3-2005

Exploring differences in social disclosures internationally: A stakeholder perspective

Joyce Van Der van der Laan Smith
University of Richmond, jvanderl@richmond.edu

Ajay Adhikari

Rasoul H. Tondkar

Available online at www.sciencedirect.com

SCIENCE DIRECT®

ELSEVIER Journal of Accounting and Public Policy 24 (2005) 123–151

Journal of Accounting and Public Policy

www.elsevier.com/locate/jaccpubpol

Exploring differences in social disclosures internationally: A stakeholder perspective

Joyce van der Laan Smith [a], Ajay Adhikari [b,*], Rasoul H. Tondkar [c]

[a] *School of Business, Virginia Commonwealth University, Richmond, VA 23284-4000, USA*
[b] *Department of Accounting, Kogod School of Business, American University, Washington, DC 20016-804, USA*
[c] *School of Business, Virginia Commonwealth University, Richmond, VA 23284-4000, USA*

Abstract

Country of origin is considered to be an important determinant of the level and type of corporate social disclosure. In this paper, we use stakeholder theory to explain differences in social disclosure among countries. We argue that the manner in which the role of a corporation and its stakeholders is defined in a society will affect the extent and quality of corporate social disclosure (CSD) in annual reports. Our findings based on a content analysis of 1998 and 1999 annual reports for 32 Norwegian/Danish companies and 26 US companies in the electric power generation industry, lend support to the stakeholder explanation for observed international differences in CSD.

Keywords: Corporate social disclosure; Stakeholder theory; International difference; Content analysis

* Corresponding author. Tel.: +1 202 885 1993; fax: +1 202 885 1992.
E-mail address: aadhika@american.edu (A. Adhikari).

0278-4254/$ - see front matter
doi:10.1016/j.jaccpubpol.2004.12.007

1. Introduction

Recent high profile corporate failures such as Enron, WorldCom, and Global Crossing have clearly highlighted that the impact of a corporation extends much beyond groups with direct financial interests in the corporation (i.e., investors and creditors). It also significantly affects other groups such as employees, customers, suppliers, and the communities in which the company is located in or has operations. Arising from these corporate failures are renewed debates and calls for corporations to report and be held responsible to a broader social mandate beyond their primary fiduciary duties. With the rapid disintegration of cross-border economic barriers and the globalization of business, increasingly the role of corporate social disclosure (CSD) is being debated in an international context. In this paper, we show that the manner in which the role of a corporation, and thus its stakeholders is defined in a society affects the extent and type of CSD.

CSD refers to information provided by companies relating to their activities, aspirations, and public image with regard to environmental, community, employee, and consumer issues (Gray et al., 1995a). CSD covers a broad and diverse array of disclosures including product information, environmental impact of corporate operations, labor practices and relations, and supplier and customer interactions. Disclosures on political contributions, community activities, charitable contributions, and effect of company's products on consumer health and safety also fall under the scope of CSD (Williams, 1999). In our study, we focus on social disclosures related to the areas of environment, employees, community, customers, and shareholder rights. Our focus is on the stakeholder groups represented by these disclosure areas.

There has been a steady rise in the volume and richness of corporate social disclosures by larger corporations over the last two decades (Gray et al., 1995a). This has been accompanied by a concomitant rise in academic accounting research examining CSD. Researchers have examined the scope, medium, nature, and motivation for CSD in the US and in other countries (Spicer, 1978; Guthrie and Parker, 1989; Patten, 1991, 1995; Gray et al., 1995a; Niskala and Pretes, 1995; Brown and Deegan, 1998). Extending the work done in single country studies, several studies (e.g., Freedman and Stagliano, 1992; Fekrat et al., 1996; Gamble et al., 1996; Williams and Wern Pei, 1999) have also examined CSD in a cross-national context. These studies have documented variations in CSD among countries suggesting country of origin to be an important determinant of the level and type of CSD. Few studies (e.g., Guthrie and Parker, 1989), however, have attempted to explain the reasons for the observed differences in CSD among countries, the focus of our study.

In this paper, we use stakeholder theory to explain differences in CSD among countries. We argue that the manner in which the role of a corporation, and thus its stakeholders, is defined in a society will affect the extent and quality of CSD provided by companies in their annual reports. We use several factors that influence stakeholder–firm relationships to identify countries with different emphasis on social issues and the resulting importance they place on a firm's stakeholders. We hypothesize that firms from countries (Norway and Denmark) with a stakeholder orientation (a stronger emphasis on social issues) will have higher levels and quality of CSD in their annual reports than firms from countries (US) with a shareholder orientation (a weaker emphasis on social issues). Our findings, based on a content analysis of 1998 and 1999 annual reports for 32 Norwegian/Danish companies and 26 US companies in the electricity generation industry, lend support to the stakeholder explanation for observed international differences in CSD.

While motivations for international differences in corporate financial reporting (CFR) have been extensively studied (Adhikari and Tondkar, 1992; Meek et al., 1995; Saudagaran and Meek, 1997), the reasons for international CSD differences are not well understood. It is likely that the determinants of CSD are different than for CFR. CSD addresses the social accountability of companies and has at its focus a broader audience (i.e., stakeholders) than CFR with its primary focus on information needs of investors and creditors. By using stakeholder theory as the theoretical filter to evaluate international variations in CSD from a cross-cultural perspective, we attempt to answer Ullmann's (1985) call (reechoed by Mathews (1993) and Gray et al. (1995a)) for the need for systematic theorizing of CSD to enable more substantive and systematic conclusions to be drawn about CSD.

Our study contributes to a greater understanding of observed variations in CSD among countries. Understanding the reasons for international variations is important for annual report preparers, users, and policy makers. For preparers (i.e., companies) it is important to understand the differential pressures for CSD in different countries in order to condition their CSD disclosure strategy accordingly as they enter foreign markets. For users (i.e., international investors particularly social funds), knowledge of international variations in CSD should be useful in forming their expectations of the type and level of CSD by companies from different countries. For policy makers and regulators (e.g., EU, WTO, NAFTA), an appreciation of the diversity in CSD among countries and its determinants, would help them better target areas of deficiencies in CSD and isolate countries where these deficiencies would be most pronounced.

The next two sections of the paper discuss the theoretical background leading to the hypotheses development for this study. The sample and methodology for the study are discussed in Section 4. Section 5 presents the results of the study. The results are analyzed and discussed in Section 6 and concluding remarks are provided in the last section.

2. Prior literature and theory development

CSD literature may be viewed as a subset of corporate financial disclosure literature. It focuses on those disclosure areas defined as social disclosures. Prior studies, as discussed below, have examined both mandatory and voluntary CSD as well as specific areas of CSD, such as environmental disclosures.

While studies that have examined CSD issues in the US have dominated the literature, there is a growing body of CSD literature that focuses on other countries (see Gray et al., 1995a for a review). When the results and theoretical frameworks developed by these studies are compared to each other, oftentimes we find inconsistencies between studies in different countries (Gray et al., 1995a). Differences in samples, time frames, and research designs may account for some of the inconsistencies but it might also suggest a country effect—that is country of origin may be an important determinant of international differences in CSD.

Several studies have attempted to capture this country effect by adopting a comparative framework in examining CSD issues. Freedman and Stagliano (1992) examined the degree of social disclosures within 12 countries in the European Community (currently European Union) and found a lack of consistency across countries in the level and quality of CSD. Meek et al. (1995) examined factors affecting disclosures (including CSD) contained in annual reports of multinational corporations from the US, UK, and Continental Europe. They found that national/regional influences are important factors explaining voluntary, non-financial information disclosures. Company size, listing status, and industry were also identified as important determinants in explaining voluntary disclosures (Meek et al., 1995). Fekrat et al. (1996) examined environmental disclosures in 1991 annual reports of 168 companies from 18 countries. They found significant variations in corporate environmental disclosures among companies from different countries. Gamble et al. (1996) similarly reported significant differences in environmental disclosure levels among companies from different countries based on an examination of environmental disclosures of 276 companies from 27 countries. These studies suggest that CSD varies across countries but few of the studies have attempted to explain the underlying reasons for the observed variations in CSD. In this paper, we use stakeholder theory to explain differences in CSD among countries.

