2000). As a result there has been an increase in attention given to corporate social reporting by different stakeholders. However it has been noted by researchers that degree of information given in corporate social reporting/disclosures varies to large extent. Previous studies tried to identify factors that explain 'why some firms pay more attention to CSRD than others' (Hooghiemstra, 2000). Some of the common factors used by these studies are firm size, industry type and

[2] Image refers to 'picture people have of a company' and identity refers to "all the forms of expression that a company uses to offer insight into its nature" (Hooghiemstra, 2000).

profitability. In later studies media exposure is also included and it turns out to be an important variable in explaining the differences in CSRD practices. Previous researchers also tried to explain these differences, in content and extent of CSRD, in the context of different system oriented theories and found that agency, legitimacy and stakeholder theories are more relevant to the issue.

Different researchers investigated the problem discussed above in the context of different country settings empirically and then tried to explain the results through system oriented theories.

1.6. Research Purpose

The goal of this research is to investigate the problem discussed above based on Swedish corporate settings. There are some researches done on Swedish market in this context. Our research will be different in a way that we have included variable media exposure in public pressure (as described in Patten, 1991) / social visibility (as described in Reverte, 2009) category along with size and industry type.

Hence, we can conclude that purpose of this research is 'to study the relationship of firm and industry characteristics along with media exposure with CSRD'.

Our methodology in this study will help us to generate the results, comparable with previous studies done on other countries.

The research questions that we intend to address through our research are;

1. What are the main factors that influence social and environmental disclosures?
2. Comparison of the results with studies previously done in other countries based on the similar model.
3. Which system oriented theory or combination of theories best explain the results from our research?

1.7. Demarcations and Limitations

Due to time constraint we were unable to include large number of companies in our sample but our selected sample (i.e. OMXS30 index) represents a good fit for this study. We are also limiting our empirical research to descriptive statistics and correlation analysis; as they serve

purpose of this study i.e. focus on type of relationship that exists between dependent & independent variables.

During the course of this research, we encountered a problem that posed limitations to our research. We wanted to include at least two newspapers in our study to measure the variable media exposure, but only one newspaper cooperated. So, we have to limit our research to only one newspaper i.e. Dagens Industri (DI).

1.8. Thesis Outline

Chapter 02 explains the research approach adopted, research design (that includes explanation of variables, development of hypothesis & method of estimation and sample) and list data sources used.

Chapter 03 explains the methodology undertaken for this study. First part contains the discussion on research approach. In the second part research design is discussed which contains the details about variables along with development of hypothesis, methods for data collection and method of estimation. Last part highlights the data sources used for the completion of this research.

Chapter 04 discusses literature reviewed for the purpose of this study. First part contains the views and definitions of CSR through its modern era, starting from 1950s up to the present. Second part presents theoretical approaches to explain the concept of CSR. Third part holds discussion regarding the theories explaining the CSR disclosures. Last, part gives the analysis of the existing researches.

Chapter 05 presents the empirical analysis and results. It reports the tables for statistical analysis.

Chapter 06 presents the conclusion of the study and tips on further research.

Chapter 07 includes appendices.

Chapter 08 references used in the study can be found here.

2. Methodology

This chapter aims to describe the technique that we have undertaken to collect data and analyze it, so the objective which this research aims at can be satisfied. It will start with an explanation of selected approach followed by research method. In the next section, explanation for qualitative research method is given and in the last section quantitative method is explained.

2.1. Research Approach

Two approaches used when implementing research studies are inductive and deductive. In inductive approach, theory is the outcome of the observations and research. While opposite is the case for deductive approach i.e. theory leads the observation and research. For this study we follow deductive approach i.e. using previous empirical researches and literature review as a base for hypothesis development followed by data collection, analysis and results. We aim to investigate the impact firm/industry characteristics along with media exposure have on CSR disclosure practices, by testing the hypothesis on theoretical framework. The issue with this approach is that findings are limited and focused, so it's hard to expect anything new than what research looking for.

2.2. Research Method

Our research will be the combination of both qualitative and quantitative method. For qualitative part, our purpose is to review the literature and existing researches related to CSR disclosures. This will give us the basis on which hypothesis can be formed. Then in the quantitative part, empirical data will be collected from the sample companies and statistical analysis will be performed. The results from the analysis will help us to check whether our hypotheses are rejected or not.

2.2.1. Qualitative

For qualitative aspect, first we discuss and analyze the views and definitions of the CSR throughout the modern era. This part is important in context that it gives insights of the CSR concept, how this concept is defined in the corporate world and how it is viewed by different people and researchers.

Second, our qualitative research describes the theories and approaches related to the CSR. The importance of this part is that it explains theories related to the CSR which are classified into the relevant groups and what is more important is that some of them explain the CSR disclosure.

The next section is devoted to the discussion of the CSR disclosure by reviewing and analyzing theories explaining the CSR disclosure. This knowledge is essential not only to understand the basic concept behind disclosures but also as a basis to understand existing research studies.

Later, we analyze and review several existing research studies such as Reverte (2009), Hackston and Milne (1996), Patten (1991) and Tagesson et al.(2009). They have conducted their studies based on different country settings. The similarities and differences in the results have been found after the analysis of these studies. This analysis and review will help us to compare the results of these researches to the results of our study.

Finally, we summarize the Folksam's 'Index for corporate responsibility' as a reference for social and environmental ratings of the sample companies, since we will use the Folksam's annual report on ratings which they do for all the Swedish listed companies.

2.2.2. Quantitative

The empirical research in CSR is characterized by three types of studies (Reverte, 2009);

a. Descriptive studies, which are related to nature and extent of CSR
b. Explicative studies, which focus on the factors influencing social and environmental reporting.
c. Market Reaction studies, measure the impact of social and environmental information on various users.

We have based our research on explicative studies for the purpose of this report because that best fits with our research goal.

We start our research by the identification of independent variables and motivation for our selection of variables based on review of literature and existing researches. Development of hypothesis (based on literature review) is also included in this part.

The last section explains the data collection and the method of estimation.

For the purpose of empirical analysis, we need to identify dependent & independent variables. As we want to see the impact on the social and environmental disclosure, we will take them as dependent variable. Afterwards, we identified firm and industry characteristics that are considered to have significant relation with ratings, as independent (explanatory) variables. We also included media exposure with firm and industry characteristics as an independent explanatory variable.

As mentioned earlier, we will use Folksam's ratings for human rights and environmental disclosures separately for the purpose of our research as dependent variables. Then we will determine the extent of relationship of firm and industry characteristics as well as media exposure with human rights and environmental ratings of the selected companies.

The reasons we are selecting Folksam index ratings for our research are; first, it is based on OECD guidelines for multinational companies and United Nations Global Compact 'Ten Principles', which are the internationally recognized authentic guidelines in this regard. Second, it's the freely available resource.

We will do the empirical analysis for the year 2009 (latest available report by Folksam) for the significant variables affecting the ratings. Second, we will compare the results from our research with the results from previous researches, 'to look for any differences between the Swedish setting and the settings in other countries in the context of determinants of CSR disclosure ratings'.

2.2.2.1. Variables

Dependent

- Environmental Rating (ER)
- Human Rights Rating (HRR)

Independent

- Firm Size
- Industry Sensitivity
- Media Exposure
- Ownership Identity
- Ownership Concentration
- Profitability

2.2.2.2. Development of Hypothesis

In this section, we will analyze each explanatory factor.

Size

The extent of CSR disclosures is being explained by the variable firm size in number of studies (Cowen et al., 1987; Patten, 1991; Gray et al., 1995). A lot of studies have measured this variable empirically (Cowen et al., 1987; Patten, 1991; Hackston & Milne, 1996) and have found that positive relationship exists between firm size and extent of CSR disclosures. Patten (1991, p.302), used 'size' as (one of the two) proxy variable to measure 'public pressure'. Whereas Cowen et al. (1987) found that apart from 'extent', 'firm size' is also related to the 'nature (content)' of CSR disclosures. Since large corporations undertake more activities and have more impact on society, so they receive more attention from general public and therefore have high number of stakeholders (Cowen et al., 1987; Hackston & Milne, 1996; T. Tagesson et al., 2009). In addition, media and public generally demand more information from the large corporations. Not all CSR disclosure studies supported this size-disclosure relationship e.g. Roberts (1992)[3] and Ratanajongkol et al. (2006)[4] found no significant relationship between size and disclosure. With sampling and analytical methods comparable to other studies, this study examines the impact of firm size on CSR disclosure practices in Sweden.

Hence, discussion above leads to the Hypothesis 1;

H1a: *There is a significant positive relationship between firm size and ER*[5].

H1b: *There is a significant positive relationship between firm size and HRR*[6].

Industry Sensitivity

Industry type, as the case with firm size, is the most common variable used for explaining CSR disclosures in the previous studies. Patten (1991, p.303) used 'industry classification' along with 'firm size', as a proxy variable to measure public pressure. The results from these studies show that industries having negative impact on the environment, disclose more information as compare to other corporations. Number of empirical studies categorizes metal & mining, oil, chemical, power generation and paper & pulp industries as high environment

[3] Study done on the US market
[4] Study done on Thailand market
[5] Environmental rating based on Folksam Corporate Responsibility Index
[6] Human rights rating based on Folksam Corporate Responsibility Index

sensitive and therefore subject to more stakeholder pressure and so would be expected to disclose more. On the other hand, newer manufacturing industries and service sectors like financial institutions, software developers etc., that have fewer environmental issues are expected to show lesser degree of disclosures (Reverte, 2009). Environmentally sensitive industries focus more on environmental disclosures while others on social (and philanthropic) disclosures (Line et al., 2002 cited in T. Tagesson et al., 2009). Zeghal and Ahmed (1990) contend that industries which are highly regulated and exposed to public scrutiny disclose more as compare to others. According to Cowen et al. (1987), consumer oriented companies can be expected to disclose more about their social responsibility (and philanthropic) practices to increase their firm image and sales. Again, with sampling and analytical methods comparable to other studies, this study examines the impact of industry sensitivity on CSR disclosure practices in Sweden.

Hence, discussion above leads us to the Hypothesis 2;

H2a: *There is a significant positive relationship between industry sensitivity and ER.*

H2b: *There is a significant positive relationship between industry sensitivity and HRR.*

Media Exposure

Later in his studies, Patten (2002b) includes media exposure as a proxy variable for public pressure. Number of studies have proposed that media plays influential role in determining the CSR disclosures with more impact on environmental disclosures (Patten, 2002b). Media coverage raises firm's visibility, thus resulting in increased public attention and scrutiny (Reverte, 2009). Reverte (2009) found media exposure to be the most significant variable in explaining the differences in CSR disclosure practices in Spanish companies. While Patten (2002b) concluded that although it is an important variable but not very significant in explaining the environmental disclosure differences among the companies, however this conclusion is subject to certain limitations. As the role of media has become quite influential in almost every country's setting, so we are assuming it as a significant variable.

