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Same, Same but Different

A Study in Corporate Social Reporting - Differences between Croatia and Sweden

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Summary

Title: Same, Same but Different. A study in Corporate Social Reporting – Differences between Croatia and Sweden

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Purpose: The purpose of this master thesis is to see if the same factors that are affecting CSR disclosures in a well developed economy are also affecting CSR disclosures in a transition economy.

Methodology: This study is based on a quantitative analysis of 411 corporations' annual reports. The study consists of 249 corporations listed on the Stockholm Stock Exchange and 169 corporations listed on the Zagreb Stock Exchange. CSR disclosures are measured using a checklist.

Theoretical perspectives: A multi-theoretical approach is used throughout the paper. Positive Accounting Theory, Institutional Theory, Legitimacy Theory and Stakeholder Theory are used. Culture variables are also part of the theoretical perspective.

Empirical foundation: Spearman correlation and multiple linear regression are used in order to analyze CSR disclosures in the annual reports of Croatian listed corporations and Swedish listed corporations.

Conclusions: This study provides evidence that Swedish corporations disclose more CSR information in their annual reports than Croatian corporations do. The study finds that size, industry, country of origin and management ownership affect the amount of CSR disclosures a company will make. Furthermore profitability cannot provide an answer while foreign listing and audit firm matter under different circumstances.

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List of abbreviations

CIA	*Central Intelligence Agency*
CSR	*Corporate Social Responsibility*
EU	*European Union*
EU15	*Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the United Kingdom*
GDP	*Gross Domestic Product*
IAS	*International Accounting Standards*
IASC	*International Accounting Standards Committee*
IFRS	*International Financial Reporting Standards*
IT	*Institutional Theory*
LO	*Landsorganisationen*
PAT	*Positive Accounting Theory*
SSE	*Stockholm Stock Exchange*
U. S.	*United States*
U. K.	*United Kingdom*
ZSE	*Zagreb Stock Exchange*

Contents

1. Introduction

This chapter is the introducing chapter to the thesis. In this chapter we will first describe the background of our paper, then discuss the problem that has led us to our choice of subject and then end the chapter with stating our intentions with the paper.

1. 1. Background description

We live in a world where more countries are becoming industrialized and where the standard of living is constantly increasing. Most of the world's nations are taking a considerable interest in the environment and in sustainable development. The interest of the world nations has been seen at Rio Earth Summit in 1992, at the Johannesburg Earth Summit in 2002 and the Copenhagen climate change conference in 2009. Problems such as environmental issues, working conditions and corporate social responsibility got a place on the global agenda. Corporate social responsibility has become a term which today is discussed frequently amongst corporate management, employees and politicians as well as by researches and consumers. CSR has become an important part of the modern corporate strategy and companies today are expected to take responsibility both within the organization and the surrounding society. (Zheng, 2007). Corporations have strengthened their commitment to respecting human rights, social and environmental accountability and ethical control. This commitment to sustainable development can be seen in their way of promoting services, processes, products and relationships. (Gopal & Chopra, 2010).

Historically, the business activity, labeled as CSR, has been driven on a voluntary basis by investors, companies, campaign groups and consumers based in the rich western societies, as a result CSR practices have been formed by well developed countries. CSR practices became internationalized and transferred to other countries through international trade, investments and development assistance. (Ward et al., 2008). This does not however mean that CSR previously did not exist in other countries. To a certain extent, national CSR activities in middle- and low-income countries have been less visible and less known internationally and most of the time they have not been labeled as CSR. (Ward et al., 2008). Globalization seems to be the main driver of CSR reporting. An expansion of international trade, foreign investment and integration of financial markets is a result of increased economic integration across national borders, open access to new markets, deregulation and free flow of capital and technology. Globalization has lead to a growing global economic prosperity and greater economic opportunities for many developing countries. (Zheng, 2007). These developments have lead to indentifying and taking into account increased pressure by numerous stakeholders. (Orlitzky et al., 2011). This has resulted in the emerging profile of Corporate Social Responsibility (CSR) which seats special requirements on corporate management. The management faces the challenge how to address and manage a triple bottom line of economic, social and environmental performance. (O'Connor & Spangenberg, 2008). The improvement of the quality and the extent of disclosures in the companies' annual reports in the 21st century is a result of the growing information needs of the companies' stakeholders.