2.1. Stakeholder theory

CSD provides information on the impact of a corporation's activities on a broad range of constituencies. Stakeholder theory defines the constituency of a corporation as "a person or group that can affect or is affected by the achievement of the organization's objectives" (Freeman, 1984, p. 46). In addition to managers, stockholders, and creditors, stakeholders include customers, suppliers, employees, communities, and the general public. The stakeholder concept is intended to "broaden management's vision of its roles and responsibilities beyond the profit maximization functions to include interests and claims of non-stockholding groups" (Mitchell et al., 1997, p. 855). Under this approach, the long-term survival and success of the corporation requires the support of all its stakeholders. Gaining this support and approval requires a dialogue between the management of a corporation and its stakeholders.

Dierkes and Antal (1985) suggest that publicly disclosed information about a company's social responsibility provides a basis for dialogue between the firm and its stakeholders. Preston et al. (1999), underline the importance of this open communication between management and its stakeholders, "Managers should listen to and openly communicate with stakeholders about their respective concerns and contributions, and about the risks that they assume because of their involvement with the corporation" (p. 4). From an accounting perspective, the primary method of communicating with stakeholders is through annual reports that include financial statements and other information. From a stakeholder perspective "social disclosure is thus seen as part of the dialogue between the company and its stakeholders" (Gray et al., 1995a, p. 53).

Managers of a corporation, however, may not accord all stakeholders the same level of importance. Mitchell et al. (1997) in developing a dynamic theory of stakeholder relations argue that stakeholder identification and salience is a function of stakeholders' possessing one or more relationship attributes (situational factors): power, legitimacy, and urgency. Stakeholder power has been identified in the literature as a key attribute governing the relationship between corporate managers and their stakeholders (Ullmann, 1985; Mitchell et al., 1997). Resource dependency theory suggests that power accrues to those parties who control resources required by the organization, creating power differentials among stakeholders (Pfeffer, 1981). The more critical the resources controlled by a stakeholder group the more responsive the organization will be in meeting the expectations of that stakeholder group. However, power by itself does not guarantee salience in stakeholder–manager relationship. Unless the stakeholder group is aware of its power and is willing to exercise it, managers may not accord high salience to the stakeholder group.

Suchman (1995) defines legitimacy as a "generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (p. 574). A stakeholder group achieves legitimacy if it has a legitimate standing in a society or legitimate claims on the firm. But mere legitimacy is not enough, the stakeholder group should have power to enforce its claims or the perception that its claims are urgent for management to give priority to the claims of the particular stakeholder group (Mitchell et al., 1997).

Urgency, "the degree to which stakeholder claims call for immediate action" (Mitchell et al., 1997, p. 867) can also be a factor in defining stakeholder–management relations. The urgency attribute is multi-dimensional and incorporates both the notion of time sensitivity—the pressing need on the part of the stakeholder that its concerns/claims be given immediate attention, and the notion of criticality—the belief on the part of the stakeholder that its claims are critical and highly important. Urgency when combined with either power or legitimacy has the potential to change stakeholder–manager relations and increase the importance of the affected stakeholder group.

The managers of a corporation also play a unique role in stakeholder relations. Drawing from agency theory, Hill and Jones (1992) argue that the firm can be viewed as a nexus of contracts between stakeholders with managers as the central node. "Managers are the only group of stakeholders who enter into a contractual relationship with all other stakeholders. Managers are also the only group of stakeholders with *direct* control over the decision making process of the firm" (p. 134). The managers are the group who make the strategic decisions to allocate the limited resources of the firm in the manner that they perceive is most consistent with stakeholder claims. Thus, managers' characteristics could influence the manner in which they view other stakeholders in terms of their importance to the firm.

The above discussion suggests that situational factors such as power, legitimacy, urgency, and management characteristics influence the level of importance a corporation attaches to claims of different stakeholder groups. The more critical the stakeholders' claims are perceived to be by managers, the higher the chances that the stakeholder demands will be addressed. Viewing social disclosures as a strategic plan by corporations to manage stakeholder relations (Roberts, 1992), we can expect a positive relationship between the level and quality of social disclosures and the importance a corporation attaches to its stakeholders.

In this paper, we argue that differences in situational factors (power, legitimacy, and urgency) and management characteristics are more pronounced in an international context. Cultural differences and institutional factors contribute to systematic differences in situational factors and management characteristics among countries. Contextual differences become even more important when one attempts to apply extant theories and findings across countries (Wan and Hoskisson, 2003). Since the situational factors are social perceptual phenomena and differences in managerial characteristics are illustrative of the effects of managerial values, we argue that societal value systems would influence the manner in which the role of a corporation and thus its stakeholders is defined in a society, by both the users of the annual reports and the managers who produce those reports. This in turn, would be reflected as the managers' response to their relevant stakeholders through the level and type of social disclosures among countries. Additionally, institutional differences would serve to reinforce stakeholder–company biases and influence the level and quality of CSD in different countries.

We test our conceptual framework on a sample of firms from Norway/Denmark and the US. Although, Norway/Denmark and US are economically developed countries, there are persistent notable differences among them in institutions and societal values that impinge on stakeholder–company relationships and influence corporate performance and disclosure of socially responsible activities. These differences permit us to explore differences in corporate social disclosures between a sample of Norwegian/Danish and US companies in the electric power generation industry to provide support for a stakeholder explanation for observed international differences in social reporting.

In the following sections, we examine several contextual factors that could impact the constellation of influential stakeholders as well as the nature of the relationships between firms and these stakeholders across different countries. Based on this analysis we identify countries as exhibiting a stakeholder or a shareholder orientation in terms of the importance they place on a firm's stakeholders to explain cross-national differences in the level and quality of CSD practices.

2.2. Corporate governance systems

Corporate governance structures define the relationship between a firm and its stakeholders. An approach to characterize a country's corporate governance structure would be to examine the extent to which it incorporates two corporate worldviews, contractarianism and communitarianism.[1] The contractarian perspective found in the US and other Anglo American countries builds on the theory of the firm developed by Coase (1937) and views the corporation as a nexus of contracts that binds the various stakeholder groups together. Voluntary contracts and market transactions play a central role in aligning the interests of the managers and stakeholders.

Under the contractarian view, the objective of managers is to maximize the value of the firms through the maximization of residual claims. Among the stakeholder groups, only stockholders have residual claims and therefore incentives to maximize the value of the firms. All other stakeholder groups are to a large extent fixed-claim holders and therefore do not have incentives to increase the value of the firm beyond the payment of their fixed claims. As a result, shareholder wealth maximization is the primary purpose of the corporation in the contractarian system. Since corporate governance structures in contractarian countries (US) primarily revolve around managing shareholder relationships and promoting shareholder value, we find a strong shareholder orientation in the corporate governance systems in these countries.

[1] For a detailed discussion of contractarianism and communitarianism and their role in shaping corporate governance structures worldwide, see Bradley et al. (1999).

The communitarian perspective found in many continental European countries including Denmark and Norway, holds that a corporation is a social organization that has social responsibilities that go beyond achieving economic efficiency. The corporation is viewed as a separate entity operating very much as a part of the social, political, and economic fabric of society. The corporation is accorded legal status by society and in turn is expected to fulfill certain social responsibilities. In contrast to the contractarian viewpoint, firms in the communitarian perspective have social responsibilities not only towards their stockholders but to all their stakeholders. Therefore, the corporate governance structures in communitarian countries exhibit a stakeholder orientation rather than a shareholder orientation found in contractarian countries.