Hence, discussion above leads us to the Hypothesis 3;

H3a: *There is a significant positive relationship between media exposure and ER.*

H3b: *There is a significant positive relationship between media exposure and HRR.*

Ownership Identity

It is one way of looking at ownership structure and it measures ownership structure in terms of state-owned and privately-owned firms. Not much empirical evidences are available in this

regard because much of the previous research is done in the context of Anglo-Saxon corporate settings where state-owned firms are not very common (T. Tagesson et al., 2009). There are some studies that discussing CSR disclosures in public sector but not in the comparative way. Swedish government is a major shareholder in number of companies although it is now slowly reducing it. Swedish government has taken major steps to set a good example in regards to corporate social activities. However, according to report in 2007 by Swedish National Environmental Protection Board (Naturvårdsverket), state-owned firms are no better than other firms in this regard (T. Tagesson et al., 2009).

Hence, discussion above leads us to the Hypothesis 4;

H4a: *There is a significant relationship between ownership identity and ER*

H4b: *There is a significant relationship between ownership identity and HRR*

Ownership Structure

Ownership structure has been proposed to have an influence on CSR disclosures in previous studies. The ownership structure is usually measured in terms of how dispersed or concentrated it is (Belkaoui and Karpik, 1989; Cormier et al., 2005). High degree of dispersed ownership means more chances of opportunistic management behavior and conflicts of interest between agents and principal (Reverte, 2009). This will result in high level of disclosures to reduce the agency problem and information asymmetries (Jensen & Meckling, 1976 and Prencipe, 2004 cited in Reverte 2009). On the other hand, firms with high ownership concentration are less likely to give more CSR disclosures as owners have direct access to the firm. With analytical methods comparable to other studies, this study examines the impact of ownership concentration on CSR disclosure practices in Sweden.

Hence, discussion above leads us to the Hypothesis 5;

H5a: *There is a negative relationship between ownership concentration and ER.*

H5b: *There is a negative relationship between ownership concentration and HRR.*

Profitability

Number of previous studies supposed that a positive relationship exist between disclosure and profitability. They tried to explain it through different theoretical approaches. Belkaoui and Karpik (1989) tried to explain this relation in the context of management's knowledge i.e. management that has the knowledge to make a company profitable also has the knowledge and understanding of social responsibility and this results in high degree of social and environmental disclosures. However, some contend that management in profitable firms

discloses more in order to support their own position and compensation (Giner, 1997 cited in Reverte, 2009). Some researchers also took a stance that as profitable firms are more exposed to political pressure and public scrutiny, therefore they use more self regulating mechanism through disclosing more, in order to avoid regulations (Ng and Koh, 1994 cited in T. Tagesson et al., 2009). Hackston and Milne (1996) take a more obvious stance that high profitability means more resources available to make high degree of these disclosures possible. In contrast, low profitability means more focus on earnings (Roberts, 1992).

On the empirical side, some studies found this relationship positive while others found either negative relation or no significant relation (Cowen et al., 1987; Patten, 1991) between profitability and disclosure. However, more obvious stance is that there exists a positive relation. So we are assuming the same for our research.

Hence, discussion above leads us to the Hypothesis 6;
H6a: *There is a positive relationship between firm's profitability and ER.*
H6b: *There is a positive relationship between firm's profitability and HRR*

2.2.2.3. Data Collection and Method of Estimation

a. Dependent Variable – Social and Environmental Ratings[7]

We took social (human rights) and environmental ratings from Folksam´s report for the purpose of this research. Folksam was founded in 1908 and one of the largest insurance companies in Sweden. It is also one of the Sweden´s largest investment managers with SEK 270 billion in assets. Being one of Sweden´s biggest asset managers, Folksam can influence companies it invests in. Folksam encourages them to take a greater responsibility for the environment & human rights and do not invest in companies where sale is generated from unethical means e.g. tobacco products.

Folksam issues each year a very comprehensive report, 'Index for corporate responsibility', on Swedish listed companies based on each company´s willingness to manage its risks relating to human rights and environmental issues. The purpose of this report is to provide overall picture of the work these companies report in their 'publicly reported data'[8]. Folksam

[7] All the information under this heading is taken from the Folksam's Index for Corporate Responsibility Report 2009
[8] Publicly reported data refers to information that is available in annual & if any, sustainability reports and on the company website

publishes this report because its board has given instructions to invest in companies who fulfill the criteria for 'ethical investment'

The analysis done by Folksam is based on; (1) United Nation's (UN) Global Compact's Ten Principles and (2) OECD guidelines for multinational companies. These principles and guidelines provide guidance to companies on how to take responsibility for environmental and social issues based on international conventions such as 'International Labour Organization' (ILO) core conventions on labor. The interpretation of these principles/guidelines published by the Global Reporting Initiative (GRI) and various internationally recognized standards, including ISO 14001 and SA8000, was also used by Folksam.

There isn't any issue that we can report is important in the calculation of ratings by Folksam. However, there is some criticism on UN's global compact 10 principles, on which Folksam rating is based to analyze the company's disclosures. But that criticism is also not a major issue in particular for Folksam rating. However, one important point is that Folksam rating is only the analyses of the publicly reported data by the companies themselves and these reports are not subject to further investigation for their authenticity. But we are not analyzing CSR activities of the companies. We are only looking at the CSR disclosure difference between the companies so in our opinion Folksam ratings serve our purpose in a good way.

Methodology – Management

Folksam has based its index rating on the evaluation of companies' capacity to manage environmental and social aspects. In particular, it focused on assessment to examine the extent to which the company has management system criteria which can be traced to the UN's Global Compact and OECD guidelines.

The analysis implies that the five essential components of a management system are examined for each of criteria. These components are:

1. Policy. Does the company have a relevant policy, for example, to promote health and safety?
2. Management System. Are there any procedures and controls / processes that can ensure compliance with policy?
3. Plans / Programs. Is broken down into relevant policy objectives, and there are concrete action plans?

4. Accounting. Presents company information, which makes it possible to evaluate the improvements achieved so far?
5. Verification. Is the management system verified by a third party?

Environmental Assessment

Folksam analyzed environmental activities of a company based on its preparation for environmental risks that can fit within its business. Folksam divided this assessment in to two main areas;

- General assessment of the EMS (Environmental Management System)
- Control of significant direct or indirect impact on the environment (Environmental Performance)

These two main areas are further divided into different criteria, for the purpose of in depth analysis. These criteria are mentioned in the table below;

Table - 01: Environmental Analysis of different Parts

Main Area	Criteria (Criterion)
Environmental Management	Environmental Policy & Plans
	Management & Organization
	External Certification
	Environmental Report
	Supplier Management
Environmental Performance	Greenhouse gas emission
	Energy
	Activity Specific Criteria

Source: Folksam Index for Corporate Responsibility Report 2009

Analysis of Human Rights (HR)

This analysis aims to assess the company management's preparation to deal with the business risk related to HR. For the purpose of their analysis; Folksam divided HR into three main areas;

- Employee Rights
- The company in society
- Human rights in the supply chain

These three are further measured based on the parameters / criteria mentioned in the table below;

Table - 02: Analysis of Human Rights

Main Area	Criteria (Criterion)
Employees	Health & Safety
	Discrimination
	Freedom Association
	Working Hours & Wages
	Child Labor
	Forced Labor
Society	Activities Related CSR
	Corruption
Suppliers	Code of Conduct
	Management Systems & Plans
	Accounting

Source: Folksam Index for Corporate Responsibility Report 2009

Scoring

Companies are rated based on each criterion under investigation. Each firm covered is assigned a rating (ranging from 0 to 7 stars). This rating is assigned based on adherence to the criteria, analyzed in the context of five components for management system. Full points are awarded for all five sought-after components have been identified in the company's reporting, or if there are other clear indications that the company is well prepared. For each main area summed up the number of points awarded for each criterion, and then calculated an average value for the main field. Score range and intervals are shown in the table below:

Table - 03: Score Range / Translation of the stars

Scale	Score (Star)
0.00	0
0.01-0.69 (10%)	1
0.70-1.74 (15%)	2
1.75-2.79 (15%)	3
2.80-4.19 (20%)	4
4.20-5.24 (15%)	5
5.25-6.29 (15%)	6
6.30-7.00 (10%)	7

Source: Folksam Index for Corporate Responsibility Report 2009

The score is calculated separately for human rights and environmental disclosures.

For the purpose of this study we used Folksam's Corporate Responsibility Index rating (Folksam.se, 2011) for environmental and human rights disclosure as dependent variables. Most of the studies used checklist method in order to measure the dependent variables and some used available ratings done by professional bodies for this purpose. Due to time

limitation for this study, we decided to use the available rating. Folksam's rating is considered reasonable in the business circles of Sweden and additionally it's a freely available resource which is serving well the purpose of this study.

b. Independent (Explanatory) Variable Measurement

Company Size

Based on previous studies, size is measured as the natural algorithm of market capitalization. Market capitalization is measured on the basis of the closing share price on 30th/31st December, 2009. Fourteen companies in the sample have two share classes registered with the Stockholm stock exchange. We took the separate closing prices for both the classes and based on that calculated the market capitalization. Main sources used to obtain this information are annual reports of the companies for the year 2009 (available on their corporate websites) and Nasdaq OMX Nordic website.

Industry Sensitivity

For the purpose of this research, we took 'high sensitive' industries as those highlighted as 'High Risk Industries' for the environment in the Folksam Index. As identified in the report, these industries are;

a. Forest
b. Mining & Metal
c. Chemical, Oil & Gas
d. Vehicle & Machinery
e. Transportation
f. Construction

All other industries are taken as 'less sensitive'. A 0/1 variable is used to designate companies from these industries: 1 if company is from more sensitive industry and 0 if it is from less sensitive industry. In order to get data for this variable we used Folksam report.

Media Exposure

It is measured by counting the number of articles/news, on the sample companies, published in the leading Swedish business newspaper Dagens Industri (DI). The number of

articles/news is counted using search facility available on the website of the newspaper for the year 2008 & 2009 and then we took the average of the both the years[9].

Ownership Identity

Measured by a dummy variable where value 1 is given to state-owned firms and 0 value is given to privately-owned firms. As we are studying the behavior of OMXS30 companies, our sample consists of only 2 companies with state ownership i.e. Nordea (19,9%) & Telia Sonera (37,3).

Ownership Concentration

This variable is used to measure dispersed the ownership of the company is, based on data obtained from 2009 annual reports of the sample companies and corporate websites. We used Herfindahl–Hirschman Index[10] (HHI) to measure the ownership concentration of the companies. We have based our calculation for HHI in terms of voting power percentage held by shareholder for each company. We considered the voting power percentage of top 10 shareholders and the remaining percentage held by rest of the shareholders for the purpose of measurement.

Profitability

Corporate performance is determined through either accounting- or market-based measure. Although market based measure is less biased by managerial manipulations and is not past performance. But still, they are more inclined towards and dependent on investors' viewpoints/sentiments about company. In this way they completely ignore other stakeholders. The discussion above gives us solid grounds to adopt accounting based variable in this study like return on assets (ROA) (Cormier et al., 2004; Patten, 1991). Company annual reports and corporate websites were used to get the data.

c. Sample

Our sample comprise of Swedish firms listed on Stockholm Stock Exchange. We selected listed companies because they are legally bound to disclose their operational information in business reports. Disclosures made by the firms have an importance in ensuring the decision of parties and/or information users who had to make decisions based on this information

[9] We used average of the two years because if company is facing much exposure in year 2008, then may be more its impact appears on the reports for year 2009. We also noted that there isn't any major difference in number of news for each year except for some companies.

[10] HHI is a measure of concentration, normally used to measure market concentration. We used the same calculation method to measure the ownership concentration in this study.