In order to satisfy the information demands of the stakeholders, companies have to provide more of both voluntary and mandatory information. (Myburgh, 2001). A number of international initiatives have been developed to push the issue forward on a global level. The objectives are to exchange valuable information by providing companies that are operating internationally with expertise. (Rodríguez & LeMaster, 2007).

CSR is often regarded as the voluntary contribution of goods, services and finances to a community, (Jeremy Moon (2002) in Rodríguez & LeMaster, 2007, p. 378), however today countries and stock exchanges can in some circumstances regulate CSR disclosures. Since the concept of CSR is most often based on voluntary participation, we suppose that it is difficult to have a concept that is applicable to all companies. It requires companies themselves to interpret and identify the concept of CSR in order to meet their stakeholders' specific requirements, legislation cannot meet the specific requirements that a company's stakeholders have. The EU has for years emphasized CSR issues and among other it has created a definition of CSR used by many countries and organizations. (EU CSR definition). There are however inconsistencies and debates regarding the accurate and appropriate definition of the concept corporate social responsibility (CSR). There are several suggestions and as a result the proper definition of CSR still remains unresolved. (Orlitzky et al., 2011). A very broad and commonly used definition of CSR is that all environmental, ethical and human issues should be included and addressed (Adams et al., 1998).

CSR can often be used to influence peoples´ perception of the corporation and to protect or enhance the reputation and the image of the company. Companies that have failed in providing adequate CSR information to the society have been punished through worse image amongst the public. (Hooghiemstra, 2000). In general, companies show through voluntary disclosure that they are caring about the society in which they operate in and appear to be more honest. (Hooghiemestra, 2000). CSR is said to have many advantages, it should not just be considered as a cost to the company, the company should instead embrace CSR to achieve legitimacy amongst the public and vital stakeholders. It has been suggested that CSR creates a competitive advantage for companies in the form of intangible resources such as better social performance, better financial performance and improved corporate governance (Milton de Sousa, 2010). The advantages of voluntary disclosure result in lower cost of capital and increased credibility since information asymmetry between corporate management and its stakeholders becomes reduced. (Francis et al., 2005). Research has shown that there are very few companies that do not prefer to provide stakeholders with voluntary disclosure and so the voluntary disclosure tendency continues to increase (Utting, (2002); WRI, (2003); in Rodríguez et al., 2007). It has also been suggested that adequate CSR increases the goodwill of a company and therefore also the value of the company (Babiak & Trendafilova, 2011). Some have even proposed that CSR can be used to reduce crime against a company (Del Bosco & Misani, 2011). The list of what benefits there are from being a socially responsible company can be made very long. It has been argued that socially responsible companies attract skilled and dedicated employees, attract loyal customers, improve their brand name, have more satisfied investors and reduce regulatory oversight. (Metaxas & Tsavdaridou, 2010). Companies have a lot to gain from being socially responsible but it has also been suggested that consumers also have a lot to gain by trading with socially responsible companies. By buying products from them, cooperating with them and investing in them this might lead to not just economic profit but an ethical and social profit as well. (Metaxas & Tsavdaridou, 2010). There are also arguments that social performance is related to economic performance and, as such, CSR disclosure will be a function of a company's profitability. It is noted that a poor economic performance will result in low voluntary social disclosure, as well as that higher profitability will increase company visibility. (Ullman, 1985; Cowen et al., 1987; Zmijewski & Hagerman, 1981 in Patten, 1991).

What CSR activities a company discloses depends on a number of factors, all companies do not disclose the same type of information. Size, industry, profitability and ownership are some of the factors that are associated with voluntary CSR disclosures (Tagesson et al., 2009). Others have suggested that culture is also a driving force behind CSR disclosures. (Haniffa & Cooke, 2005).