Traditionally, the Danish and Norwegian corporate governance systems have had a strong stakeholder orientation. Although, in recent years there has been a shift towards a more Anglo-American shareholder-styled corporate governance system, the institutional framework and extant practices in these countries are still geared towards protecting the rights of different stakeholders such as employees, creditors, and society. For example, employee representatives typically constitute one-third of the members of the supervisory board of large companies in Denmark and Norway. The Danish Corporate Act of 1973 not only regulates the relationships between stockholders and managers of a firm, but also specifies the rights of creditors and employees (Rose and Mejer, 2003). Moreover, very detailed regulations specify the social responsibilities of firms towards communities (e.g., environmental law), both in Denmark and Norway.

Based on the above discussion, stakeholders in countries with a communitarian (stakeholder) orientated corporate governance system (Denmark and Norway) would have more power and legitimacy than in countries with a contractarian (shareholder) influenced corporate governance system (US). As a consequence, management in communiatarian societies would also be more likely to perform and disclose social responsibility activities as part of strategically managing stakeholder relationships.[2]

[2] Ball et al. (2000) used type of legal system to characterize corporate governance systems in countries. They characterized firms in code law countries as having a "stakeholder governance model" and firms in common law countries as having a "shareholder governance model" (Ball et al., 2000, p. 3). In our sample, Norway and Denmark are considered code law countries following the Scandinavian commercial-law tradition placing it in the stakeholder governance model. The US is a common law country having the origin of its commercial law in English Common Law placing it in the shareholder governance model. Thus, our characterization of corporate governance systems based on the two corporate worldviews, contractarianism and communitarianism is consistent with those obtained by Ball et al. (2000) using a legal system proxy.

2.3. Ownership structure

The power of stakeholders to influence management is a function of the resources they control that are essential to the corporation (Ullmann, 1985). At the most fundamental level, ownership stakes controlled by different stakeholder groups accrue power to these groups vis-à-vis the firm and heighten the urgency that the demands of these groups be met. For example, block holdings by social funds or employee groups increase the pressure on firms to perform and disclose social responsibility activities. To the extent that socially responsible activities are viewed as effective management strategy, we should expect a positive relationship between stakeholder power, social performance, and social disclosure.

Differences in ownership structures across countries may affect stakeholder–company relationships and influence the level and quality of CSD. The Scandinavian ownership structure is unique and quite different from other countries, in particular, the US. Not only is ownership more concentrated in Scandinavian companies compared to US companies but another significant difference is the presence of significant foundation and government ownership among Scandinavian countries, a phenomena not found in the US.[3] A foundation is a non-profit legal entity created to administer a large ownership stake in a company often donated by the company's founders or their families. Normally, the charter of the foundation stipulates that the foundation promote some broad social purpose such as furthering the company's best interests and contributing to charitable activities. Thus, foundation owned firms would have pressure to perform and disclose social responsibility activities as part of managing key stakeholder relationships.

While foundation ownership has been in decline in recent years, still some of the biggest companies in Scandinavia are controlled by foundations. In Denmark, for example, 19 of the top 100 companies are controlled by foundations and these foundations controlled 13% of the total market capitalization of listed firms on the Copenhagen Stock Exchange in 1999 (Rose and Mejer, 2003). To the extent, there is some spillover effect; we would expect that the social disclosure practices of foundation firms would also influence the disclosure practices of other firms in the economy.

Additionally, we also find a relatively high degree of government ownership of firms in Scandinavia. La Porta et al. (1999) report that in their sample of large publicly traded firms, state-controlled firms accounted for 35% and 15% of the total sample from Norway and Denmark, respectively. In contrast, there was no state-controlled firm in the US sample. Because of the broader mandate of governments, state-controlled firms have more pressure to perform

[3] See Rose and Mejer (2003) for an excellent discussion of ownership structure of firms in Denmark and Scandinavia.

and report on socially responsible activities that benefit the community and society at large. Thus, we argue that the unique ownership structure of firms in Scandinavia (Denmark and Norway in this study) contributes to a strong stakeholder orientation stimulating CSD to a greater extent than what we observe in the US.

2.4. Cultural factors

The influences of culture are pervasive and underlie nations' institutional arrangements. All organizations exist within cultural contexts. As a result, management assumptions, organizational structures, and activities are influenced by national culture. Radebaugh (1975) recognized cultural attitudes as a factor influencing a country's development of accounting objectives, standards, and practices. Gray (1988) hypothesized that cultural values influence a country's accounting system and disclosure practices. Neu et al. (1998) found that the level of general social attention and concern is associated with the level of environmental disclosure.

Societal values are reflected in situational factors as well as management characteristics. In a society concerned with social issues, we argue stakeholder groups will have more power, possess greater legitimacy, and have their claims viewed with greater urgency. Additionally, since societal values influence managerial values, managers in countries that exhibit strong concern with social issues would be more cognizant of and attach greater importance to stakeholder claims. As Perera (1989) states "the extent of disclosure in financial reports would seem to differ between countries in line with the differences in the value orientation of the preparers of those reports" (p. 48). Therefore, examining societal values or culture would be helpful in identifying countries that would have different perceptions of a company's stakeholders and their influences on a corporation's CSD practices.

Culture is a multi-dimensional and complex construct. One dimension is the masculinity–femininity dimension on which national cultures differ (Hofstede, 1998). This dimension measures the importance societies place on quality of life issues. It is based on the dominant gender role patterns found in the majority of traditional and modern societies, i.e., "male assertiveness and female nurturance" (Hofstede, 2001, p. 284). Hofstede found that "almost universally women attach more importance to social goals such as relationships, helping others, and the physical environment, and men attach more importance to ego goals such as careers and money" (Hofstede, 2001, p. 279). Hofstede labeled the ego goals "masculine" and the social goals "feminine", because this was the only dimension on which the men and women's scores differed consistently.

Hofstede identified key differences in the dominant values between masculine and feminine societies in general norms. The dominant values in a feminine society are "caring for others and preservation" in contrast to the dominant values in a masculine society which are "material success and progress" (Hofstede, 1998, p. 16). Feminine societies emphasize quality of life issues while masculine societies emphasize career and financial goals. The dominant issues in the feminine society are related to those issues typically discussed by companies in CSD, i.e., environmental effects, labor practices, and community involvement.

The US as compared to Denmark and Norway falls at different ends of Hofstede's masculinity index that ranked 50 countries on the masculinity/femininity dimension. Based on his analysis and ranking, Hofstede considers the US a "moderately masculine" country whereas Denmark and Norway are considered two of the most feminine countries (Hofstede, 1991, p. 84). Based on our discussion above, this suggests that societal values in the US places more emphasis on assertiveness interests (earnings, advancement) versus nurturance interests (relationships, cooperation, and environment), that are considered more important in feminine societies like Denmark and Norway. Since the feminine interests reflect a broader set of stakeholders than the masculine interests, i.e., non-financial versus financial stakeholders, there will be a stronger stakeholder orientation in such countries leading to greater pressure for firms to engage in and provide disclosure of a broader set of activities beyond those with purely financial connotations.

Gannon (2001) in his cross-cultural research developed a four stage model of cross-cultural understanding that also provides a useful approach to classify countries based on social versus economic emphases found in those societies. In this model he used cultural metaphors such as, American football and the Swedish Stuga, to describe the "core values, attitudes, and behaviors of various nations" (p. 21). The second stage of this model focuses on the relationship between culture and business practices. Building upon Hofstede's individualism–collectivism and power distance dimensions, Gannon identified four generic types of business cultures. He named these cultures equality matching, community sharing, market pricing, and authority ranking.

Gannon considered Scandinavian countries such as Sweden and Norway, to be equality matching societies. Gannon's metaphor of the Swedish Stuga or summer house describes the ideals of an equality matching society. He stated that "Swedes will continue to emphasize the values and attitudes associated with their summer homes, particularly those of love of nature and tradition, individualism expressed through self-development, and equality" (p. 190).