(Celik, 2002 cited in Celik, Ecer and Karabacak 2006). In addition to financial and operational information business reports include performance criteria, information about evaluation and analysis, forward-looking information, information regarding the firm, managers and shareholders (FASB, 2001 cited in Celik, Ecer and Karabacak 2006) and CSR / sustainability reports etc. We decided to limit our sample for this research to companies from Swedish national index known as 'OMXS30'.

National Index

A 'national' index represents the performance of the stock market of a given nation—and by proxy, reflects investor sentiment on the state of its economy. These indexes are used to measure quantitatively the situation in the market of one country (Instaforex, 2007). The most regularly quoted market indices are national indices composed of the stocks of large companies listed on a nation's largest stock exchanges, such as the American S&P 500, the Japanese Nikkei 225, and the British FTSE 100.

OMXS 30

'OMX AB' (Aktiebolaget Optionsmäklarna / Helsinki Stock Exchange) was a Swedish-Finnish financial services company, formed in 2003 through a merger between OM AB and HEX plc and is now a part of the NASDAQ OMX Group since February 2008'. The **OMX Stockholm 30** (OMXS30) is a stock market index for the Stockholm Stock Exchange. It is a market value-weighted index that consists of 30 most-traded stock classes (Nasdaqomxnordic.com, 2011).

Most of the companies have two classes of shares listed on the stock exchange. Mainly class A & B shares, but some companies also have class C & preferred shares listed. The main difference seen among classes is related to the percentage voting rights attached to each share.

We excluded companies domiciled abroad from our sample. These companies are ABB, AstraZeneca and Nokia. We also excluded company 'Investor AB' from the list due to the nature of its business and financial structure (it is an investment company with shareholding in the major corporations). So the final sample consists of 25 companies mentioned below;

1. Alfa Laval
2. Assa Abloy
3. Atlas Copco
4. Boliden

5. Electrolux
6. Ericsson
7. Getinge Group
8. Hennes & Mauritz AB
9. Lundin Petroleum
10. Modern Times Group
11. Nordea
12. Sandvik
13. SCA
14. Scania
15. SEB
16. Securitas
17. Skanska
18. SKF
19. SSAB
20. Svenska Handelsbanken
21. Swedbank
22. Swedish Match
23. Tele2
24. Telia Sonera
25. Volvo Group

We focused on the companies from OMXS30 index because national indexes are supposed to include the companies that are representative of the all the companies listed on the stock exchange. As we have limited time for this study, this index will serve as a better representative sample that can fulfill our research purpose.

2.3. Data Sources

Our research is based on secondary data. Following are the main data sources used apart from the CSR literature;

- Stockholm stock exchange website
- Published reports i.e. annual & sustainability, of Swedish companies
- Folksam's website and reports i.e. 'responsible business index reports'

- Online available resources (related to CSR in Sweden)
- UN Global Compact's 10 Principles
- OECD Guidelines
- EU Green Paper on CSR, 2001

In order to collect data for CSR literature we used academic sources that include literature in books, commercial sources that include newspaper and magazine articles and electronic sources that include internet. We also focused on the theories and articles by different authors that highlighted CSRD, their content, extent, determinants and ratings. Theories related to CSRD, its determinants and ratings are discussed in detail in literature review. Apart from CSRD, some interlinked articles on CSR are also discussed to throw some light on evolution of the concept of CSR starting from 1950s up till now and current status of its reporting framework. The research is explorative in nature as no work has been done on the selected topic previously. We are applying already existing but slightly modified model on Swedish listed companies to obtain results for comparative analysis.

3. Literature Review

The literature review chapter starts with views and definitions of the CSR through the modern era. It follows by theories and approaches related to the CSR. The main part of this chapter consists of the theories explaining the CSR disclosure practices and the analysis of the existing researches. Summary of the Folksam report concludes this chapter.

The literature for this study has been selected from the academic journals. Specifically, the journals include Business Society, Journal of Business Ethics and Journal of Accounting & Public Policy. The existing researches, such as Reverte's study on the Spanish setting, Hackston and Milne's study on the New Zealand setting and others form the fundamental basis for our study along with Carroll's article on the evolution of the CSR definitions and Garriga and Mele's article on the CSR theories.

3.1. Views and Definitions of CSR[11]

3.1.1. 1950s: The beginning of the modern era of the CSR

The modern era of the CSR has begun in the 1950s and it still continues at the present, 2011. Beginning of this era referred more as to the concept of Social Responsibility. The reason was that the modern corporation's distinctiveness was not still defined. The book *Social Responsibilities of the Businessman* (1953) written by Howard R. Bowen is considered as a beginning for the modern literature related to this concept. He has defined this concept as: "the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of actions which are desirable in terms of the objectives and values of our society". The important argument made by Bowen is that the concept of the Social Responsibility "contains an important truth that must guide business in the future".

3.1.2. 1960s: The CSR literature scope broadens

The decade of the 1960s was marked by the profound growth of attempts to give a more accurate meaning of the CSR. Keith Davis has defined the CSR concept as that it is "businessmen's decisions and actions taken for reasons at least partially beyond the firm's direct economic or technical interest" (Davis, 1960, p.70). A more precise definition of the

[11] Based on the article of Carroll A., 1999. Corporate Social Responsibility: Evolution of a Definitional Construct. Business Society, 38(3), pp.268-295.

CSR in the same decade was introduced by Joseph W. McGuire. He identified it as: “The idea of social responsibilities supposes that the corporation has not only economic and legal obligations but also certain responsibilities to society which extend beyond these obligations” (McGuire, 1963, p.144). Overall, the literature on the CSR concept has developed significantly during the 1960s.

3.1.3. 1970s: A further growth of the CSR definitions

In 1970s the CSR definitions have started to be proliferated. The way how the CSR concept was defined has begun to be more specific. Harold Johnson viewed the CSR as “conventional wisdom”, “long-run profit maximization”, “utility maximization”, “lexicographic view of social responsibility” (Johnson, 1971). George Steiner has extended the definition and view on the CSR concept in his textbook Business and Society (1971). It states: “Business is and must remain fundamentally an economic institution, but it does have responsibilities to help society achieve its basic goals and does, therefore, have social responsibilities. The larger a company becomes, the greater are these responsibilities, but all companies can assume some share of them at no cost and often at a short-run as well as a long-run profit. The assumption of social responsibilities is more of an attitude, of the way a manager approaches his decision-making task, than a great shift in the economics of decision making. It is a philosophy that looks at the social interest and the enlightened self-interest of business over the long run as compared with the old, narrow, unrestrained short-run self-interest” (Steiner, 1971, p.164).

3.1.4. 1980s: A further research on the CSR

The 1980s are characterized be fewer definitions of the CSR concept and more by the theories, models, researches and alternative themes. Thomas M. Jones (1980) presented that the CSR should be viewed as the process but not as a set of outcomes (p.65). Dalton and Cosier (1982) has presented a model by depicting a 2x2 matrix. This model has “legal” and “illegal” variables on one axis and “responsible” and “irresponsible” variables on another axis. Overall, there are “four faces” of the social responsibility presented by the four cells in the matrix. The conclusion is that the “legal-responsible” face is the most appropriate CSR strategy for the firms to follow (p.27).

3.1.5. 1990s: more CSR definitions reported

In the 1990s, there was more transition of the CSR concept to alternative topics as the business ethics theory, stakeholder theory, corporate citizenship and Corporate Social Performance (CSP). It doesn't mean that writers have rejected the CSR concept, just that there were no new definitions of the CSR added to the literature. During this period of time, there was still remaining trend to operationalize the CSR concept and to conduct other concepts that were related to the CSR theory (Carroll, 1999).

3.1.6. Beginning of the 21st Century: new dimension of the CSR

The 21st century is characterized as era of emerging CSR industry. Nowadays large corporations have the CSR departments, they hire CSR managers and consultants. The CSR conferences are held in the universities, while the researchers contribute to the new literature in the field of the CSR. Publishers print books and journals related to the CSR, while journalists report on the CSR issues in the newspapers (McBarnet et al. 2009). After the collapse of Enron in 2001 the public has become more watchful than ever before on what the corporations are saying and doing in practice regarding the CSR. Now the corporations are under high pressure of being more transparent and to exhibit better in terms of the accountability (Mardjono, 2005). In this context, the CSR reporting becomes mandatory in many countries. For this reason the organizations put their CSR reports on their companies' websites, in order to give an access to the stakeholders, so that they can learn what corporations do for the society (Rahman, 2011).

3.1.7. Conclusion

In overall, it can be said that there are various views and definitions related to the CSR. One of the reasons for that is because there are a lot of different activities, tools and issues that companies take into the consideration. Few examples of the CSR issues and activities can be non-financial reporting, pollution reduction, labor and human rights, and sustainable research and development (Barth, Wolff, 2009, p. 4). Orlitzky (2005) has suggested that "some researchers distort the definition of corporate social responsibility or performance so much that the concept becomes morally vacuous, conceptually meaningless, and utterly unrecognizable". While, Van Marrewijk (2003) viewed the CSR concept as "the panacea which will solve the global poverty gap, social exclusion and environmental degradation". The initial ideas of the CSR were the contribution to the society's well-being and the responsibility towards the environment. Since this management's instrument has brought

much success for the companies which were applying it, now it has become a global business concept (Ehlert C., 2010). As for the final view and definition which can summarize all previously mentioned views, can be suggested Blyth, who said: "There is no one definition of what it takes to be a responsible corporate. The key is to have a rigorous process for identifying those responsibilities and fulfilling them" (Blyth 2005, p.30).

3.2. Theories and Approaches for CSR[12]

The CSR theories can be classified into four groups; (1) Instrumental theories, which present the corporation as a unique instrument for value creation and its social activities as means to achieve the economic results. (2) Political theories, which explain the corporations' power in the society and the appropriate use of this power in the political area. (3) Integrative theories, which present the corporations as they are focused on the satisfaction of the societal demands. (4) Ethical theories, in which the corporations are focused on the ethical responsibilities to the society (Garriga and Mele, 2004). These theories have relations to the systems-oriented theoretical framework, i.e. agency theory, legitimacy theory, and stakeholder theory (this framework will be explained in the Literature review section). Their relation is explained by the fact that some of these theories also explain the extent and content of the CSR disclosure like the systems-oriented theoretical framework. In reality, each CSR theory can be presented by four dimensions which are related to the political performance, ethical values, social demands and profits (Garriga and Mele, 2004).

3.2.1. Instrumental Theories

In this field of theories CSR is represented as a strategic tool to reach the economic goals and, finally, the wealth creation. Milton Friedman's view is a well-known representative of this approach, which is ''the only one responsibility of business towards society is the maximization of profits to the shareholders within the legal framework and the ethical custom of the country'' (1962). Profits concern should take into account the interests of all stakeholders. A number of studies have been done in order to determine the correlation between the CSR and corporate financial performance. There are an increasing number of results which show the positive correlation between the social responsibility and the financial performance of the corporation (Frooman, 1997). There are three main groups of instrumental theories which are related to the economic objective. They are maximization of shareholder

[12] Based on the article 'Mapping the territory' by Garriga and Mele (2004).

value, strategies for competitive advantages and cause-related marketing. *Maximization of shareholder value* approach states that any investment in the demands of the society should be made in case if they increase the shareholder value (Friedman, 1970). *Strategies for competitive advantages* are based on the strategic goal of reaching the competitive advantage, which can allow the company to produce the long-term profits (Husted and Allen, 2000). The goal of the *cause-related marketing approach* is to improve the company's revenues or customer relationship by making the brand awareness stronger (Murray and Montanari, 1986).