1. 2. Problem discussion

In the current situation, we believe that there are several differences in companies operating in transition economies and developed economies, for example, are questions on CSR reporting given more attention in certain parts of the world than others. There is much talk about transition economies which are evolving at a rapid rate and are increasingly embracing the elements and advantages that characterize the transition countries. We believe that depending on the political, social, economic and cultural situations in developed respectively transition countries, the social disclosure expectations of the companies are different. Thus, an interesting area to investigate is whether there are differences between different companies depending on their origin. On the other hand, many changes in the corporations' voluntary disclosure have been taken place in the last decades and where the Corporate Social Responsibility (CSR) is a contemporary topic. The growing pressure toward meeting demands of corporate social responsibility from a wide variety of the companies' stakeholders raises important research questions, relating the extent and the content of the companies' voluntary social disclosure. It has been suggested that transition economies of central and eastern Europe go through being a systematic change economy and a transition economy before they become market economies (Tyrrall, 2003). A transition economy is characterized by reduced state ownership but state intervention is needed to decrease systematic instability. (Tyrrall, 2003). Investor confidence is very low in these countries and annual reports tend to be hard to find because they are often only available at shareholders meetings. The companies of transition economies will have to produce internationally acceptable financial reports in order to attract foreign funds. (Tyrrall, 2003).

Tagesson et al. (2009) identifies several variables that are connected to the amount of social disclosure amongst listed corporations on the Stockholm Stock Exchange. They identify size, industry, profitability and ownership as key variables associated with social disclosures. Ownership identity is also looked at and they constitute that state-owned companies disclose more information than privately owned companies. But Sweden is one of the richest countries in the world and has not had to struggle with the same problems as many other European transition economies have had to. Some of the transition economies are today members of the European Union, others are aspiring to become members. Both as members and as aspiring members they have to comply with the same financial accounting rules as well developed economies such as Sweden. Accounting in the EU is regulated in the EU regulation 1606/2002 where it is stated that all listed corporations within the Union have to apply IAS/IFRS standards in their consolidated reports, countries that are aspiring members tend to apply the same standards because of their adaption to EU legislation. Nobes & Parker (2010) argue that the membership of the EU has for transition economies meant a rapid change in accounting legislation and accounting practice. Accounting in communist economies had a very low status, was inflexible and did not have to respond to market innovations (Nobes & Parker, 2010). Nobes & Parker (2010) further describe that accounting was very simplistic and such concepts as “true and fair view” or “fair presentation” did not exist. These countries have had serious shortage in skilled accountants and auditors, but this gap has been filled by the Big 4 audit firms. (Nobes & Parker, 2010).

It is also argued that culture has an effect on CSR disclosures. In a study where American and Dutch companies were compared it was showed that Dutch companies put a lot more effort in CSR reporting and that this was widely applied in the Netherlands and was becoming common practice amongst companies (Hussein, 1996). Another study points out that cultural variables do have an effect on CSR disclosure and the amount of CSR disclosure that a company will provide (Haniffa & Cooke, 2005). Since Europe is culturally diversified and much is done in order to harmonize and remove differences between the countries we are interested to see if the same factors that are affecting CSR disclosures in Sweden are also affecting CSR disclosures in a transition economy such as Croatia. Business ethics is something that has been remote in transition economies until recent years while it has been developed under many years in western economies (Fülöp et al., 2000).

Considering the above mentioned factors we are interested to find out if the same factors that are affecting social disclosures in a developed country are also affecting disclosures in a transition economy. Would, for instance, the industry, in which the company is operating in, be less or more closely related to CSR disclosures in a transition economy or in a developed economy? Or is it the size of the company that has greater influence on CSR disclosures in a transition economy compared to a developed country? Specifically, a number of questions have arisen out of our argumentation and, for the most part, have remained unanswered:

- Is a transition economy also motivated and able to do the voluntary initiatives for corporate social disclosures, particularly CSR?
- Furthermore, whether the motivation, challenge and implementation of CSR disclosure in a transition economy are similar or different from CSR disclosure in a developed country?
- Which factors are significant regarding CSR disclosures in a transition economy and what explains possible differences from a developed country?

- Should CSR reporting be subject of harmonization from the EU or have the markets regulated this issue?

1. 3. Purpose

The purpose of this study is to see if the same variables that are affecting social disclosures amongst listed corporations in a developed economy such as Sweden are also affecting social disclosures in a transition economy such as Croatia. The choice of Sweden and Croatia may be surprising but we feel that it is quite a rational choice due to several factors:

1. Both apply the same accounting regulations, one as a member of the European Union and the other as an aspiring member of the European Union.
2. There are many cultural and legal differences between these two countries.
3. They are at different economical development levels using GDP per capita as an indicator.

