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An examination of corporate social disclosures of multinational corporations: A cross-national investigation

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ABSTRACT

We examine cross-national differences in corporate social disclosure (CSD) using a sample of 136 multinational corporations from the US, Continental Europe, and Scandinavia. Despite international market pressures to disclose higher levels of information, we find that CSD varies systematically across business cultures. Additionally, CSD is higher in business cultures that are more stakeholder rather than stockholder-oriented. Our findings provide support for business culture as an important influencing factor on the disclosure of corporate social information for multinational corporations.

1. Introduction and motivation

With growing community, government, and stakeholder pressure, reporting on items associated with corporate social responsibility (CSR) has become a high profile public issue.[4] As CSR has become a mainstream business activity, more and more corporations are voluntarily reporting on social and environmental matters (The Economist, 2008). The President of the World Business Council for Sustainable Development, Bjorn Stigson, stated "sustainability reporting must be a part of the management performance… [and] this information should not be in separate sustainability reports but part of broader annual performance reports" (KPMG, 2008, p. 20). Moreover, the public debate on CSR is increasingly being conducted in the global arena (Intergovernmental Panel on Climate Change, 2007).

While there has been an increase in accounting research related to corporate social disclosure (CSD), only a few studies have examined CSD of multinational corporations in a cross-national context. Some earlier research (e.g., Fekrat, Inclan, & Petroni, 1996; Freedman & Stagliano, 1992; Gamble, Hsu, & Tollerson, 1996; Guthrie & Parker, 1989; Williams & Pei, 1999) focuses on documenting variations in CSD among countries, suggesting that country of origin is an important determinant in the level and type of CSD. Smith, Adhikari, and Tondkar (2005) was the first study to provide a strong theoretical background for explaining differences in CSD among countries. They argue that based on the institutional configuration in a country (e.g., stakeholder relations, corporate governance, and culture), nations can be characterized on a stakeholder or stockholder-oriented continuum which can help explain observed differences in CSD cross-nationally. Indeed, McWilliams and Siegel (2001) note that stakeholder demand is one of the primary drivers behind CSD. In recent years, several studies have used the stakeholder–stockholder characterization of business culture to explore various issues related to CSD in a cross-national setting. Simnett, Vanstraelen, and Chua (2009) hypothesize and find that institutional influences on business culture (e.g., stakeholder- or shareholder-orientation) in a country affect the demand for, and extent of, sustainability reporting. In a cross-national study, Dhaliwal, Radhakrishnan, Tsang, and Yang (2012) use national business culture as an important determinant for exploring the relationship between CSD and analyst forecast accuracy.

We build on this emerging literature to examine: (1) whether there are significant cross-national differences in CSD among a sample of 136 multinational corporations from the US, Continental Europe (France, Germany, Italy, and the Netherlands), and Scandinavia (Finland, Norway, and Sweden), and (2) whether local business culture, in particular the level of stakeholder- or shareholder orientation, explains the observed differences in CSD, or whether international market forces will lead to a convergence of their CSD irrespective of domicile.

We focus on multinational corporations because such entities face unique challenges as a result of operating across national borders that domestic firms do not encounter (Bondy & Starkey, 2014). Multinationals oftentimes face competing pressures from the local business

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[4] In this paper, we use the terms corporate social responsibility (CSR) and corporate social disclosure (CSD) interchangeably although, we recognize that CSR is a broader concept that incorporates CSD.

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culture where they are headquartered as well as from the global culture in which they operate. Zarzeski (1996) contends that firms operating in the international marketplace disclose higher levels of information than dictated by their local culture in order to compete for international resources. CSD can be used as a strategic measure to combat international market pressures such as competitive forces. To secure their international competitiveness, many multinationals may be motivated to disclose at least as much information as their competitors which may be more than what is required in their home country. Thus, multinational corporations will likely have a different CSD agenda than purely domestic firms. Moreover, CSD has gained the greatest attention at the transnational level with institutions such as the United Nations Global Impact, International Standards Organization, and the Organization for Economic Cooperation and Development being quite influential on the CSD agenda. Since transnational initiatives often lack the direct force of national law, these initiatives seek to encourage companies, especially multinationals, to voluntarily adopt the mandates of such initiatives and engage in self-regulation (Brammer, Jackson, & Matten, 2012). Hence, is not clear whether business culture at the local level will influence multinationals' social disclosures, or whether market forces will lead to a convergence of their CSD irrespective of domicile.

We use a disclosure index based on Smith et al. (2005) to content analyze the annual reports of 136 multinational companies from the US, Continental Europe, and Scandinavia for CSD. We use annual reports to analyze firms' social disclosure practices because annual reports represent the most important source of information on corporate activities. This is for three reasons: (1) the company has total editorial control over the document (excluding the audited financial results); (2) it is usually the most widely distributed of all public documents produced by the company; and (3) the annual report represents the primary reporting document for the firm, most other documentation is subsidiary or supplemental to it (Campbell, 2000). Furthermore, disclosure levels in annual reports have been shown to be correlated with the amount of disclosures offered in other formats (Lang & Lundholm, 1993).