3.2.2. Political Theories

In this field of CSR theories and approaches the main focus is on the interactions between the business and society and on the position of the business and its power. They include political analysis and political considerations in the CSR discussion. Despite the fact that there are a lot of different approaches, two main theories are Corporate Citizenship and Corporate Constitutionalism. *Corporate Citizenship* states that the firm as a "corporate citizen" should take into account the community where it operates. The theories and approaches related to the "corporate citizenship" are based on the responsibilities, rights and the partnerships of business in society (Wood and Lodgsdon, 2002). *Corporate Constitutionalism* approach has been explained by Davis (1960). He viewed the business as a social institution and that it must use its power in a responsible way. In addition, he noted that the corporation has the power to influence on the market's equilibrium (Davis, 1967, p.49).

3.2.3. Integrative Theories

These theories state that corporate management should consider the social demands and then to integrate them in a way that the business would operate according to the social values (Garriga and Mele, 2004). There are different approaches to these theories, which are the issues management, public responsibility, stakeholder management and the corporate social performance. The goal of the *issues management* approach is to minimize "surprises" which can arise due to the political and social changes. Examples of the issues can be media exposure, business crises, top management commitment, and many other organizational factors. *Public responsibility* approach has been proposed be Preston and Post (1981). They have found a right guideline for a legal managerial behavior within the set of public policy, which "includes not only the literal text of law and regulation but also the broad pattern of

social direction reflected in public opinion, emerging issues, formal legal requirements and enforcement or implementation practices" (Preston and Post, 1981, p.57). The goal of the *stakeholder management* approach is to reach cooperation between the objectives of the corporation and the whole system of stakeholder groups (Emshoff and Freeman, 1978). This approach relates to the stakeholder theory (explanation of this theory follows in the Literature review section), which means that it's also considered as theory related to the voluntarily CSR disclosure theory and explaining the content and extent of the CSR disclosure. The *corporate social performance* approach is composed of processes of corporate social responsiveness, principles of the CSR and the outcomes of the corporate behavior (Wood, 1991b).

3.2.4. Ethical Theories

This group of theories is focused on the relationships between the business and the society. The following approaches which comprise this set of theories are normative stakeholder theory, universal rights, sustainable development and the common good approach. The core of the *Normative stakeholder theory* is that a socially responsible firm should pay much attention to the legal interests of all proper stakeholders and it has to balance big amounts of different interests and not only the firm stockholders' interests (Donaldson and Preston, 1995, p.67). This theory is under the branch of the system-oriented theory, particularly of the *stakeholder theory* (explanation of this theory is followed in the Literature review section), which means that it's also related to the voluntary CSR disclosure theories and explains the content and extent of the CSR disclosure. The *Normative stakeholder theory* comprises how companies should treat all its stakeholder groups in order to keep a balance between different interests (Donaldson and Preston, 1995). *Universal rights* approach has an objective to support social, economic and political justice by the companies where they operate their business. These and other approaches related to the Universal rights are based on the Universal Declaration of Human Rights which were adopted by the UN general assembly in 1948 (Garriga and Mele, 2004). The *Sustainable development* approach has been defined by Gladwin and Kennelly (1995, p.876) as "a process of achieving human development in an inclusive, connected, prudent and secure manner". This approach states that "sustainable development requires the integration of social, environmental, and economic considerations to make balanced judgments for the long term" (World Business Council for Sustainable Development, 2000, p.2). The core meaning of *the common good approach* is that the

business as any other social group or individual in the society should contribute to the common good of the society, since it's also a part of the society (Garriga and Mele, 2004).

3.2.5. Conclusion

To sum up these theories related to the CSR, it can be noted that most of them are focused on four main aspects. They are (1) to integrate the social demands, (2) to use business power in a responsible way, (3) to meet the objectives which produce the long-term profits, (4) to contribute to a society by doing what is ethically right. This fact has permitted to classify the relevant CSR theories into four groups, which are instrumental, political, integrative and ethical. In addition, there is a link between some of these theories and approaches, i.e. normative stakeholder theory, stakeholder management approach and the systems-oriented theoretical framework (the explanation of this framework is followed in the Literature review section), which explain the extent and content of the CSR disclosure. One of the goals of the business and society field is to construct and develop the business relationships with the society. Knowing the theories allows to have a good understanding of the relations between the corporation and society, in which there is an evidence that the CSR theories and practices are impacted by different forces, such as internal and external, economic and non-economic (Swanson, 1999).

3.3. Theories Explaining CSR disclosure

The empirical studies related to the CSR disclosure have developed a very diverse academic literature which includes different theoretical perspectives. These perspectives support the corporate social reporting. Among all these theories the agency theory or positive accounting theory, the legitimacy theory, and the stakeholder theory are considered to be the most profound (Reverte, 2009).

3.3.1. Agency Theory

This theory views the firm as an interconnection of contracts between different economic agents. In this case, the environmental and social disclosure can be used for the determination of managerial compensation contracts, debt contractual obligations, or implicit political costs. This theory has become an attractive proposal as a justification for the CSR disclosure (Belkaoui and Karpik, 1989).

Agency theory in CSRD perspective states that managers will disclose information only in the case when there will be more benefits than costs associated with the disclosing this information. Agency costs occur when the managers act in their own interests, not protecting the shareholders interests. Since the managers bear these agency costs, they want to be viewed as they are protecting the shareholders' interests (Jensen and Meckling, 1976). One of the means for the managers to signal that they are acting in the way that they are protecting the shareholders' interests is the annual, sustainability and other reports. By means of these reports managers can give proper information to the shareholders and signal that they protect the shareholders' interests (Watts, 1977).

Some of the CSRD determinants can be explained by the agency theory. It explains why management disclose information on the voluntarily basis. Management can reduce the agency costs by providing information. According to the agency theory, agency costs such as costs of monitoring and contracts can differ because of the various corporate characteristics such as size and the leverage (Watts and Zimmerman, 1978). Watts and Zimmerman argue that accounting choices made by management are based on their own self-interest. Since the management knows that shareholders try to control them by means of monitoring and contracting, they use incentives to assure the shareholders that they protect and act in the best interests of the shareholders. One way of assuring the shareholders is to provide them with information (Watson et al. 2002). A number of factors e.g. ownership structure, profitability, size, industry, and leverage can explain the variations of content in voluntary disclosures. These factors have been derived this theoretical framework, i.e. agency theory.

Many studies show a positive relationship between the *size* of corporations and the extent of disclosed information (Broberg et al., 2010). According to the agency theory, agency costs tend to rise in line with the share of the external capital (Jensen and Meckling 1976), and the share of the external capital is most likely to be high in the large corporations. In order to reduce the information asymmetry and the agency costs, the management will disclose more information (Adrem 1999).

High *leverage* increases the agency costs, because debt suppliers can protect their interests by various types of contracts and agreements By providing more information, management can decrease the agency costs and the uncertainty for the creditors and investors. (Jensen and Meckling, 1976). Research show that corporations with high leverage have a tendency to provide more information than the corporations with low leverage (Broberg et al., 2010).

Industry type or sensitivity can have an influence on the corporations' decisions to voluntarily disclose information. Based on the agency theory, the relationship between the industry and CSRD level can be explained by the fact that companies from the highly regulated industries will be motivated to disclose more information in order to decrease the agency costs in terms of the costs of abiding the legislation (Broberg et al., 2010).

However, many research studies done by such researchers as Gray et al., Lemon and Cahan, Deegan and Hallam, and others related to the CSR disclosure concluded that an agency theory has little to offer for the understanding of the firms' behavior related to the social disclosure for various reasons. It proves that positive accounting theorists couldn't provide any substantive evidence to support the view that companies' management use the social disclosures in annual and other reports in the aim of their own wealth maximization (Broberg et al., 2010).

3.3.2. Legitimacy Theory

This theory provides a more advanced perspective on the CSRD because it considers the businesses as they are bound by the social contract in which it states that the firms hold to perform different desired actions for the society in return for the rewards and that their objectives will be approved, which consequently guarantees the firm's continued existence (Brown and Deegan, 1998; Deegan, 2002; Guthrie and Parker, 1989).

Gray et al. (1995) and Hooghiemstra (2000) discuss that the most grasps into the CSRD come up from the use of the theoretical framework which poses that the S&ED is a way to allow a firm to exist on the continued base and to operate to the society.

Another insight related to the legitimacy theory is that the firms should operate within some institutional constraints. If the firms fail to follow and accept institutionalized norms, then it can threaten the firm's resources, legitimacy and consequently, its existence (DiMaggio and Powell, 1983).

There are a lot of previous studies on corporate disclosure which provide the evidence that firms disclose the information in their annual reports on a voluntarily basis as a strategy to manage the legitimacy in a right way (Campbell, 2000; Deegan and Rankin, 1996).

Overall, the CSRD can be seen as an image or symbol that the firm is expressing to the outside world to manage its economic or political position (Neu et al., 1998).

Legitimacy theory contains arguments for a positive size-disclosure relationship. It claims that larger corporations undertake more activities, have a greater impact on the society, have more shareholders who very likely to be concerned with the social programmes undertaken by the corporation, and one of the efficient ways of communicating the information is the disclosures, annual, sustainability and other reports (Cowen et al., 1987).

Industry characteristics can influence on the corporations' decisions to disclose the information on the voluntarily basis. The legitimacy theory is more appropriate when explaining the relationship between *industry* and disclosure level. Based on the legitimacy theory, this relationship can be explained by the fact that companies which belong to highly regulated industries will disclose more information in order to decrease the costs related to not abiding the legislation and laws (Broberg et al., 2010). *Profitability* from the legitimacy theory perspective can be regarded as negatively or positively related to the CSR disclosure. As profitable corporations are more exposed to the public scrutiny and political pressure, the corporations will disclose more, in order to avoid the regulation and to satisfy the societal needs. *Media exposure* is also examined in the view of the legitimacy theory. The firm's visibility is raised by the total amount of the media coverage, which leads to a higher public attention. It shows the positive relationship between the media exposure and disclosure. Higher the corporation is exposed to media, more it will be disclosing information. (Reverte, 2009).

3.3.3. Stakeholder Theory

This theory claims that "the corporation's continued existence requires the support of the stakeholders and their approval must be sought and the activities of the corporation adjusted to gain that approval. The more powerful the stakeholders, the more the company must adapt. Social disclosure is thus seen as part of the dialogue between the company and its stakeholders" (Gray at al., 1995, p.53).

Friedman (1962) has provided a basic interpretation of "stakeholder" defining it as "principle shareholder". Roberts (1992) has expanded the definition of "stakeholder" including different interested groups and political parties. Nowadays a broader definition has become more popular, including suppliers, customers, public media, local communities, non-governmental-organizations. All these stakeholders have some power to influence the corporations.

The stakeholder theory takes into account the impact of different stakeholders on the corporate disclosure policies. From the managerial perspective of the stakeholder theory, the corporate disclosure is an efficient management tool for managing the informational needs of different stakeholders. Gray et al. (1996) have stated that managers can manipulate or manage the stakeholders using the information in the sake of gaining their support which is necessary for the continuation and existence of the firm.