Furthermore, we are aiming at to extend the understanding of legitimacy and institutional factors than can affect the extent of corporations' social disclosures. The purpose of this study is that, through an annual analysis of listed companies in Croatia and Sweden test several hypothesis regarding CSR disclosures.

1. 4. Structure

The paper contains seven chapters. The first chapter is the introduction and the second chapter describes briefly the history of Croatia and of Sweden. The third chapter is the chapter where we explain our theoretical approach to the study and the fourth chapter is where we describe the theories that are going to be used and where we formulate our hypotheses. In the fifth chapter, empirical method, we explain how we are going to conduct our study. Chapter six is an analysis of our results and in chapter seven we draw our conclusions based on theory and the findings of the study.

2. Brief history about Croatia and Sweden

Croatia and Sweden have different historical accounting backgrounds, why we feel that it is necessary to explain how accounting has developed in the two countries as well as other economical issues that might be affecting the two countries.

2. 1. Croatia

Croatia is aspiring to become a member of the European Union, therefore they have adapted their legislation to meet the criterions of the EU. (CIA world fact book; Nobes & Parker, 2010). The country has around 4,5 million inhabitants and their GDP per capita was in 2009 17 700 US dollars, the unemployment rate for the same year was 16,1 %. 66 % of the GDP came from services, 27,2 % came from industry while only 6,8 % came from agriculture. Their legal system is considered to be of the civil law branch and resembles German and Austrian legal systems, the influences from the Austro-Hungarian rule of the country remain in their legal system. Some significant political pressure groups are both environmental pressure groups and human rights pressure groups. However the process of privatization has not been an easy process in Croatia since privatization is often met by public resistance. (CIA world fact book).

Accounting in Croatia has had a different evolvement than accounting in Sweden. Croatia, as a part of Yugoslavia, was a communist market and under a communist market accounting has a different role than accounting in a free market. The purpose of accounting was a mean for central planners and decisions makers to exercise control and measure performance against budgets, financial reporting was hierarchical rather than lateral (Beke, 2010; Jermakowicz & Rinke, 1996). Nobes & Parker (2010) explain that accounting as a profession had a very low status, was inflexible and there was no need to respond to market innovations. They further explain that sophisticated accounting and auditing as professions never developed under these circumstances and that these professionals were regarded as low skilled technicians.

Under communist control companies relied on the government for finances, but when Croatia changed direction towards a free market, companies had to search for new capital raising sources, these sources often tended to be big European banks and Croatian companies financed their activities rather through debt than equity. (Nobes & Parker, 2010).

Today accounting in Croatia is regulated through law and EU-approved IFRS have to be used by large companies and by publicly traded companies. The development of accounting began in Croatia in 1991 after declaring independence from Yugoslavia, at first IASC standards (IASs) were adopted for all companies. But in 2004 when the country was granted to apply for EU membership Croatia started to reform their legislation. The reform was presented in 2007. After the reform only large and publicly traded companies had to apply EU-approved IFRS standards, small- and medium-sized companies have to apply Croatian Financial Reporting Standards. Croatia has in recent years changed their legislation to correspond to EU legislation because of their aspiring membership. (Jankovic et al., 2010).

CSR is a rather new practice in Croatia and in other transition economies, during the communist era profits were not that as important as keeping up the employment rate. CSR was introduced by foreign companies and foreign investors. (Metaxas & Tsavdaridou, 2010).

2. 2. Sweden

Sweden became a member of the European Union in 1995 and has around 9,1 million inhabitants. Today Sweden is regarded as being one of the richest countries in the world and its GDP per capita was in 2009 37 500 US dollars, almost 20 000 US dollars more than Croatia. As well as with Croatia the legal system in Sweden is considered to be a branch of the civil law system. 72,2 % of the Swedish GDP came from services, 26,1 % came from the industry sector and only 1,7 % came from agriculture. The unemployment rate for 2009 was quite high speaking in Swedish terms and reached 8,3 %. Union workers got organized in Sweden quite early and today the Swedish federation of trade union (LO) is one of the biggest political pressure groups in the country. (CIA world fact book).