The US was classified as a market pricing nation. In summarizing his discussion of the American culture Gannon related his football metaphor of the US culture to Hofstede's five dimensions. In discussing the masculinity dimension he found that the US "manifested a high degree of masculinity or an aggressive and materialistic orientation to life" (p. 226). Consistent with Hofstede's work, Gannon found that culture affected business practices and that the practices of the Scandinavian countries and the US should be grouped into separate and distinctly different, if not opposing, categories.[4]

3. Hypotheses

Taken together, the discussion in this section suggests that institutional (ownership structure and corporate governance systems) and cultural factors influence the emphasis that is placed on social issues and the manner in which the role of a corporation and its stakeholders are defined in a society. This in turn, is reflected in CSD practices that we observe in different countries. We test our conjectures by examining CSD practices in a set of countries (Norway/Denmark and US) that exhibit significant differences in the implicated factors discussed in this section. More specifically, we test the following hypotheses:

Hypothesis 1. Firms in countries with a stakeholder orientation (Norway/Denmark) will provide a higher level of CSD in their annual reports than firms in countries with a shareholder orientation (US).

Hypothesis 2. Firms in countries with a stakeholder orientation (Norway/Denmark) will provide higher quality of CSD in their annual reports than firms in societies with a shareholder orientation (US).

Admittedly, there could be several other factors that might influence both the way in which corporate stakeholder relationships are defined and the level and quality of CSD. Ceteris paribus, the level of economic development in a country has been shown to influence the level of disclosure that we observe

[4] We also explored several other indicators suggested in different literatures as proxies for social versus economic emphases within societies. Almond and Sidney (1963) were the first to suggest linkages between cultural values and voter participation. In participatory cultures, people are more satisfied with their institutions, more aware and active in social issues, and therefore more politically engaged. We examined voter participation rates for our sample countries: in Parliamentary elections held between 1945 and 2001, voter participation rates for Denmark, Norway, and the US were 85.9%, 80.4%, and 66.5%, respectively (Pintor and Gratschew, 2002). We also examined government expenditure as a percentage of GDP for the three countries in our sample. To the extent that large social initiatives are mainly funded by the state (e.g., social welfare programs), we would expect higher government expenditure as a percentage of GDP in countries with a stronger emphasis on social issues. In 2000, government expenditure as a percentage of GDP for Denmark, Norway, and US was 35%, 35%, and 19%, respectively (World Bank, 2004). Both indicators, (voter participation rates and government expenditure as a percentage of GDP) are consistent with the indicators that we use in this study to classify countries based on their social emphasis.

in a country (Adhikari and Tondkar, 1992). We control for the economic effect by selecting countries that are economically developed and have the same level of industrialization. The GDP per capita (in constant 1995 $) was $27,404, $32,414, and $31,660 for Denmark, Norway, and US, respectively (World Bank, 2004). Industry effects and extent of regulation may also impact CSD. We control for industry effects by restricting our sample firms from one industry, the electric power generation industry that faces similar regulatory scrutiny in the three countries. In addition, different legal environments, and political costs of disclosure could influence the level and quality of CSD cross-nationally. While we do not control for these variables explicitly, some of the differences arising from these variables would be reflected in the factors that we consider in this paper. However, to the extent that these variables influence the level and quality of CSD and our controls are inadequate, caution is warranted in drawing inferences from our results.

This study involves a cross-cultural comparison of the impact of social values on CSD within the annual report. Following Gray et al. (1995b), we focus on disclosures related to social responsibilities of corporations. These disclosures represent management's communication with its stakeholder groups on issues that go beyond the financial profits of the company. This concept is emphasized by Williams (1999) in her arguments supporting social disclosure in which she provides this description of CSD "social disclosure would provide additional information bearing on *how* profits are being generated, in addition to financial information stating *that* profits are being generated" (p. 1201). We capture disclosures related to a corporation's activities, goals, and public image related to environmental, community, employee, consumer issues, and stockholder rights. A list of social disclosure items identified in the study is provided in Appendix A.

4. Methodology

In this study, we identified CSD through analysis of the contents of the annual reports of electric power generation and distribution companies from Denmark, Norway, and the US. As discussed in the earlier section, the objective for selecting countries for use in this study was the identification of countries whose investors would have differing views of a company's stakeholders and which were similar in their level of industrialization and economic development.

Companies from the electric power generation and distribution industry were chosen for four primary reasons. First, the operations of these companies are expected to have an impact on a broad range of stakeholders. Shareholders, customers, regulators, environmental groups, employees, politicians, the community, and vendors are all relevant stakeholders.

Second, the electric power market in both Norway/Denmark and the US experienced similar regulatory reforms during the 1990s. The intent of these reforms has been to increase market competition and ownership of generating assets. Extensive regulatory reforms took place in Norway in the early 1990s and in Denmark in the late 1990s. These reforms have resulted in "an integrated Nordic power market, with competition in generation and supply on the national power market and free trade across the national borders" (Bergman, 2001, p. 1). Similar regulatory reforms have taken place in the US beginning with the Public Utility Regulatory Policies Act of 1978 and the release, by the Federal Energy Regulatory Commission, of Order No. 888 and 889, entitled "Promoting Wholesale Competition through Open Access Non-discriminatory Transmission Services by Public Utilities". The impact of these reforms has been the opening of the electric power generation markets to competition in the US (Department of Energy, 1998). Thus, the electricity markets in Norway/Denmark and the US have been experiencing similar, significant regulatory reforms moving the markets in both countries to increased competition.

Third, Harrison and Freeman (1999) suggest developing new data sources and not relying solely on existing social performance databases. They are concerned that too much reliance on a limited amount of readily available data will "stifle creativity". Specifically they recommend, "looking for data sources associated with large-scale changes such as restructurings, bankruptcies, and new government regulations" (p. 479). The electric utility industry has been undergoing significant changes, both in the US and in Norway/Denmark, as a result of deregulation and international expansion. Finally, only one industry was chosen to mitigate any industry effects since the evidence on industry effect on CSD has been ambiguous (Gray et al., 1995a).

We identified the level of CSD contained within each annual report in the sample (discussed later). Public communication between management and its perceived stakeholders on CSD issues occurs in many forms other than the annual report provided to shareholders, such as press releases and other types of media coverage. Annual reports were chosen as the communication medium for this analysis in order to identify the stakeholders and the CSD issues that corporate management is addressing. As stated by Guthrie and Parker (1989) "the annual report is the one communication medium to outside parties over which corporate management has complete editorial control. It is therefore not subject to the risk of journalistic interpretations and distortions possible through press reporting" (p. 344).

Annual reports are also the primary source of information for investors, creditors, employees, environmental groups, and the government (Neu et al., 1998). Furthermore, as pointed out by Neu et al. (1998) "the annual report possesses a degree of credibility not associated with other forms of advertising" (p. 269). Moreover, the examination of CSD through an analysis of annual reports is supported by previous research (Freedman and Stagliano, 1992; Meek et al., 1995; Neu et al., 1998; Brown and Deegan, 1998). Finally, the use of the annual report as a method of communication with stakeholders is also consistent with the principles of stakeholder theory.

There is an ongoing debate as to the most appropriate unit of analysis for studies that employ content analysis. Previous disclosure studies have used word count, sentence count, and fraction of page to measure the level of disclosure (Brown and Deegan, 1998; Neu et al., 1998; Gray et al., 1995a). Sentences provide the context and meaning for the CSD. However, "character, word, sentence or paragraph counts ignore differences in typeface size which can be captured by measuring volume as the proportion of a page taken up by each disclosure" (Unerman, 2000, p. 667).