Another argument made by Gray et al. (1987) states that stakeholder theory has some limitations because it only focuses on the way a corporation responds to its stakeholders. The managers need to identify the concerns of the stakeholders, to choose the level of the attention they should pay to them. This approach allocating the resources determines the level and type of voluntary social disclosures at a specific time (Gray et al., 1987). Moreover, the stakeholder theory disregards the social elements and the important influences, such as regulations which contain the requirements for information disclosure and statute law (Gray et al., 1987).

Regarding the determinants which influence on the CSRD, the stakeholder theory supports the size-disclosure relationship. It holds that large corporations have a higher effect on the community, which means they have a bigger group of the stakeholders that have an influence on the corporation (Hackston and Milne, 1996). In this case the explanation of the voluntary disclosures can be the fact to avoid the regulations and to satisfy the informational needs of different stakeholders. The *industry sensitivity* from the stakeholder theory perspective can be explained in the following way. The companies which belong to more sensitive industries are expected to be subject to significantly high stakeholder pressure relating to their environmental performance. It means that corporations will be expected to disclose more information. There are some studies which suppose a positive relationship between the social disclosure and profitability (Belkaoui and Karpik, 1989). The main explanation of this relationship is the management's knowledge. A management, which knows how to make a corporation profitable, understands the need of the social responsibility, which tends to higher social and environmental disclosures.

Comparing the legitimacy theory with the stakeholder theory, the latter provides a more sophisticated resolution, because it takes into the consideration different stakeholders, while the legitimacy theory views the expectations of the society overall. Particularly, the stakeholder theory admits that different stakeholders will have different visions about the way

how an organization should run its operations, that's why there will be different social contracts with different stakeholders (Reverte, 2009).

3.3.4. Conclusion

Overall, despite that these theories have some similarities, mostly they differ on the basis of the assumptions they are made. Not similar to the agency or positive accounting theory, the stakeholder theory and the legitimacy theory don't make any assumption of wealth-maximizing individuals who operate in the efficient capital markets. From another view, Woodward et al. (1996) have stated that both the stakeholder theory and the legitimacy theory look at an organization as being part of the wide social system, legitimacy theory considers the society as a whole, when the stakeholder theory realizes that some groups in the society have more power than the others. The legitimacy and stakeholder theories seem to be the most successful in explaining the extent and content of social and environmental reporting. Based on these theories, the social disclosure is used in order to protect the corporations' identity and reputation (Reverte, 2009). Both Adrem (1999) and Cormier et al. (2005) debate that the disclosure cannot be explained only by one single theory. As Gray et al. (1995) points out, that it is better to look at theories on a complimentary basis rather than on the competitive. All these three theories should be considered as not competing between each other but as alternative ways of studying and understanding organizational decisions to disclose different sorts of information to the society.

3.4. Analysis of Existing Researches

3.4.1. Hackston and Milne (1996)

Introduction

In their article "Some determinants of social and environmental disclosures in New Zealand companies" published in 1996, Hackston and Milne studied the potential determinants of the CSR disclosure. One of the purposes of this study was to examine the potential determinants of the CSR disclosures in New Zealand companies. Using similar sampling and measurement techniques, like in other studies previously done, Hackston and Milne could provide the benchmark of New Zealand disclosure practices.

Sample selection, variables, methodology

They have selected 50 largest listed companies on the New Zealand Stock Exchange at 31 December 1992. The largest companies were based on the size ranking of the market

capitalization. For the set of the variables, they have selected the *corporate social disclosure* as dependent variable, and *company size*, *corporate profitability* and *industry type* as independent variables. C*orporate social disclosures* have been measured by using the content analysis. It's a method of arranging the text into different categories depending on particular criteria (Weber, 1988). An interrogation instrument, checklist, and decision rules have been developed, enabling content analysis to be arranged in a replicable way. The interrogation instrument has been used to find out the amount of the CSRD in various categories. The instrument categories included dimensions of disclosure theme (environment, products/consumers, employee/human resources, and other); evidence (monetary or non-monetary quantification); amount (total number of sentences), and news type (good, bad or neutral news). The interrogation instrument, checklist, and decision rules are included in the Appendix. *Company size* has been measured by market capitalization, sales, and total assets. Nevertheless, there is no theoretical reason for a special measure of size in this and previously done studies. *Corporate profitability* has been quantified by the return on equity (ROE) (EBIT/ total equity), and return on assets (ROA) (EBIT/ total assets) values. This variable has been measured over an extended period of time, which is current (1992) year measures of these variables (ROE, ROA) and five-year (1988-1992) averages have been also used. The reason for that is because an extended period will provide more reliable results of corporate profitability performance than the measurements just for one single year. *Industry type* is measured as a differentiation of industries into low-profile and high-profile industries. High-profile industries are defined as having a high level of political risk, an intense competition, and consumer visibility (Roberts, 1992, p.605). An example of a high-profile industry can be petroleum, chemical, oil, media and other industries (Patten, 1991; Roberts, 1992). There is no single list of industries universally accepted, which are considered to be as high-profile. That is why there can be different sets of industries selected as high-profile in various studies.

Results and conclusion

The obtained results which are consistent with other studies show a positive significant relationship between both *size* and *industry* and amount of the disclosure. In addition, there was no evidence of relationship between profitability and disclosure. Additionally, the results show a stronger size-disclosure relationship for the high-profile industry firms than for the low-profile industry firms. The relation between size and industry suggests that the size alone is not an appropriate indicator of the disclosure amount. Both *agency and legitimacy theories*

have arguments for a size-disclosure relationship. In addition, the size-industry-disclosure relationships show evidence that New Zealand companies are highly responding to the information needs of investors who want to know about the potential risky activities of the companies.

3.4.2. Carmelo Reverte (2009)

Introduction

A similar research has been done by Carmelo Reverte. In his article "Determinants of Corporate Social Responsibility disclosure ratings by Spanish listed firms" he studied the potential determinants of the CSR disclosure ratings. This study has been done in 2009. He has examined whether the firm and industry characteristics, as well as media exposure, are the possible determinants of corporate social responsibility disclosure ratings by Spanish listed firms.

Sample selection, variables, methodology

The study has been made on Spanish firms covered by the Observatory on corporate social responsibility (OCSR) report, i.e., firms listed on the Madrid Stock Exchange and which are included in the IBEX35 index. Financial firms have particularities in their accounting system that is why they have been excluded from the sample, because most explanatory variables are set up on the accounting system. The set of variables for this study has consisted of *CSR ratings* as dependent variable and *company size, media exposure, profitability, industry sensitivity, ownership concentration, leverage, and international listing* as independent variables. As measure of the *CSR ratings* Reverte has used three different ratings reported by the OCSR, i.e. Total CSR score (captures overall CSR disclosure practices), CSR Content Rating (evaluates the information provided by the firm) and CSR Management Systems Rating (MSR) (evaluates the management systems and processes in the CSR area). The *company size* has been measured as the natural logarithm of the firm's market capitalization. As the measure for the *media exposure,* the number of the articles in the main business newspapers of Spain ("Expansion" and "Actualidad Economica)" has been counted. Return on assets (ROA) has been used as a measure for the *profitability* independent variable. For the *industry sensitivity* measurement one/zero values have been used. One for the company from more sensitive industry and zero if the company is from less sensitive industry. "More sensitive" industries are considered of having more risk of being criticized regarding the CSR matters due to their type of activities which involve more risk of impact on the environment.

Ownership concentration has been measured from the data related to the significant shareholdings from the annual reports of 2005 and 2006 years of the sample companies. For the majority shareholder he has assigned value of 1 and for other case a zero value. The *leverage* variable is measured as long-term debt/book value of equity. The number of foreign markets has been used as a measure for the *international listing* variable.

Results and conclusion

The main results obtained by Reverte suggest that there is a positive significant relationship between a high CSR rating and *large size* (measured as the natural logarithm of market capitalization), *high media exposure*, and *more environmentally sensitive industry*, as compared to the firms which have lower CSR ratings. In contrast, other determinants, such as *profitability* and *leverage* don't explain the differences in CSR disclosure ratings between Spanish listed firms, similar to the previously discussed study done by Hackston and Milne. The most influential determinant for explaining firms' differences in the CSR disclosure ratings is media exposure, which is followed by the size of the firm and industry environmental sensitivity. In this study the most relevant theory which explains the differences in CSR disclosure ratings of Spanish listed firms is considered to be *a legitimacy theory*. Thereby, Spanish firms disclose information on the CSR activities mainly to act and to be seen as they are acting within some bounds. They [bounds] have to be acceptable according to the stakeholders' expectations on the way how the operations are held.

3.4.3. Dennis M. Patten (1991)

Introduction

In the article "Exposure, Legitimacy, and Social Disclosure" published in 1991, Dennis M. Patten has studied the relationship between the level of the social disclosure and the public pressure and firm profitability. The purpose of this study was to examine whether the social disclosures are related to either profitability or public pressure measures.

Sample selection, variables, methodology

Patten has selected 128 firms from the 1985 Fortune 500 listing for the sample. For the set of the variables he has decided to use the *level of social disclosure* in the annual reports as dependent variable and the *public pressure* and *profitability* as independent variables. The *level of social disclosure* has been measured by amount of the pages which are considered as socially related included in the annual reports. He has considered, according to the previous method used by Ernst and Ernst in the 1970s, that disclosures are socially related if they fall

in one or more of the following categories (Ernst & Ernst 1978, pp. 22-28): Environment, Energy, Fair business practices, Human resources, Community involvement, Products, Other disclosures. *Public pressure* has been measured by using two proxy variables. i.e. *firm size* and *industry classification*. While the *size* has been measured as the natural log of 1985 revenues and *industry classification* has been measured as a differentiation of industries into high-profile and low-profile industries. The same method of classification of the industries into the high-profile or low-profile industries is used as in the Hackston and Milne study previously discussed. The second dependent variable, *profitability* has been quantified by several measures, i.e. ROA, ROE, five-year average ROE, one-year lagged ROA, and a dummy variable which indicates the firms reporting a fall in the net income compare to the previous period.

Results and conclusion

The results of the regression analysis for 128 firms using their 1985 annual reports indicate that both *firm size* and *industry classification*, i.e. public pressure variables, have a positive significant relationship with the level of the social disclosure. Whereas, the *profitability variables* which have been included in the analysis have not been significantly related with the extent of social disclosure. As mentioned in this article of Dennis M. Patten, according to Trotman and Bradley (1981, p. 355) there is no well-developed theory which explains the social disclosure. However, the concept of the corporate legitimacy may have some relationships to the social disclosure. In addition, the legitimacy theory has a basis for the social contract. According to Shocker and Sethi (1974, p. 67) any social institution or business operate in the society by the means of the social contract and it should meet the criteria of legitimacy by demonstrating that society demand these services and that the groups getting the benefit from its rewards have a society's approval.

3.4.4. Tagesson, Blank, Broberg and Collin (2009)

Introduction

Tagesson, Blank, Broberg and Collin in their article "What explains the extent and content of social and environmental disclosures on corporate websites: a study of social and environmental reporting in Swedish listed corporations" published in 2009 have studied the determinants of the CSR disclosure information on the websites of the Swedish Listed Corporations. The purpose of this study was to examine the level and content of social disclosure information on the corporations' websites.