Financial accounting in Sweden has had for a long time a connection to tax accounting and is very influenced by the German way of accounting by focusing on prudence and provisions. (Blake et al., 1997; Nobes & Parker, 2010). There are also several accounting regulatory bodies in Sweden which have different sectors that they are responsible for. (Blake et al., 1998).

One major difference between Sweden and Croatia is the establishment of CSR practice. CSR is very established in the Swedish business environment and has become so due to very strong and influential political pressure groups which management has had to take into consideration. (De Geer et al., 2010).

3. Theoretical Method

In this chapter we will explain how we will try to solve our thesis issue and which methods we will use. The chapter begins by describing what our research approach is, the second section explains our choice between the inductive and the deductive approach and the final section is a description of what our theoretical approach is.

3. 1. Research Approach

The purpose of this study is to see if the same variables that are affecting social disclosures amongst listed corporations in a developed economy such as Sweden are also affecting social disclosures in a transition economy such as Croatia. Our intention is to investigate factors that affect listed corporations to disclose more or less Corporate Social Responsibility activities. To fulfill the purpose of our study, we will only use the annual reports for measuring disclosures of CSR practice amongst the companies listed on Stockholm Stock Exchange in Sweden and companies listed on Zagreb Stock Exchange in Croatia. Accordingly, we predict that CSR information disclosed in annual reports is more reliable than for example on websites, since the annual reports are revised by the auditors.

In this study, we will find a relationship between the influencing factors and the extent of corporate social responsibility contained in the listed corporations' annual reports in a developed country such as Sweden and a transition economy such as Croatia. Our goal is to, through the study, find connections that will be generalized. We will conduct an explanatory study of the CSR parameter tested against explanatory factors such as size, industry, profitability, ownership structure, country of origin, foreign listing and audit firm, derived from research literature and theoretical arguments. These numerous variables, suggested by the empirical and theoretical literature, may explain corporations' voluntary disclosures (Meek et al., 1995). We will make use of previous research in the related topic and existing theories to test our hypotheses and therefore we will not provide a theoretical contribution.

We find that a deductive approach is most appropriate to use in the implementation of our study because we test the hypotheses that we develop from earlier research on the aggregated empirical data. It seems to be more logical to use a deductive approach, since all data used is secondary data. Secondary data means information/data that are already documented about a specific phenomenon (Lundahl & Skärvad, 1999). While secondary data is not primarily collected for the researcher's own study (Lundahl & Skärvad, 1999), the primary data is data that the researcher himself has collected, for example interviews (Lundahl & Skärvad, 1999).

Regarding references in this study, we refer to the author/authors and year of publications if we mean the article in a whole, but if we use something specific from the article than we will also refer to page numbers.

3. 2. Deductive or Inductive Approach

Bryman & Bell (2005) argue that the deductive method describes the relationship between theory and practice (empirical) where the researcher is deriving and deducing hypotheses on the basis of the existing theories (Bryman & Bell 2005, p. 23). By deduction, the researcher tries to draw logical conclusions (Lundahl & Skärvad, 1999, p. 40). Unlike deductive method, the inductive method means that the researcher tries to draw conclusions on the basis of empirical facts (Lundahl & Skärvad, 1999, p. 40). By applying the inductive method, researchers will develop a theory to explain the phenomenon – induction (Lundahl & Skärvad, 1999, p. 40). In accordance with an inductive method, the researcher should take a step in a new area where a theory will be formulated on the basis of the collected empirical data (Bryman et al., 2005, p. 23-25). An inductive method therefore requires that the author begins by collecting data and then creates a new theory on the basis of it (Bryman & Bell, 2005). This study does not aim at to build up a theory and therefore an inductive method is not applicable. Instead, in the study a deductive method is being used in which hypotheses are tested that are derived from existing theory (Lundahl & Skärvad, 1999). The deductive method is the most appropriate because our chosen subject is definitely not new and a theoretical reference may be indentified and listed. We will formulate hypotheses from theory which then will be statistically tested (Bryman & Bell, 2005). The selected area which is the aim for our research is enriched with theory and it will help us make certain assumptions when we generate the research hypotheses. The characteristic of our study is that we want to generalize the connection and relationship between the parameters, rather than to explain why these relationships exist. Since previous studies are based on individual researchers' preferences regarding theory, we handle this by trying to have an open attitude to theory and not tie ourselves to a single explanatory theory. The result is that an eclectic approach will be used (Falkman & Tagesson, 2008; Collin et al., 2009; Tagesson et al., 2009; Broberg et al., 2010) to explain the empirical phenomenon in the study.