Unerman (2000), Milne and Adler (1999) and Gray et al. (1995b) all discuss the methodological issues in social disclosure content analysis studies. They reach conflicting conclusions. Milne and Adler (1999) conclude that "using sentences for both coding and measurement seems [appropriate], therefore, to provide complete, reliable and meaningful data for further analysis" (p. 237). However, Gray et al. (1995b) and Unerman (2000) conclude that proportion of page is the most appropriate unit of analysis. As Gray et al. (1995b) state "pages, however, tend to be the preferred unit as this reflects the amount of total space given to a topic and, by inference, the importance of that topic" (p. 84). Milne and Adler (1999) also found that quantifying disclosures using number of sentences as compared to fraction of pages "made little difference to the subsequent analysis performed on the coded data" (p. 237). Given this debate, we use sentences to identify and categorize the CSD and measure the CSD using words, sentences and proportion of page. As discussed in the Results section, there are no differences in our conclusions based on the different units of analysis.

Given prior research findings of company size as a determinant in explaining CSD (Meek et al., 1995; Gray et al., 2001) our sample of companies was categorized into small, medium, and large companies, as described below. Our subsequent analysis was conducted by size category.

5. Data collection

Forty-seven electric power generation and distribution companies in Norway and Denmark were identified from the LEXIS®–NEXIS® Database. The companies were selected based on their Standard Industrial Classification (SIC) code. These companies were contacted and requested to provide copies of their 1998 and 1999 annual reports. Annual reports from 33 companies in Norway and Denmark were received. The annual reports from one company were not usable; thus, resulting in 32 companies in the sample for Denmark and Norway. Ten of the companies provided English copies of their annual reports.

Two international graduate students translated the annual reports from the remaining companies. These students were fluent in Norwegian, Danish, and English. A training session was held with the translators in which a Norwegian report and its English translation was reviewed for instances of CSD. The translators were also provided with a coding template and worked under the supervision of the researchers. The CSD was identified by one translator and then reviewed by the second translator for consistency. After the translation, we reviewed the translated material and made the final determination as to whether it qualified as CSD. One researcher, to maintain consistency, coded the US annual reports and English versions of the Norway/Denmark reports. Questionable items were reviewed by another researcher.

Historically, the geographic area that an electric utility serves limits the size of the company. Norway and Denmark are significantly smaller in area than the US. Norway is approximately the size of New Mexico and Denmark is approximately twice the size of Massachusetts. Thus the largest company in Norway and Denmark is significantly smaller than the largest company in the US.

Thus, in order to develop a sample of US companies to be used as a comparison with the Norway/Denmark companies, the following steps were taken. First, the 1998 and 1999 gross revenues of the Norwegian and Danish firms were converted into US dollars using the year-end exchange rates. The 1999 gross revenues for the 32 companies ranged from less than \$1 million to \$653 million. Second, the Danish and Norwegian companies were categorized into small, medium, and large based on the 1999 weighted average revenues. That is, companies with weighted average gross revenues within the 1–25, 26–75, and 76–100 percentiles were categorized as small, medium, and large, respectively. This was done in order to determine the number of utility companies by size category that would be needed in the US sample.

Third, a listing of all investor owned US electric utilities and their gross annual 1999 revenues was obtained from the US Department of Energy. The 1999 gross revenues for the 238 US companies ranged from less than \$1 million to \$7.3 billion. Twenty-eight companies in the US that had less than \$1 million in annual revenues were excluded from the sample selection process since these companies were not considered to be representative of the US utility industry. The resulting list of 210 US utilities was used in a similar process described above to categorize the companies as small, medium, or large companies based on the weighted average 1999 revenues.

The final step in the sample selection process was to identify 32 US companies to be used for comparison purposes. This was done by randomly selecting 32 companies from the group of 210 US companies, corresponding to the number of Norwegian/Danish companies, within each size category (e.g., eight US

Table 1
Companies included in sample by size

	Percentiles	Revenues (in millions)	Number of companies	Percent of total
Norway/Denmark				
Small	0–25	$ < 1–$59	9	28
Medium	26–75	$60–$177	16	50
Large	76–100	$178–$653	7	22
Total			32	100
US				
Small	1–25	$1–$51	4	15
Medium	26–75	$51–$1207	14	54
Large	76–100	$1208–$7331	8	31
Total			26	100

companies within the large category, etc.). The annual reports for the 32 selected US firms for the years 1998 and 1999 were requested. Companies that did not respond were removed from the sample and annual reports from the company with 1999 revenues closest to the removed company were requested. Through this process annual reports from 26 US utilities were obtained. The US sample was limited due to the number of mergers and acquisitions that occurred in the electric utility industry during 1998 and 1999. These consolidations particularly limited the number of small and medium size companies that issued separate annual reports before consolidations. The size of the companies in the sample by country is presented in Table 1.[5]

We conducted a chi-square test of independence of company size on country to determine if there were statistically significant differences in company size by country as used in our sample and found no statistically significant differences at the $p < .1$ level.

A content analysis of the CSD for all the firms was conducted. The four main areas of disclosure identified as CSD in prior CSD literature are "natural environment; employees; community; and customers" (Gray et al., 1995b, p. 81). In our study, we reviewed all disclosures with a focus on the stakeholder groups represented by these four main disclosure areas with the addition of shareholder rights as a disclosure area. We classified the type of disclosure as (1) human resources; (2) community involvement; (3) consumer relations; (4) product safety; (5) environmental practices; and (6) stockholder rights.

[5] The size matching procedure we used matches smaller Norwegian/Danish companies with larger US companies in terms of absolute size metrics such as total revenue and total asset size. If absolute size is important this works against our hypotheses that Norwegian/Danish companies provide a higher level and quality of social disclosures than US companies since prior research has shown that the annual reports of smaller companies do not contain as much CSD.

In this study sentences were used as the basis for identifying and coding the disclosures. Sentence count, word count, and page measurement data were then collected. The proportion of the page devoted to the CSD was measured to the nearest 1% using a grid. Graphical presentations were included in the page measurements while photographs, due to the difficulty of objectively determining the purpose of the photographs, were not included. The sentence and word count data were based on the original language used in the annual report, not the translation.

Assessment of the quality of disclosure is subjective. Counting the number of sentences or words in the disclosure does not provide an understanding of the type and importance of information being communicated. As stated by Freedman and Stagliano (1992) "the critical attribute is the meaning of the words" (p. 115). There is no well-accepted disclosure quality index for CSD. Freedman and Stagliano (1992) developed a four element quality index which included time frame, effect, monetary versus non-monetary, and reference to a specific action, person, event, or place (p. 115). Patten (1995) classified disclosures as to whether they contained quantitative information and if so, whether the quantitative information was monetary or non-monetary in nature (p. 280).

We used a multi-method approach to measure the quality of the CSD. Following Patten (1995), we used the presence of numeric data in CSD either in the body of the text or in table/schedule format in the annual report, as a proxy to assess the quality of disclosure in our study. The numeric information variable identified items such as number of employees, CO_2 output per generating unit, as well as, financial information. Determining the inclusion of numeric information is straightforward and numeric data provides additional information to a reader. We corroborated our results by a qualitative assessment of disclosure quality in the annual reports categorizing the information provided as proactive or reactive, as discussing future events or past events, and as informational or promotional. We considered CSD that was proactive, discussed future events, and informational as being higher quality disclosures than CSD that was reactive, historical, or promotional in nature.