Sample selection, variables, methodology

In this study the empirical data has been based on the information provided in the annual financial statements and corporate websites. The sample has consisted of 267 corporations of Stockholm Stock Exchange and all State-owned corporations. *Social disclosure on the corporate website* has been used as an independent variable and *size*, *industry*, *profitability*, *ownership structure*, and *ownership identity* have been chosen as independent variables. *Social disclosure on the corporate website* has been measured by using the checklist which is divided into three areas: environmental disclosures, ethics disclosures, and human resource disclosures. Then each area has been divided into various issues based on the standards issued by the Global Reporting Initiative (GRI) and previous research. They have used an unweighted-scoring approach. Each issue in the checklist was considered as a dummy variable, where they have assigned 1 in case that the information is disclosed and 0 of the information is not disclosed. *Size* has been measured as turnover and number of employees. *Industry* has been determined according to the division types used by the Scandinavian Information Exchange (SIX) index: manufacturing, raw materials, consumer goods, finance, health services, IT, telecommunications and energy. *Profitability* has been measured as the ROA and ROE. *Ownership identity* has been measured by a dummy variable, where they have assigned 0 for privately owned and 1 for the State-owned. *Ownership structure* was measured by the number of votes controlled by the five largest owners of the corporation.

Results and conclusion

The following results have been obtained in this study. The *firm size* as in all previous discussed studies has a strong positive relationship with the level of the social disclosures, in this case on the corporate websites. *Profitability* has been found that has a positive influence on the level and content of the social disclosures on the firms' websites. The *ownership identity* which has been measured by privately owned and State-owned dummy variables, it has been found that State-owned companies disclose more social information than privately controlled companies. No significant correlation has been found between *ownership concentration* and social disclosures level and content. The different results for the industry have been obtained. It was found that the raw materials industry disclosed more social information than others. The consumer goods industry disclosed more information than other industries in the context of ethical issues. The IT industry has disclosed a very small amount of the information. The finance industry has disclosed least information regarding the human

resources. This study claims that the most successful theories explaining the content and extent of social and environmental reporting are legitimacy and stakeholder theories.

3.4.5. Conclusion

It is evident from existing researches that firm size, industry classification and in some cases media exposure are positively related to social disclosures. In case of Reverte (2009), the most influential determinant for explaining the Spanish firms' differences in the CSR disclosure is media exposure, which is followed by the size of the firm and industry environmental sensitivity, while profitability and leverage didn't explain the differences in the CSR disclosures. Hackston and Milne (1996) did their research based on the New Zealand companies and found a stronger size-disclosure relationship for more sensitive industry firms. Similar to the Reverte's study they didn't find any relationship between the profitability and disclosure. In contrast, Tagesson et al. found a positive influence of the profitability on the level and content of the social disclosures on the firms' websites. In addition, it also states the same positive relationship between size and disclosure. Patten has obtained the results which hold also a strong positive relationship for the firm size and industry classification and the level of the social disclosures. Based on the analysis of these studies it can be said that the most influential determinant which explains the differences in the CSR disclosure is the firm's size, followed by the industry sensitivity and media exposure. In contrast, profitability, leverage, ownership identity, ownership concentration in most cases didn't held any significant relationship. In terms of the theories the legitimacy and stakeholder theories are found to be more relevant in explaining the CSR disclosure practices in these studies. The legitimacy and stakeholder theories seem to be the most successful in explaining the extent and content of social and environmental reporting. Based on these theories, the social disclosure is used in order to protect the corporations' identity and reputation (Reverte, 2009). Both Adrem (1999) and Cormier et al. (2005) suggest that the disclosure cannot be explained only by one single theory. As Gray et al. (1995) points out, that it is better to look at theories on a complimentary basis rather than on the competitive. All these three theories should be considered as not competing between each other but as alternative ways of studying and understanding organizational decisions to disclose different sorts of information to the society. Table below also summarizes these researches;

Table – 04 Summary of Previous Researches

Previous Research	The most influential variables	Relevant Theories
Hackston and Milne (1996)	Firm size, industry sensitivity	Agency, legitimacy
Patten (1991)	Firm size, industry sensitivity	Legitimacy
Reverte (2009)	Media exposure, firm size, industry sensitivity	Legitimacy
Tagesson et al. (2009)	Firm size	Legitimacy, Stakeholder

3.4.6. Summary of Folksam Report

A Swedish insurance company Folksam has constructed a Folksam Index for Corporate Responsibility, which exists from 2006. The Index has been made of Swedish listed companies which publicly report on the social (human rights) and environmental issues. High transparency related to these issues is important to create a confidence for the public in order to make the decisions. In this perspective, Folksam has made a review and evaluated all Swedish listed companies' performance on corporate responsibility. The purpose of this study was to provide an overview of the work the company's do themselves giving the public the reported materials.

Constructing the Folksam Index for Corporate Responsibility, Folksam has focused on the individual company's willingness to manage its risks relating to environmental and human rights. The data to which the Folksam has referred was information which is available on the official websites of the companies and in different reports, particularly companies' annual reports and any sustainability. The analysis has been based on criteria that are based on the Global Compact's ten principles and the OECD Guidelines for multinational companies. These principles and guidelines provide guidance to companies on how to be expected to take responsibility for environmental and social impacts.

The companies selected for the Folksam Index for corporate responsibility are listed companies on the Stockholm Stock Exchange divided according to Small, Medium and Large Market Capitalization.

The Folksam Index for Corporate Responsibility is constructed based on the analysis of environmental and social (human rights) issues:

Analysis of environmental issues. The analysis of the reported information regarding the environmental management system consists of two parts. The first one, which is called

Environmental management includes an overall assessment of the company's global ambition with environmental work, the extent to which a management system is implemented in organization, overall quality of the environmental statement and the extent to which providers are covered by management system. The second part, Environmental performance provides a picture of the company's ability to manage their environmental impact, which is done through a custom evaluation based on the set of key parameters, to reflect the company's environmental performance based on the specific conditions in different types of activities.

Analysis of social (human rights) issues. The purpose of the analysis of social issues is to assess the firm’s management preparation to manage business risks related to human rights. The first main area of the analysis covers employees and the criteria for assessment include health, safety, and freedom of association, discrimination, working hours and wages. The second part includes analysis of the company's impact on the surrounding community, which mostly relates to the company's preparedness to prevent the occurrence of corruption. And the final part evaluates companies' accounting of how to react to promote human rights in the supply chain.

In addition, in this study the environmental industry risk has been assessed, which is an estimate of the frequency how often companies within some specific industry can be related to serious and / or systematic deviations from the norms covered by the Global Compact and OECD Guidelines for Multinational Enterprises. This analysis has been made for further assessment of the company’s performance related to the social (human rights) and environmental issues. The industry's environmental impact is also being evaluated as a measure of how much value a company generates in relation to environmental impact. The concept of value included components such as profits, wages and taxes. The analysis that is linked to human rights reflects, as environmental analysis, the risk that a company can be linked to serious biases against international standards.

The scoring process follows after the analysis of the environmental and social (human rights) issues, Companies are awarded points for each criterion under investigation. For each main area summed up the number of points awarded for each criterion, and then calculated an average value for the main field. After that the company is assigned a rating based on the score range.

The results have shown that many companies report in detail on work related to the environmental and social responsibility issues. But in addition for that, there is a room for

improvements of reporting by many companies. This is especially related to the companies whose business involves high risks. However, there is another possibility that some companies are doing well in terms of the environmental and social issues, but they do not report this to their shareholders or customers. The forest industry ranks in the top both in terms of environmental and human scores rights, while, the media and entertainment industry is on the bottom position in terms of both human rights and environment scores.

Folksam Index for Corporate Responsibility is based on reporting by GES Investment Services. It provides financial market analysis and advice on business performance and sustainability. Folksam is responsible for the ranking of companies.

4. Empirical Analysis

This chapter includes the empirical analysis i.e. descriptive statistics and correlation. Descriptive statistics summarizes the data for both dependent and independent variables. Dependent variables are taken from Folksam corporate index rating i.e. environmental rating or human rights rating. Independent variables (size, IS; ME; OI; OC & P) are identified based on the literature review. Hypothesis testing is also done in this chapter through correlation analysis. We have selected the sample based on the Stockholm stock exchange Index OMXS 30. The data sources used for the purpose of empirical research are annual reports (for the year 2009) & corporate websites of the sample companies and Folksam corporate responsibility index report for 2009. The data collected and used for this purpose is presented in the appendices section in the form of tables.

4.1. Descriptive Statistics (DS)

Descriptive statistics describe the basic features of a data. They summarize the 'sample' and the 'measures'. Table – 05 below presents the descriptive statistics for the data collected for the purpose of this research (socialresearchmethods.net, 2006).

Table – 05 Descriptive Statistics

	ER	**HRR**	**Size**	**IS**	**ME**	**OI**	**OC**	**P**
Mean	4,323	3,597	24,941	0,480	5,002	0,080	0,119	0,036
Median	4,620	3,78	24,754	0,000	4,987	0,000	0,065	0,033
Maximum	6,560	4,830	27,12	1,000	6,22	1,000	0,533	0,301
Minimum	1,210	1,160	23,60	0,000	4,06	0,000	0,005	-0,180
Std. Dev.	1,516	1,002	0,903	0,510	0,628	0,277	0,134	0,094

Table – 05 shows the descriptive statistics for the dependent and independent variables taken in our study. ER and HRR are the environmental and human rights ratings respectively, taken from Folksam's corporate responsibility index.

Environmental rating DS show that there is a high variability among the sample companies. Highest rated company (SFK) has the value of 6,56 while the lowest rated company (MTG) has rating of 1,21. The rating 6,56 also show that high degree of information is given in the environmental rating as compare to 4,83 highest rating given in case of human rights rating.

Human rights rating show less variability than ER. Also both the highest (4,83) & lowest value (1,16) for HRR are less than that of ER's highest (6,56) & lowest (1,21) which show

that companies focus more on issues related to environment than human rights in case of CSR disclosures.

Size is measured as natural logarithm of the market capitalization for each company based on the closing prices at the year ended on 31st Dec, 2009. Maximum value is 27,12 (SEK 602 billion) and minimum is 23,60 (SEK 17,7 billion). Variation in company sizes in terms of market capitalization is also quite huge. This variable comes under the category of Public pressure.

Industry Sensitivity is measured through dummy variables with 0 for low sensitivity and 1 for high sensitivity. Table above shows that 48% of the companies belong to high sensitive industries while rest 52% to low sensitive industries. This assignment of sensitivity level is based on the Folksam corporate responsibility index. This variable also comes under the category of Public pressure.

Media exposure is measured as natural logarithm of number of news/articles related to the company. Number of news/articles is calculated based on the news appearing in the search option of the newspaper's corporate website. Again there is a big variation in these numbers with SSAB appearing in news only 58 times (lowest) and Ericsson appearing in the news 502 times (highest).

Ownership Identity is also measured through dummy variables with value 1 given to state owned companies and 0 is given to privately owned companies. Only 2 companies that is 8% of the sample is state owned. All the rest of the companies are privately owned.

Ownership Concentration is measured through Herfindahl-Hirshman index (measure for level of concentration). It is measured in terms of voting percentage/rights. Lowest concentration level is 0,5% (Boliden) and highest concentration level is 53,3% (Scania). Variation level is high in this case also.