3. 3. Theoretical Approach

"*A number of different theoretical approaches have been used to explain corporate social and environmental reporting (CSER)*" (Tagesson et al., 2009, p. 353). This statement made by Tagesson et al. (2009) is one of reoccurring literature explanations for application of an eclectic approach. This study is no exception where several theories will be applied.

Previous research (see for example Gray et al., 1995a; Tagesson et al., 2009; Broberg et al., 2010) show that there are several factors influencing the extent and content of voluntary social disclosures, therefore it is not enough to use one theory to explain what factors control a company's tendency to make CSR disclosures. By applying more than one theory the theories will clarify various aspects that affect CSR disclosures. On the other hand, the empirical research of CSR practice during the last decades has lead to a wide range of produced literature. As a result, the research findings engage many various theoretical perspectives. (Gray et al., 1995a). However, Gray et al. (1995a) point out that Economic Theory, particularly Positive Accounting Theory and Economic Agency Theory, are highly contestable as there has not been enough development of these economic theories (Gray et al., 1995a). The Economic Theory is normally applied in accounting research and according to Gray et al. (1995a) this theory has very little to offer and contribute to CSR development. But apart from this assumption it seems to us that economic theory is essential for this study. Positive accounting theory (PAT) will be used in the context of explaining the existence and the content of social and environmental accounting (Belkaoui & Karpik, 1989; Ness & Mirza, 1991; in Tagesson et al., 2009) and positive accounting theory will also be used in order to explain why management choose to disclose certain voluntary information (Broberg et al., 2010). The more interesting and more insightful theories that are informing much about the extent and content of social and environmental disclosures are system-oriented theories, especially legitimacy theory and stakeholder theory (Gray et al., 1995a; Milne, 2002; O'Dwyer, 2003; in Tagesson et al., 2009). Adams at al. (1998) emphasize the importance of applying legitimacy theory in clarifying reasons for corporate disclosure across different environments, primary in continental European countries and in Anglo-American countries. In order to explain corporate behavior and disclosure practice, the institutional theory (IT) has been most useful (Oliver, (1991); in Tageson et al., 2009). Beside these theories, the Hofstede Four Cultural Dimensions model (Nobes & Parker, 2008) is used to shed light on the effects that national culture has on CSR disclosures (Hay et al., 2010). Some comparative studies between countries have been made (between the U. K. and the U.S., the U. K. and Germany,

U. K. Germany, Canada and the U. S.), showing evidence of CSR disclosure variation between the countries (Hay et al., 2010). Hence, in this study we have taken Hofstede's model of culture dimensions (Nobes & Parker, 2008) and used it in order to point out the importance of culture in explaining the variation of CSR disclosures and practices between countries such as Sweden and Croatia. To explain how cultural differences affect accounting Grays (1988) study and Husseins (1996) study will be used when it is considered necessary.

In order to explain the content and extent of CSR disclosures, we will place empirical investigation of CSR in the context of a multi-theoretical framework (Comier at al., 2005; in Tagesson et al., 2009) where both an economic theory and system-oriented theories together with Hofstede's model of culture and other environmental factors that might affect will be applied. Gray et al. (1995a) indicate that theories should not be perceived as competing with each other, instead the theories should be used to reinforce and complement each other. By using multiple and different theories, we can have different explanations to the same phenomenon when drawing our conclusions.

3. 4. Reference criticism

The references being used in this study are articles and books by professors or other employees at well known universities. Many of the articles and the books are used in earlier similar studies. Some internet sources are also used but we feel confident in those sources since they are all the web pages of well recognized institutions.

4. Theory

This chapter describes the theories and other factors that we have chosen to apply in our search for clarity. The theories being applied are both an economic agency theory and several overlapping system-oriented theories, other factors that might have an effect are differences in culture and legal and political influences. The theories are then applied to develop hypothesis in our chosen area of study.