6. Data analysis

6.1. Descriptive statistics

Table 2 presents measurement statistics, by size category, on the level of CSD by words, sentences, and percentage of page. To take into account the unequal number of pages in the annual reports in the page measurement, the total number of pages in each annual report and the number of pages devoted to the CSD was used to determine the percentage of the pages in the annual report (Page%) devoted to CSD. The Page% was used in the *t*-test analysis discussed

Table 2
CSD measurement statistics

	Small companies		Medium companies		Large companies	
	Norway/ Denmark ($n = 18$)	US ($n = 7$)	Norway/ Denmark ($n = 26$)	US ($n = 22$)	Norway/ Denmark ($n = 13$)	US ($n = 13$)
Panel A: Descriptive statistics						
Words						
Sum	4653.00	2219.00	88,884.00	6184.00	16,434.00	6783.00
Mean	258.50	317.00	341.69	281.09	1264.15	521.77
Standard deviation	470.56	519.52	445.26	264.76	859.69	410.46
Sentences						
Sum	276.00	117.00	540.00	297.00	764.00	354.00
Mean	15.33	16.71	20.77	13.50	58.77	27.23
Standard deviation	23.34	31.21	21.27	12.72	37.55	23.51
Percentage of pages						
Mean	.01244	.02111	.01829	.01866	.06853	.03024
Standard deviation	.01446	.03435	.02061	.03465	.05171	.03212
	d.f.	t-statistic	d.f.	t-statistic	d.f.	t-statistic
Panel B: Tests of means						
Words	23	−.260	46	.560	24	2.810*
Sentences	23	−.121	46	1.403***	24	2.567*
Percentage of pages	23	−.905	46	−.046	24	2.268**

The sample (n) is the 1998 and 1999 annual reports from each of the companies included in the analysis. Not all companies provided an annual report for both years. Panel A provides descriptive statistics for the firms from each country set. Panel B gives the t-test statistics (one-tailed) for Norway/Denmark as compared to the US.

*,**,*** Significant at $p < .01$, $p < .05$, $p < .10$ one-tailed.

below. Since the number of annual reports included in the sample is not equal for Norway/Denmark and the US, a meaningful comparison cannot be made for the total (sum) disclosures.

As shown in Table 2, the mean CSD for large companies measured by sentence count, word count, and Page% is greater, in both the Norway/Denmark and the US samples, than it is for medium and small companies. This finding is consistent with prior research that found that the annual reports of large companies contain more CSD than smaller companies. Comparing Norway/Denmark to the US we find that the mean for words, sentences, and Page% is greater in Norway/Denmark than in the US for the large companies. For medium companies, the mean for words and sentences is greater in Norway/Denmark than the US. However, the mean for Page% is slightly higher in the US. In the small company data the mean for words, sentences, and Page% is greater in the US than in Norway/Denmark. There are large standard deviations reported in the small company data for both Norway/Denmark and the US, indicating that the mean is not a good measure of any value in the distribution. Given the high level of variability, any inferences from the small company data should be made cautiously.

Frequency analysis of the CSD by country by type of disclosure, i.e., community, environmental, consumer relations, human resources, product safety, and shareholder rights, is presented in Table 3. This analysis is based on the sentence count and page count by type of disclosure within each country set. The analysis reveals that the CSD contained in the Norway/Denmark annual reports used in our sample is dominated by environmental disclosures (47.9% and 54.7% sentence and page count, respectively) followed by human resources (37.2% and 26.4% sentence and page count, respectively). The CSD in the US is more evenly distributed with human resources (33.3% and 26.1% sentence and page count, respectively) followed by consumer relations

Table 3
Frequency analysis of CSD by type of disclosure based on total sentences and pages

Type of CSD	Frequency (%)			
	Norway/Denmark		US	
	Sentences	Pages	Sentences	Pages
Community involvement	2.2	1.6	21.4	25.5
Environmental practices	47.9	54.7	16.6	16.3
Consumer relations	6.3	6.6	28.4	31.9
Human resources	37.2	26.4	33.3	26.1
Product safety	.6	.4	.3	.2
Shareholder rights	5.8	10.3	0	0
Total	100.0	100.0	100.0	100.0

(28.4% and 31.9% sentence and page count, respectively), community involvement (21.4% and 25.5% sentence and page count, respectively), and environmental (16.6% and 16.3% sentence and page count, respectively) disclosures.

Comparing the type of disclosure by country reveals that Norway/Denmark has relatively (as measured by percentage of page count) more CSD in the areas of environmental, human resources, product safety, and shareholder rights than the US. A graphical presentation of the page count data is presented in Fig. 1. It is interesting to note that the difference between the page count and sentence count frequency data in the environmental disclosure for the Norway/Denmark companies is primarily due to the graphical presentation of environmental information by the Norway/Denmark firms. This difference arises as a result of the unit of analysis, i.e., pages, sentences, or words, since graphs are reflected in the page count but not in the sentence count. This reveals the importance of understanding the unit of analysis that is employed in content analysis research.

6.2. Tests of hypotheses

To test Hypothesis 1, that firms from countries with a stakeholder orientation (Norway/Denmark) will provide a higher level of CSD in their annual reports than firms from countries with a shareholder orientation (US), an independent samples *t*-test based on the average CSD in the annual reports, as measured by words, sentences, and Page% was conducted for each company size category for each measurement unit. The *t*-test statistics are presented in Panel B of Table 2. The results of the *t*-test for the large size companies support the hypothesis that there is more CSD in annual reports of firms from countries with a stakeholder orientation as compared to firms from countries with a

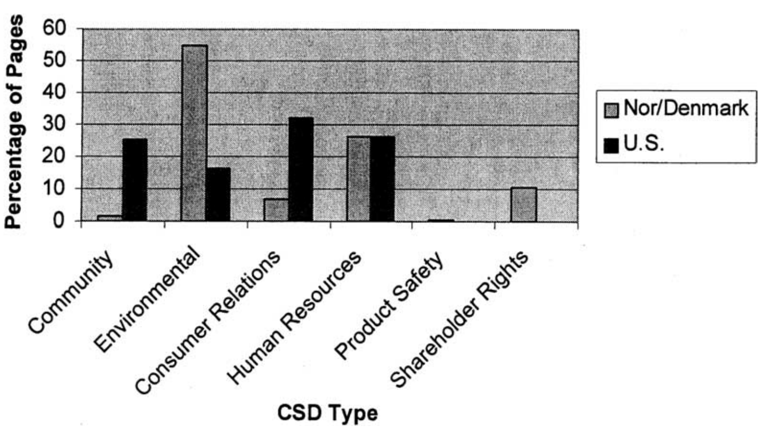

Fig. 1. Comparison of CSD type by country frequency analysis.

shareholder orientation. This result was consistent across each measurement unit at $p < .05$ (df = 24). The results of the t-test for the medium size companies were less interpretable. The only statistically significant difference was for the sentence measurement unit with Norway/Denmark having more sentences than the US ($p < .10$, df = 46). The small size company category did not reveal a significant difference between Norway/Denmark and the US. This result was consistent across each measurement unit.

The word and sentence CSD measurement methodology that we have used assumes that the length of the annual reports is evenly distributed over the sample firms from Norway/Denmark and the US. If the Norway/Denmark companies have more pages in their annual reports than do the US companies then the results of our measurement analysis would be difficult to interpret. To test the equality of length assumption we conducted an independent samples t-test of the total number of pages in each annual report for Norway/Denmark as compared to the US. We found that there is a significant difference ($p < .001$, $t = 3.837$, df = 69, not assuming equal variances) in the number of pages between the two country groupings with Norway/Denmark having fewer pages in their annual reports than the US. When the analysis was conducted comparing the annual report length by size of company, i.e., small, medium, and large, the Norway/Denmark reports had fewer pages in each size category with the medium companies having significantly fewer pages ($p < .001$, $t = 5.121$, df = 50). Since the Norway/Denmark companies have fewer pages in their annual reports than do the US companies and have more CSD than the US companies, this indicates that the results of our measurement analysis may be stronger than what we have reported.

A chi-square test was conducted for each company size category to analyze the relationship between quality of the disclosure and country. Quality, as discussed in the methodology, was determined by the presence of numeric data in the disclosure. Results of the test at $p < .01$ indicate that companies in Norway/Denmark include more numeric data in their CSD than companies in the US. These results held across each size category and support Hypothesis 2 which posits that firms from countries with a stakeholder orientation (Norway/Denmark) will provide a higher quality of CSD than firms from countries with a shareholder orientation (US).