Profitability is measured as a ratio of net income to total assets i.e. returns on assets. The negative sign with minimum value indicate loss suffered by the company. In our sample 6 companies are having losses. Lundin Petroleum has the lowest ROA of -18% while H&M has the highest profitability with ROA of 30%

4.2. Correlation

Correlation explains the statistical relationship between two or more variables. Correlation refers to departure of two or more variables from independence or a specialized type of relationship between mean values. We used Pearson correlation coefficient which is sensitive to linear relationship between two variables, which may exist even if one is a nonlinear function of the other (socialresearchmethods.net, 2006).

Table - 06a Pearson Correlations between Dependent and Independent Variables

	Size	**IS**	**ME**	**OI**	**OC**	**P**
ER	0,352 (0,084)*	0,512 (0,009)***	0,350 (0,087)*	-0,066 (0,754)	-0,077 (0,713)	0,159 (0,447)
HRR	0,478 (0,016)**	0,376 (0,064)*	0,361 (0,076)*	0,076 (0,718)	0,048 (0,819)	0,289 (0,162)

*** significant at 1% level, ** significant at 5% level, * significant at 10% level

Table – 06a shows the correlation coefficients between the dependent and independent variables along with the p-values.

ER-Size correlation*:* table above shows that this correlation is statistically significant at 10% level with coefficient value 0,352 and p-value 0,084. It is a positive correlation which means that firms with high market capitalization tend to have high environmental rating also. Our H1a hypothesis states that '*There is a significant positive relationship between firm size and ER'*. Based on this result, we can conclude that our hypothesis H1a does not get rejected.

ER-IS correlation: it is also the statically significant correlation at 1% level. It is a positive correlation. From this result we can conclude that industry sensitivity and ER has the most significant correlation i.e. companies operating in environmentally sensitive industry have the high environmental ratings. Our hypothesis H2a states that '*There is a significant positive relationship between industry sensitivity and ER*'. Based on this result, we can conclude that our hypothesis H2a does not get rejected.

ER-ME correlation: this correlation is statistically significant at 10% level with positive coefficient value. It means that companies faced with high media exposure tend to have high environmental rating. Our hypothesis H3a states that '*There is a significant positive relationship between media exposure and ER*'. Based on this result, we can conclude that our hypothesis H3a does not get rejected.

ER-OI correlation: no statistically significant correlation exists. There is a negative correlation. Our hypothesis H4a states that '*There is a significant relationship between ownership identity and ER*'. Based on this result, we can conclude that our hypothesis H4a is rejected.

ER-OC correlation: no statistically significant correlation exists. There is a negative correlation. Our hypothesis H5a states that '*There is a negative relationship between ownership concentration and ER*'. Based on this result, we can conclude that our hypothesis H5a does not get rejected.

ER-P correlation: no statistically significant correlation exists. However the correlation has a positive coefficient. Our hypothesis H6a states that '*There is a positive relationship between firm's profitability and ER*'. Based on this result, we can conclude that our hypothesis H6a does not get rejected.

HRR-Size correlation*:* table above shows that this correlation is statistically significant at 5% level with coefficient value 0,478 and p-value 0,016. It is a positive correlation which means that firms with high market capitalization tend to have high human rights ratings also. Our H1b hypothesis states that '*There is a significant positive relationship between firm size and HRR'*. Based on this result, we can conclude that our hypothesis H1a does not get rejected.

HRR-IS correlation: it is also the statically significant correlation at 10% level. It is a positive correlation. From this result we can conclude that industry sensitivity. It means that companies operating in environmentally sensitive industry have the high human rights ratings. Our hypothesis H2b states that '*There is a significant positive relationship between industry sensitivity and HRR*'. Based on this result, we can conclude that our hypothesis H2b does not get rejected.

HRR-ME correlation: this correlation is statistically significant at 10% level with positive coefficient value. It means that companies faced with high media exposure tend to have high human right rating. Our hypothesis H3b states that '*There is a significant positive relationship between media exposure and HRR*'. Based on this result, we can conclude that our hypothesis H3b does not get rejected.

HRR-OI correlation: no statistically significant correlation exists. There is a positive correlation. Our hypothesis H4b states that '*There is a significant relationship between*

ownership identity and HRR'. Based on this result, we can conclude that our hypothesis H4b is rejected.

HRR-OC correlation: no statistically significant correlation exists. There is a positive correlation. Our hypothesis H5a states that '*There is a negative relationship between ownership concentration and HRR*'. Based on this result, we can conclude that our hypothesis H5b is rejected.

HRR-P correlation: no statistically significant correlation exists. However the correlation has a positive coefficient. Our hypothesis H6a states that '*There is a positive relationship between firm's profitability and ER*'. Based on this result, we can conclude that our hypothesis H6a does not get rejected.

Table-6b Pearson Correlations between Independent Variables

	IS	**ME**	**OI**	**OC**	**P**
Size	-0,218 (0,295)	0,737 (0,000)***	0,450 (0,024)**	0,250 (0,228)	0,305 (0,132)
IS		-0,243 (0,236)	-0,283 (0,17)	-0,141 (0,504)	-0,241 (0,26)
ME			0,369 (0,07)*	0,056 (0,779)	0,012 (0,905)
OI				0,007 (0,974)	0,017 (0,937)
OC					0,284 (0,170)

*** significant at 1% level, ** significant at 5% level, * significant at 10%

Table – 06b shows the correlation coefficients matrix between independent variables along with the p-values. The correlation between media exposure and size is significant at 1% level with coefficient = 0,737. It means that these two variables are highly correlated i.e. bigger the firm size, higher the media exposure it gets. Correlation between size and OI is also statistically significant at 5% level with coefficient value of 0,45. This correlation is positive. It means that state owned companies tend to have high market capitalization value. Another statistically significant positive correlation in this table is between OI and ME at 10% level. It means that state owned companies tend to have more media exposure in general.

Regression

We also performed regression analysis but due to the small sample size results were not so satisfactory. However, the results of regressing the explanatory variables on the environmental rating & human rights rating are close to the ones we obtained in correlation analysis i.e. size, industry sensitivity and media exposure are more influential variables in explaining the differences in both environmental and human rights ratings among the companies in our sample. In case of environmental rating, industry sensitivity is most influential variable. While in case of human rights rating, size turns out to be the most influential.

Our empirical results show that firms with higher ratings present a statistically larger size, belongs to higher environmentally sensitive industry and more exposed to media as compare to the companies with lower ratings. However, neither owner structure nor the profitability seems to explain the differences among the sample companies in terms of CSR disclosure ratings. Most influential variable in case of environmental rating is 'industry sensitivity'. While in case of human rights rating, 'size' is the most influential variable. In both cases media exposure is the third most statistically significant variable. Hence, based on our results we can say that, variables that are statistically significant are the ones related to public pressure/social visibility i.e. size, industry sensitivity and media exposure. In the context of these results we can say that legitimacy and stakeholder theories are more relevant in explaining the differences in CSR disclosure practices in Swedish listed companies.

5. Conclusion

5.1. Conclusion:

The first purpose of this thesis was to analyze the firm and industry characteristics along with media exposure, to see the influence these factors have on the CSR disclosures practices of the Swedish companies. Our empirical results show that firms with higher ratings present a statistically larger size, belongs to higher environmentally sensitive industry and more exposed to media as compare to the companies with lower ratings. However, neither owner structure nor the profitability seems to explain the differences among the sample companies in terms of CSR disclosure ratings. Most influential variable in case of environmental rating is 'industry sensitivity'. While in case of human rights rating, 'size' is the most influential variable. In both cases media exposure is the third most statistically significant variable.

The second purpose of this study was to compare the results of the existing researches with results obtained in our study, in order to find out the significance of the results. The following researches have been analyzed for the comparison: Reverte (2009), Hackston & Milne (1996), Patten (1991) and Tagesson et al. (2009). In the context of description given by Patten (1991), i.e. public pressure vs. profitability, we can say that our results support that public pressure is more significant determinant of the extent and content of CSR disclosure. This result is similar to that of Patten (1991). Patten measured the public pressure through 'size and 'industry' in his former study (1991). In his later research (2002), he added 'media exposure' as third variable of the public pressure. Although in his 2002 research, Patten could not found any significant impact of media exposure on the CSR disclosures but that research was subjected to certain limitations.

In their study Hackston & Milne (1996) also found that size and industry are more significantly associated with extent of CSR disclosure as compare to profitability for the New Zealand market. To this extent our results are similar to them. But other conclusions that they drew from their study are (1) size & industry combined have more significant impact and (2) international listing also have some impact on the CSR disclosures. We didn't account for both of these issues in our study i.e. we didn't test the combined impact of size & industry and second we didn't took international listing as an independent variable (because not enough companies in our sample are internationally listed, so results won't be reliable).

Empirical findings in Reverte (2009) are also similar to our results with one difference i.e. media exposure is the most influential variable in explaining the differences in CSR disclosure practices among Spanish listed companies. So it can be concluded that Spanish do CSR activities to enhance their company 'image' and 'identity'. Although media exposure is significant variable in case of Swedish companies still it is not the most important one. Hence, it can be concluded that although Swedish companies try to maintain their brand 'image' and 'identity', it's not the most important thing for them when it comes to CSR activities. .

However the results of T. Tagesson et al. (2009) are in a way not comparable with our results because they further subdivided independent variables size and industry. The main similarity between our study and T. Tagesson et al. (2009) study is that both studies are done on Swedish firms. Their main focus is CSR disclosure on corporate websites while our focus is on over all environmental & human rights disclosures of the companies. They took all listed companies on Stockholm stock exchange, while we only took OMXS30 companies.

The third purpose of this research was to find out which system oriented theory or combination of theories best explain the results from our research. As both Adrem (1999) and Cormier et al. (2005) hold that "disclosures are a complex phenomenon that cannot be explained by a single theory". Explaining our empirical results it would be problematic if theories were looked upon on a competitive basis rather than complementary. Therefore, in this study, we have used a multi-theoretical framework for explaining the extent and content of the social disclosures of the Swedish companies. This framework consists of such theories as stakeholder, legitimacy and agency theories. Based on our results of the literature review, the positive size-disclosure relationship for the Swedish firms setting can be supported by the stakeholder and legitimacy theories. According to the stakeholder theory, our results are in the line with the theoretical assumptions implying that larger corporations have a large number of employees, therefore they involve more people and more information is presented in social disclosures. Larger corporations have a larger group of stakeholders that influence them, and there is also a higher demand for information from these corporations (Tagesson et al., 2009). Whereas, according to the legitimacy theory, larger corporations have a greater impact on the society, undertake more activities and one of the efficient ways of communicating the information is by means of the annual, sustainability and other reports, and disclosures (Cowen et al., 1987). In explanation of the positive industry-disclosure relationship the legitimacy theory is more relevant for explaining the extent and content of

the social disclosures of the Swedish companies. Supporting the fact that companies which belong to highly sensitive or highly regulated industries will disclose more information in order to decrease the costs related to not abiding the legislation and laws (Broberg et al., 2010). The positive relationship between the media exposure and disclosure for the Swedish OMXS 30 companies is better explained by the legitimacy theory. The firms' visibility is raised by the total amount of the media coverage, which leads to a higher public attention, which will also lead to a higher disclosure amount (Reverte, 2009).