We find that despite international market pressures to disclose higher levels of information, CSD of multinational corporations varies across business cultures. CSD is higher in business cultures that are more stakeholder-orientated (Continental Europe and Scandinavia) rather than stockholder-orientated (US). Thus, for businesses operating across national borders, our findings provide support for business culture as an important factor influencing the disclosure of corporate social information.

Our findings contribute to the CSD literature. Much of the literature is limited to exploring CSD in single-country studies. Comparative studies have generally been confined to documenting cross-national differences in CSD without explaining the reasons for these differences. In this study we provide additional evidence to support the theoretical framework proposed by Smith et al. (2005) for explaining cross-national differences in CSD. Our results suggest that business culture as an explanatory variable to explain cross-national CSD differences is robust even in the context of MNCs which face competing forces in the disclosure of corporate social information. Additionally, the stakeholder–stockholder characterization of business culture used in several studies (e.g., Dhaliwal et al., 2012; Simnett et al., 2009; Smith et al., 2005) is useful in forming predictions and explaining differences in the level of CSD for multinational corporations.

2. Previous research and development of research questions

Several studies (e.g., Dhaliwal et al., 2012; Fekrat et al., 1996; Freedman & Stagliano, 1992; Gamble et al., 1996; Smith et al., 2005; Williams & Pei, 1999) examine and document variations in cross-national CSD. However, most of these studies are dated, and many important CSD developments such as the growth in corporate social investing, the Global Reporting Initiative (2011), and the Intergovernmental Panel on Climate Change (2007) have occurred since these studies were published. Smith et al. (2005) and Dhaliwal et al. (2012) are more recent studies. The Smith et al. (2005) study is, however, based on a content analysis of 1998 and 1999 annual reports, a time-period that precedes some of the more important contemporary developments in CSR highlighted above. Moreover, Smith et al. (2005) use a focused sample of 32 Norwegian/Danish and 26 US companies in the electric power generation industry. Given that the electric power generation industry is highly regulated, there is a strong likelihood that a large number of companies in their sample may be domestic companies, in contrast to our strictly multinational sample. Dhaliwal et al. (2012) use a very large sample comprising 1297 firms from 31 countries. As a result, their sample includes both domestic and multinational firms of differing sizes. Additionally, they do not measure the level of CSD through content analysis as in Smith et al. (2005) or earlier studies, but instead use the issuance of a stand-alone corporate social report as a proxy for the provision of non-financial disclosure.

We build on the extant literature, but in contrast to Smith et al. (2005) and Dhaliwal et al. (2012), we use an exclusively multinational sample to examine whether there are cross-national variations in CSD among 136 multinational companies from the US, Continental Europe, and Scandinavia. We focus on these regions because they exhibit differences in business culture. Leveraging our multinational sample, we examine two viewpoints on cross-national variations in CSD. One view suggests that institutional differences, both formal (e.g., law, corporate governance, regulation) and informal (e.g., culture, social norms), incorporated in a country's business culture influence and explain cross-national differences in CSD. Simnett et al. (2009) hypothesize and find that business culture in a country influences the demand for assurance on sustainability reporting and the choice of assurance provider. Dhaliwal et al. (2012) examine the relationship between issuance of stand-alone CSD reports and analyst forecast accuracy using firm level data from 31 countries. They find that the issuance of stand-alone reports is associated with lower analyst forecast error and that this relationship is impacted by the business culture of a country. Smith et al. (2005) argue that institutional and societal values impinge on stakeholder-company relationships and influence CSD as a consequence. They find that CSD is higher in business cultures that are more stakeholder-oriented than in business cultures that are more stockholder-oriented. Stakeholder theory has also been used to examine the impact of CSD on investment behavior in a cross-national context (Smith, Adhikari, Tondkar, & Andrews, 2010). The above view suggests that CSD will differ among countries/regions with different business cultures.

It can be argued, however, that while cross-national differences in CSD have been documented in several studies, it is not clear whether multinational firms from different countries will also exhibit similar systematic differences. The CSR practices of multinational corporations differ from domestic corporations. Multinationals face competing pressure from the local business culture where they are headquartered as well as from the global culture in which they operate. Multinational corporations compete in the global marketplace to obtain foreign customers and resources. The stakeholders for multinational corporations tend to include wider representation as this group extends far beyond the borders of their country of domicile (Bondy & Starkey, 2014). Additionally, multinational corporations typically face greater media exposure and public scrutiny than domestic corporations. Thus, CSR tends to be more important to multinational firms as compared to domestic firms (Mahmood & Humphrey, 2013). The resultant level of disclosure arising from a firms' globalization may be greater than the level mandated in their home country as multinational corporations may disclose more to remain competitive, appease stakeholders, and enhance their public image.

Vanstraelen, Zarzeski, and Robb (2003) find that companies with a global focus voluntarily provide higher levels of non-financial (including corporate social) disclosures. Zarzeski (1996) finds that the impact of domestic institutional factors on CSD is weaker for firms that are