A qualitative analysis of CSD also revealed that there was a distinct difference in the type of the information provided in the annual reports for the US and Norwegian/Danish companies. The CSD in the US annual reports is presented from a historical and promotional perspective, such as, awards received and acknowledgment of environmental issues. The CSD in the Norway/Denmark annual reports is presented from a proactive and forward-looking perspective. For example, the following statements discussing electromagnetic fields were taken from the 1998 annual reports of a US company (Southern California Edison) and a Norwegian company (Hafslund), respectively:

> The possibility that exposure to electric and magnetic fields (EMF) emanating from power lines, household appliances and other electric sources may result in adverse health effects has been the subject of scientific research. After many years of research, scientists have not found that exposure to EMF causes disease in humans. Research on this topic is continuing (Southern California Edison, 1998 annual report, Management's Discussion and Analysis, p. 9).

> Over the last few years, increasing attention has been given to possible harmful effects of electromagnetic fields near power lines. In association with Statnett, acting as an independent party, Hafslund arranged for measurements to be taken in those cases where power lines go through built up areas and near schools and kindergartens. In 1998, Hafslund worked together with the local authorities in Moss and the Parents–Teachers Association at Kanbo School to change the suspension of the [overhead transmission line] so as to reduce the electromagnetic field that the power line has proven to cause. Final measurements of the field reductions will be taken in 1999 (Hafslund, 1998 annual report, p. 67).

The qualitative analysis corroborates the empirical results that firms from countries with stakeholder orientation (Norway/Denmark) provide a higher quality of CSD than firms from countries with a shareholder orientation (US).

6.3. Additional robustness tests

Using logistic regression analysis, a second test of Hypothesis 1 was conducted to determine if the level and type of CSD in a firm's annual report could be used to predict the firm's country of origin. The goal of logistic regression is to predict the category of an outcome based on a set of predictor variables. It is useful for this analysis since the predictors do not have to be normally distributed, linearly related, or contain equal variances within groups (Tabachnick and Fidell, 2001). If country of origin can be predicted based on the level of CSD, type of disclosure, and presence of numeric data, then the hypotheses would be further supported.

The direct linear regression model was stated as:

$$\text{Country} = a_1 + b_1\text{Sentence} + b_2\text{Type} + b_3\text{Num} + b_4\text{Length}$$

a_1 = constant
b_1 = sentence count
b_2 = type of CSD
b_3 = presence of numeric data
b_4 = annual report length (measured in number of pages)

Table 4
Logistic regression analysis results country prediction

Variable	Wald	df	Significance
Numeric	22.04	1	.00
Type of CSD	34.44	5	.00
Sentences	5.974	1	.01
Annual report pages	41.508	1	.00
Constant	.46	1	.50
Overall percentage correctly classified			77.8

The country of origin (Norway/Denmark or the US) is the dependent variable. The type of disclosure (Type) representing the stakeholder groups was included as a categorical independent variable. The sentence count (Sentence) was included to represent the level of CSD. The quality of the disclosure was represented by the incidence of numeric data (Num). Annual report length was included to control for the known difference in the length of the annual reports. Size was not included as a predictor variable since we controlled for size through use of a stratified sample. The results of the logistic regression analysis indicate that there was a good model fit on the basis of the predictor variables, the model chi-square = 155.95, $p < .001$, Nagelkerke $R^2 = .46$. The overall classification was good. Correct classification rates were 82.6% for the Norway/Denmark and 71.8% for the US. The observed overall classification for this sample prior to the addition of the predictor variables to the model was 55.9%. The addition of the predictor variables (i.e., level of CSD, type of disclosure, annual report length, and inclusion of numeric data) improves overall predictability to 77.8%. Results of the regression analysis are presented in Table 4. The results indicate that country of origin was predictable from sentence count, type, numeric data, and annual report length thus supporting our hypotheses.

We were also interested in comparing the results of the word count, sentence count, and page count measurement units of analysis to determine if we would have formed different conclusions based upon the unit of analysis. We noted that the page measurement technique reflected not only graphical presentations but also font size differences that a company used to emphasize particular words and/or sentences which were not reflected in the word and sentence measurements. However, as discussed above, for the large company category, which contained the majority of the CSD in our sample, the results were consistent across each measurement unit. The results were less consistent for the companies in the medium and small size categories.

7. Summary and conclusions

Country of origin has consistently been identified as an important predictor of CSD but there has been no generally accepted theoretical basis to explain this relationship. In this study we used stakeholder theory to explain the differences in CSD between Norway/Denmark and the US. We argued that the manner in which a country defines the role of a corporation and thus its stakeholders will affect the extent and quality of CSD in annual reports. We use several factors that influence stakeholder–firm relationships to identify countries with different emphasis on social issues and the resulting importance they place on a firm's stakeholders. We hypothesize that firms from countries with stronger emphasis on social issues (Norway and Denmark) will have a stakeholder orientation and thus higher levels and quality of CSD in their annual reports than firms from countries with a weaker emphasis on social issues (US) and thus a shareholder orientation. Consistent with our predictions, results from content analyses of annual reports indicate that large companies from Norway/Denmark have a higher level and quality of CSD than do US companies, providing support for the hypothesized relationship between CSD and stakeholder theory. The same relationship did not exist for medium and small size companies in our sample.

The results of our study have implications for parties concerned with diversity in CSD internationally. For organizations (e.g., EU, IASB, UN) developing legislation aimed at harmonizing CSD across countries, our results suggest that it may be important to consider the manner in which the role of a corporation and its stakeholders is defined in different societies. For corporations expanding globally, it is important that they understand the expectations of the society in which they are operating in order to communicate with the stakeholder groups that are important to that society. Our results suggest that companies will face differential CSD pressures in different countries and will have to adjust their disclosure strategy accordingly.

There are inherent limitations in a study of this type. First, the use of a sample extracted from one industry and two country sets limits the generalizability of this study. Second, the use of translated annual reports may also have affected the identification of CSD. Third, content analysis is inherently subjective and may have impaired the measurement of our proxies for the level and quality of CSD. Fourth, our research design is not able to isolate the relative contributions of different contextual factors to the cross-national differences in CSD that we observe. Notwithstanding, these limitations, our study provides several promising avenues of research. The results of our study provide evidence for the use of stakeholder theory to explain cross-national differences in CSD practices. Future research could use an expanded set of countries to test the robustness and generalizability of stakeholder theory to analyze cross-national differences in CSD. Stronger methodological designs including a more comprehensive measurement of CSD quality should provide clearer insights into the relationship between the stakeholder profile of a country and the level and quality of CSD.

Acknowledgements

We thank L. Gordon and M. Loeb (the editors), two anonymous reviewers, and conference participants at the 2004 AAA National meeting, particularly Bruce Behn (discussant) for their helpful comments and suggestions on this paper. Professor Tondkar and Joyce Smith acknowledge funding provided by a summer research grant from the School of Business, Virginia Commonwealth University. Professor Adhikari acknowledges support from the Associate Professor Development Program at the Kogod School of Business.

Appendix A. Examples of social disclosure items included in the study

Employee related disclosures
Overall description of working environment
Number of employees
Absentee rates
Number of minorities employed
Health programs offered
Education/training programs
Vacation information
Safety issues, e.g. accident rates, lost time

Community related disclosures
Educational programs offered
Plant site visitations
Support of local school, sports, and cultural activities
Volunteer programs
Support of social programs, e.g. United Way activities

Environmental related disclosures
Waste management programs
Emissions levels and controls
Environmental impact assessments
Fish stocking programs
Energy conservation activities
Landscaping activities
Electro magnetic radiation monitoring systems

Customer related disclosures
Product safety information and programs
Ease of self meter reading systems
Customer service upgrades

Additions/improvements to customer service centers/hours
Upgrades to customer service programs
Improvements in billing payment methods
Product reliability improvements

Stockholder rights related disclosures
Shareholder policies
Voting rights
Investor relations
List of the largest shareholders

References

Adhikari, A., Tondkar, R.H., 1992. Environmental factors influencing accounting disclosure requirements of global stock exchanges. Journal of International Financial Management and Accounting 4 (2), 75–105.