4. 1. Introduction

Many theories can be applied when trying to explain the extent of CSR reporting. Many researchers have used economic agency theories such as positive accounting theory, others have applied systems-oriented theories such as institutional theory, legitimacy theory and stakeholder theory. This is explained in Tagesson et al. (2009) and they continue their paper by applying all four above mentioned theories simultaneously. Since we got our inspiration from the Tagesson et al. (2009) paper we will also apply all four theories at the same time. In addition to the four mentioned theories we will also in this section explain how culture, politics and legal systems might influence CSR reporting. But first we will explain the theories.

4. 2. Positive Accounting Theory

Positive accounting theory can be applicable on the disclosure of CSR information, by providing such information companies might be able to reduce agency costs (Broberg et al., 2010). Positive accounting theory has its roots in the 1960´s when researchers began using empirical finance methods to financial accounting. (Watts & Zimmerman, 1990). Positive accounting theory is a theory that has mainly focused on what wealth effects accounting choices have on agents and principals and therefore the focus of the theory falls often on agency conflicts that are the result of separation between ownership and management. The theory is based on self-interest. (Collin et al., 2009).

In PAT, which is based on the agency theory, it is considered that the agent and the principal have entered an agreement, the agent being the management and the principal being the owners of the firm. (Collin et al., 2009). Management is supposed to have discretion over the accounting choices due to a voluntary agreement between the agents and the principals, therefore there is always some information asymmetry between the agents and the principals to the favor of the agents. The discretion over accounting choice by management is referred to as the accepted set and external independent auditors are supposed to enforce any possible existing restrictions on the accepted set. (Watts & Zimmerman, 1990). The agents due to their discretion over accounting choice can make those choices that will make themselves better off, when management makes those choices that makes their wealth increase at the expense of other contracting parties they are considered to be behaving opportunistically. (Watts & Zimmerman, 1990). To be able to predict and explain accounting choice researchers had to introduce contracting costs. Contracting costs are transaction costs such as brokerage fees, agency costs such as monitoring costs, information costs, renegotiation costs and bankruptcy costs. (Watts & Zimmerman, 1990).

PAT is mostly concerned with three hypothesis; the bonus hypothesis, the debt/equity hypothesis and the political cost hypothesis. The bonus hypothesis argues that management will try to increase the income of the company if their bonuses are connected to accounting numbers. Debt convents are also often connected to accounting numbers and PAT predicts that the higher the debt/equity ratio is in a company then management will choose those accounting figures that increase income. The political cost hypothesis assumes that attention from the public and politicians is not always something that is preferable and to avoid possible unfavorable attention, mostly larger, companies will choose accounting methods that reduce income. (Watts & Zimmerman, 1990). To be able to convince principals that the agents are acting in the best interest of the principals agents might disclose voluntary information. (Watson, 2002 through Broberg et al., 2010). Positive accounting theory is however often criticized for ignoring possible effects social relations have on managers accounting choice and it does not consider possible alternative behavior (Neu & Simmons, 1996), this is why we consider that a theory that is based on self-interest is not enough when trying to explain CSR disclosures, alternative theories are going to be used to fill the gaps.

4. 3. System-oriented theories

System-oriented theories such as legitimacy theory, stakeholder theory and institutional theory have been derived from a wider theory called political economy theory. By considering systems-oriented theories one can better understand how an organization operates and why the organizations choose to disclose certain information. (Deegan, 2002). Legitimacy theory is central both in stakeholder theory and institutional theory (Deegan, 2002), therefore to be able fill the loopholes of one theory a second and a third theory will be used.

4. 3. 1. Legitimacy Theory

Society, politics and economics are inseparable from each other. Economics cannot be investigated meaningfully without considering the political, social and institutional framework in which economic activities takes place. (Deegan, 2002). Organizations are part of a broader social system, they do not have inherent rights to certain resources or even the right to exist. The only reason that organizations exist is that the society has granted them a social contract that makes the organizations legitimate. (Deegan, 2002). Legitimacy is a status that is associated with how the organization conforms to social norms, values and social expectations. (Palazzo & Scherer, 2006). If the society does not agree with the organization then the society can revoke the social contract, this can be the case when a company's revenue starts to plunge. Therefore, legitimacy is critical for an organizations survival. (Deegan, 2002; Palazzo & Scherer, 2006). Legitimacy is however dynamic and changes over time why companies have to adapt to new circumstances by adhering to new requirements or through communication try to change the perception of the public. Disclosures such as CSR disclosures can be used to change or to manipulate the perception of the public. (Deegan, 2002).