5.2. Future Research:

Due to time limitation our sample size is limited in this research. Future research can be done with a bigger sample size to get more reliable and satisfactory results from the empirical research.

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7. Appendices

7.1. Dependent Variables; Environmental & Human Rights Ratings

	Company Name	ER	HRR
1	Alfa Laval	3,73	3,85
2	Assa Abloy	4,08	3,43
3	Atlas Copco	4,76	4,02
4	Boliden	5,67	3,78
5	Electrolux	5,72	4,83
6	Ericsson	5,74	4,34
7	Getinge Group	3,41	2,94
8	H&M	4,69	4,69
9	Lundin Petroleum	2,31	2,45
10	MTG	1,21	1,16
11	Nordea	3,45	3,46
12	Sandvik	4,71	2,9
13	SCA	6,35	4,76
14	Scania	5,79	4,52
15	SEB	3,66	2,9
16	Securitas	1,31	3,18
17	Skanska	5,16	4,34
18	SKF	6,56	4,55
19	SSAB	4,62	3,33
20	SHB	4,39	3,57
21	Swedbank	4,69	4,27
22	Swedish Match	4,13	2,76
23	Tele2	1,40	1,22
24	Telia Sonera	4,53	4,24
25	Volvo Group	6,00	4,44

7.2. Independent Variable Size

	Company Name	No. of Shares	Market Cap.	LN
1	Alfa Laval	422,039,466	41,781,907,134	24.456
2	Assa Abloy	365,918,000	50,423,500,400	24.644
3	Atlas Copco	1,229,613,104	124,854,164,606	25.550
4	Boliden	273,511,169	25,190,378,665	23.950
5	Electrolux	308,920,308	51,739,400,453	24.669
6	Ericsson	3,273,351,735	215,478,298,952	26.096
7	Getinge Group	222,383,327	30,310,847,470	24.135
8	H&M	1,655,072,000	602,235,065,600	27.124
9	Lundin Petroleum	317,910,580	17,993,738,828	23.613
10	MTG	65,896,815	23,387,644,710	23.875
11	Nordea	4,037,129,675	294,306,753,308	26.408
12	Sandvik	1,186,287,175	102,495,211,920	25.353
13	SCA	705,110,094	67,292,748,130	24.932
14	Scania	800,000,000	73,640,000,000	25.022
15	SEB	2,194,171,802	97,329,670,864	25.301
16	Securitas	365,058,897	25,572,375,735	23.965
17	Skanska	399,000,000	48,518,400,000	24.605
18	SKF	455,351,068	56,281,392,005	24.754
19	SSAB	323,934,775	38,670,845,232	24.378
20	SHB	623,469,462	127,288,963,254	25.570
21	Swedbank	1,159,590,177	82,221,084,270	25.133
22	Swedish Match	251,000,000	17,695,500,000	23.597
23	Tele2	443,694,339	48,945,492,518	24.614
24	Telia Sonera	4,490,457,213	232,830,206,494	26.174
25	Volvo Group	2,128,420,220	130,486,501,786	25.595

LN = Natural Logarithm

7.3. Independent Variable Industry Sensitivity

	Company Name	Industry	Sensitivity	Variable
1	Alfa Laval	Vehicle & Machinery	H	1
2	Assa Abloy	Other Industry	L	0
3	Atlas Copco	Vehicle & Machinery	H	1
4	Boliden	Mining & Metals	H	1
5	Electrolux	Consumer Goods	H	1
6	Ericsson	Telecommunication	L	0
7	Getinge Group	Healthcare	L	0
8	H&M	Consumer Goods	L	0
9	Lundin Petroleum	Chemical, Oil & Gas	H	1
10	MTG	Media & Entertainment	L	0
11	Nordea	Finance	L	0
12	Sandvik	Vehicle & Machinery	H	1
13	SCA	Forest	H	1
14	Scania	Vehicle & Machinery	H	1
15	SEB	Finance	L	0
16	Securitas	Services	L	0
17	Skanska	Construction	H	1
18	SKF	Vehicle & Machinery	H	1
19	SSAB	Mining & Metals	H	1
20	SHB	Finance	L	0
21	Swedbank	Finance	L	0
22	Swedish Match	Consumer Goods	L	0
23	Tele2	Telecommunication	L	0
24	Telia Sonera	Telecommunication	L	0
25	Volvo Group	Vehicle & Machinery	H	1

7.4. Independent Variable Media Exposure

	Company Name	2008	2009	Total	Avg.	LN
1	Alfa Laval	103	87	190	95	4.554
2	Assa Abloy	85	94	179	90	4.494
3	Atlas Copco	89	90	179	90	4.494
4	Boliden	152	129	281	141	4.945
5	Electrolux	191	141	332	166	5.112
6	Ericsson	519	484	1003	502	6.218
7	Getinge Group	73	67	140	70	4.248
8	H&M	288	216	504	252	5.529
9	Lundin Petroleum	102	74	176	88	4.477
10	MTG	101	72	173	87	4.460
11	Nordea	313	320	633	317	5.757
12	Sandvik	204	171	375	188	5.234
13	SCA	115	65	180	90	4.500
14	Scania	222	150	372	186	5.226
15	SEB	316	334	650	325	5.784
16	Securitas	86	42	128	64	4.159
17	Skanska	121	105	226	113	4.727
18	SKF	198	126	324	162	5.088
19	SSAB	70	46	116	58	4.060
20	SHB	158	167	325	163	5.091
21	Swedbank	413	411	824	412	6.021
22	Swedish Match	85	72	157	79	4.363
23	Tele2	178	115	293	147	4.987
24	Telia Sonera	426	224	650	325	5.784
25	Volvo Group	352	269	621	311	5.738

7.5. Independent Variable Ownership Identity

	Company Name	Ownership	Variable
1	Alfa Laval	PO	0
2	Assa Abloy	PO	0
3	Atlas Copco	PO	0
4	Boliden	PO	0
5	Electrolux	PO	0
6	Ericsson	PO	0
7	Getinge Group	PO	0
8	H&M	PO	0
9	Lundin Petroleum	PO	0
10	MTG	PO	0
11	Nordea	SO	1
12	Sandvik	PO	0
13	SCA	PO	0
14	Scania	PO	0
15	SEB	PO	0
16	Securitas	PO	0
17	Skanska	PO	0
18	SKF	PO	0
19	SSAB	PO	0
20	SHB	PO	0
21	Swedbank	PO	0
22	Swedish Match	PO	0
23	Tele2	PO	0
24	Telia Sonera	SO	1
25	Volvo Group	PO	0

PO = Private Ownership
SO = State Owned

7.6. Independent Variable Ownership Concentration

	Company Name	Herfindahl–Hirschman Index
1	Alfa Laval	0.049
2	Assa Abloy	0.062
3	Atlas Copco	0.052
4	Boliden	0.005
5	Electrolux	0.090
6	Ericsson	0.060
7	Getinge Group	0.243
8	H&M	0.482
9	Lundin Petroleum	0.065
10	MTG	0.233
11	Nordea	0.084
12	Sandvik	0.020
13	SCA	0.109
14	Scania	0.533
15	SEB	0.059
16	Securitas	0.108
17	Skanska	0.084
18	SKF	0.090
19	SSAB	0.051
20	SHB	0.027
21	Swedbank	0.020
22	Swedish Match	0.016
23	Tele2	0.227
24	Telia Sonera	0.161
25	Volvo Group	0.054

7.7. Independent Variable Profitability

	Company Name	Net income	TA	ROA
1	Alfa Laval	2,737	26,206	0.1044
2	Assa Abloy	2,659	42,618	0.0624
3	Atlas Copco	6,276	67,874	0.0925
4	Boliden	2,501	33,258	0.0752
5	Electrolux	2,607	72,696	0.0359
6	Ericsson	4,127	269,809	0.0153
7	Getinge Group	1,914	37,498	0.0510
8	H&M	16,384	54,363	0.3014
9	Lundin Petroleum	-3,790	20,998	-0.1805
10	MTG	-2,008	14,651	-0.1371
11	Nordea	23,783	5,207,401	0.0046
12	Sandvik	-2,596	91,575	-0.0283
13	SCA	4,830	149,859	0.0322
14	Scania	1,129	98,451	0.0115
15	SEB	4,485	2,308,227	0.0019
16	Securitas	2,118	32,796	0.0646
17	Skanska	3,628	81,410	0.0446
18	SKF	1,705	51,015	0.0334
19	SSAB	-1,010	60,419	-0.0167
20	SHB	10,244	2,122,843	0.0048
21	Swedbank	-10,442	1,794,687	-0.0058
22	Swedish Match	3,146	16,337	0.1926
23	Tele2	4,555	40,379	0.1128
24	Telia Sonera	21,180	269,670	0.0785
25	Volvo Group	-14,685	332,265	-0.0442

7.8. Combined Dependent & Independent Variables

	Company Name	ER	HRR	Size	IS	ME	OI	OC	P	L
1	Alfa Laval	3.73	3.85	24.46	1	4.55	0	0.049	0.10	0.36
2	Assa Abloy	4.08	3.43	24.64	0	4.49	0	0.062	0.06	0.55
3	Atlas Copco	4.76	4.02	25.55	1	4.49	0	0.052	0.09	0.94
4	Boliden	5.67	3.78	23.95	1	4.95	0	0.005	0.08	0.64
5	Electrolux	5.72	4.83	24.67	1	5.11	0	0.090	0.04	0.99
6	Ericsson	5.74	4.34	26.10	0	6.22	0	0.060	0.02	0.31
7	Getinge Group	3.41	2.94	24.13	0	4.25	0	0.243	0.05	1.55
8	H&M	4.69	4.69	27.12	0	5.53	0	0.482	0.30	0.07
9	Lundin Petroleum	2.31	2.45	23.61	1	4.48	0	0.065	-0.18	1.18
10	MTG	1.21	1.16	23.88	0	4.46	0	0.233	-0.14	0.74
11	Nordea	3.45	3.46	26.41	0	5.76	1	0.084	0.00	21.61
12	Sandvik	4.71	2.9	25.35	1	5.23	0	0.020	-0.03	1.25
13	SCA	6.35	4.76	24.93	1	4.50	0	0.109	0.03	0.65
14	Scania	5.79	4.52	25.02	1	5.23	0	0.533	0.01	1.63
15	SEB	3.66	2.9	25.30	0	5.78	0	0.059	0.00	22.16
16	Securitas	1.31	3.18	23.96	0	4.16	0	0.108	0.06	1.27
17	Skanska	5.16	4.34	24.61	1	4.73	0	0.084	0.04	0.29
18	SKF	6.56	4.55	24.75	1	5.09	0	0.090	0.03	1.00
19	SSAB	4.62	3.33	24.38	1	4.06	0	0.051	-0.02	0.67
20	SHB	4.39	3.57	25.57	0	5.09	0	0.027	0.00	24.55
21	Swedbank	4.69	4.27	25.13	0	6.02	0	0.020	-0.01	18.95
22	Swedish Match	4.13	2.76	23.60	0	4.36	0	0.016	0.19	12.17
23	Tele2	1.40	1.22	24.61	0	4.99	0	0.227	0.11	0.14
24	Telia Sonera	4.53	4.24	26.17	0	5.78	1	0.161	0.08	0.64
25	Volvo Group	6.00	4.44	25.59	1	5.74	0	0.054	-0.04	1.99