Almond, G.A., Sidney, V., 1963. The Civic Culture. Princeton University Press, Princeton, NJ.

Ball, R., Kothari, S.P., Robin, A., 2000. The effect of international factors on properties of accounting earnings. Journal of Accounting and Economics 29, 1–51.

Bergman, L., October 2001. Regulation and Competition on the Nordic Power Market. World Energy Council. 18th Congress, Buenos Aires.

Bradley, M., Schipani, C.A., Sundaram, A.K., Walsh, J.P., 1999. The purposes and accountability of the corporation in contemporary society: Corporate governance at a crossroads. Law and Contemporary Problems 62 (3), 9–86, Summer.

Brown, N., Deegan, C., 1998. The public disclosure of environmental performance information-dual test of media agenda setting theory and legitimacy theory. Accounting and Business Research 29 (1), 21–41.

Coase, R.H., 1937. The nature of the firm. Economica 4, 386–405.

Department of Energy, December 1998. Electric Trade in the United States 1996. Available from: <www.eia.doe.gov> Accessed December 2003.

Dierkes, M., Antal, A.B., 1985. The usefulness and use of social reporting information. Accounting, Organizations and Society 19 (1), 29–34.

Fekrat, M.A., Inclan, C., Petroni, D., 1996. Corporate environmental disclosures: Competitive disclosure hypothesis using annual report data. International Journal of Accounting 31 (2), 175–195.

Freedman, M., Stagliano, A.J., 1992. European unification, accounting harmonization, and social disclosures. The International Journal of Accounting 27, 112–122.

Freeman, R.E., 1984. Strategic Management: A Stakeholder Approach. Pittman, Boston, MA.

Gamble, G.O., Hsu, K., Tollerson, C.D., 1996. Environmental disclosures in annual reports: An international perspective. The International Journal of Accounting 31 (3), 293–331.

Gannon, M.J., 2001. Understanding Global Cultures. Sage Publications, Thousand Oaks, CA.

Gray, S.J., 1988. Towards a theory of cultural influence on the development of accounting systems internationally. Abacus 24, 1–15.

Gray, R., Kouhy, R., Lavers, S., 1995a. Corporate social and environmental reporting: A review of the literature and a longitudinal study of UK disclosure. Accounting, Auditing and Accountability Journal 8 (2), 47–77.

Gray, R., Kouhy, R., Lavers, S., 1995b. Methodological themes, constructing a research database of social and environmental reporting by UK companies. Accounting, Auditing & Accountability Journal 8 (2), 78–101.

Gray, R., Javad, M., Power, D.M., Sinclair, C.D., 2001. Social and environmental disclosure and corporate characteristics: A research note and extension. Journal of Business Finance & Accounting 28 (3&4), 327–356.

Guthrie, J., Parker, L.D., 1989. Corporate social reporting: A rebuttal of legitimacy theory. Accounting and Business Research 19 (76), 343–352.

Harrison, J.S., Freeman, R.E., 1999. Stakeholders, social responsibility, and performance: Empirical evidence and theoretical perspectives. Academy of Management Journal 42 (5), 479–485.

Hill, C.W., Jones, T.M., 1992. Stakeholder–agency theory. Journal of Management Studies (March), 131–152.

Hofstede, G., 1991. Cultures and Organizations: Software of the Mind. McGraw-Hill Book Company, London.

Hofstede, G., 1998. Masculinity and Femininity: The Taboo Dimension of National Cultures. Sage Publications, Thousand Oaks, CA.

Hofstede, G., 2001. Cultures Consequences. Sage Publications, Thousand Oaks, CA.

La Porta, R., Lopez-de-Silanes, F., Shleifer, A., 1999. Corporate ownership around the world. Journal of Finance 54 (2), 471–517.

Mathews, M.R., 1993. Socially Responsible Accounting. Chapman & Hall, London.

Meek, G.K., Roberts, C.B., Gray, S.J., 1995. Factors influencing voluntary annual report disclosures by U.S., U.K. and Continental European multinational corporations. Journal of International Business Studies 26 (3), 555–572.

Milne, M.J., Adler, R.W., 1999. Exploring the reliability of social and environmental disclosures content analysis. Accounting, Auditing & Accountability Journal 12 (2), 237–252.

Mitchell, R.K., Agle, B.R., Wood, D.J., 1997. Toward a theory of stakeholder identification and salience: Defining the principle of who and what really counts. Academy of Management Review 22 (4), 853–886.

Neu, D., Warsame, H., Pedwell, K., 1998. Managing public impressions: Environmental disclosures in annual reports. Accounting, Organizations and Society 23 (3), 265–282.

Niskala, M., Pretes, M., 1995. Environmental reporting in Finland: A note on the use of annual reports. Accounting, Organizations and Society 20 (6), 457–466.

Patten, D.M., 1991. Exposure, legitimacy, and social disclosure. Journal of Accounting and Public Policy 10, 297–308.

Patten, D.M., 1995. Variability in social disclosure: A legitimacy-based analysis. Advances in Public Interest Accounting 6, 273–285.

Perera, M.H.B., 1989. Towards a framework to analyze the impact of culture on accounting. International Journal of Accounting 29, 42–56.

Pfeffer, J., 1981. Power in Organizations: A Critical Essay. Random House, New York.

Pintor, R.L., Gratschew, M., 2002. Voter Turnout Since 1945. IDEA, Sweden.

Preston, L.E., Donaldson, T., Brooks, L.J., 1999. Principles of Stakeholder Management. In: Principles of Stakeholder Management. The Clarkson Centre for Business Ethics, Toronto, Canada.

Radebaugh, L.H., 1975. Environmental factors influencing the development of accounting objectives, standards, and practices in Peru. International Journal of Accounting Education (Fall), 39–56.

Roberts, R.W., 1992. Determinants of corporate social responsibility disclosure: An application of stakeholder theory. Accounting, Organizations and Society 17 (6), 595–612.

Rose, C., Mejer, C., 2003. The Danish corporate governance system: From stakeholder orientation towards shareholder value. Corporate Governance 11 (4), 335–344.

Saudagaran, S., Meek, G., 1997. A review of research on the relationship between international capital markets and financial reporting by multinational firms. Journal of Accounting Literature 16, 127–159.

Spicer, B.H., 1978. Investors, corporate social performance and information disclosure: An empirical study. The Accounting Review (January), 94–111.

Suchman, M.C., 1995. Managing legitimacy: Strategic and institutional approaches. Academy of Management Review 20, 571–610.

Tabachnick, B.G., Fidell, L.S., 2001. Using Multivariate Statistics, fourth ed. Allyn & Bacon, Needham Heights, MA.

Ullmann, A., 1985. Data in search of a theory: A critical examination of the relationship among social performance, social disclosure, and economic performance. Academy of Management Review 9, 540–577.

Unerman, J., 2000. Methodological issues—Reflections on quantification in corporate social reporting content analysis. Accounting, Auditing & Accountability Journal 13 (5), 667–680.

Wan, W.P., Hoskisson, R.E., 2003. Home country environments, corporate diversification strategies, and firm performance. Academy of Management Journal 46 (1), 27–45.

Williams, C.A., 1999. The securities and exchange commission and corporate social transparency. Harvard Law Review 112, 1197–1311.

Williams, M.S., Wern Pei, C.H., 1999. Corporate social disclosures by listed companies on their web sites: An international comparison. The International Journal of Accounting 34 (3), 389–419.

World Bank. World Development Indicators. Available from: <http://devdata.worldbank.org> Accessed July 2004.