4. 3. 2. Stakeholder Theory

It is often argued that legitimacy theory and stakeholder theory should be treated as two overlapping theories. (Deegan, 2002). The difference between legitimacy theory and stakeholder theory is that while legitimacy theory considers that an organization has one social contract with the whole society stakeholder theory recognizes that different stakeholders have different powers and different abilities to affect the organization, thus from the point of view of stakeholder theory an organization has multiple social contracts. (Deegan, 2002). Stakeholders are considered to be very important in the companies decision-making process (Stieb, 2009), every stakeholder is considered to have some intrinsic value, they should not be simply considered as tool for profit maximization (Neville & Menguc, 2008). However there are two branches of stakeholder theory, the ethical (or normative) branch and the managerial branch. According to the ethical branch every stakeholder is equally important and all should be addressed to and treated equally while the managerial branch recognizes power differences amongst different stakeholders. According to the managerial branch an organization should first address those stakeholders upon which the company is dependent on. (Deegan, 2002). Therefore managers disclose information for strategic reasons and tend to address those stakeholders that are more powerful. (Deegan, 2002).

4. 3. 3. Institutional Theory

To be able to understand that institutions do matter and how they matter one must reject the assumptions of methodological individualism and individual rationality, by doing that one can embrace the importance of culture and how the social world is built. (Carruthers, 1995). IT is a theory that takes social pressure into consideration, it assumes that organizations and managers will adopt those structures and those policies that are viewed as legitimate by others in their organizational field. Organizations will change and adapt their policies to what others are doing to gain legitimacy in their operational sector. (Carpenter & Feroz, 2001). Organizations are considered to be shaped by the social environment, it is almost as if the organizations are an image of the environment in which they operate. The structure is not however dictated by technical criteria. Culture and politics are a way to be considered as a legitimate corporation and are as important as efficiency reasons for structuring a corporation. (Carruthers, 1995).

There are three institutional mechanisms (isomorphism) that are influencing managers in their decision-making process, these three mechanisms function differently. The three isomorphisms are coercive isomorphism, normative isomorphism and mimetic isomorphism. (Collin et al., 2009). The isomorphism involves quite the same organizational features as those of PAT but for different reasons. (Carruthers, 1995).

The three isomorpisms are: (DiMaggio & Powell, 1983)

- Coercive isomorphism (pressure) – Is a result of both formal and informal pressures by organizations upon which the organization is dependent on and by the society in which the organization operates and the society's cultural expectations on the corporation. Coercive isomorphism is why organizations adopt those policies that will make them appear as legitimate organizations.
- Mimetic isomorphism (process) – When organizations encounter a lot of uncertainty through badly understood organizational technologies, ambiguous goals or the society creates symbolic uncertainty then organizations may copy other organizations as a responce to the

uncertainty. An organization does not have to copy another organization intentionally, the mimetic isomorphism can be a result of employee turnover or through the usage of the same consulting companies etc.

- Normative isomorphism (pressure) – Professionals try through pressure on organizations to establish a base and a legitimate way of doing certain procedures, as a way to define the conditions and methods of their work. Professionals such as auditors, lawyers etc. can use their influence and knowledge to pressure the organization to behave in a certain way. Two aspects of professionalism that are important sources of this isomorphism are education at universities and networks amongst the professionals.

There is however another dimension of IT, corporations might appear to be highly rationalized but the appearance might be decoupled from actual organizational practice. Official statements of procedure and formal structures are considered to be myths and much more time is spent on coming up with the statements than actually following them. (Meyer & Rowan, 1977). There are also considered to be some advantages to decoupling, because formal structures are considered to be working if they do not interfere and interrupt technical procedures. (Meyer & Rowan, 1977).

4. 4. Other enviromental factors

Accounting in a country is affected by the culture in the country as well by political and legal influences in the country. (Nobes & Parker, 2010). How companies operate and report will be influenced by the social values that exist in the environment in which the company operates. (Haniffa & Cooke, 2005).

4. 4. 1. Culture

Culture is difficult to explain and it is also difficult to classify but one model that is often used to describe cultural differences is Hofstede´s four cultural dimensions model (Jaggi & Low, 2000). Hofstede´s four cultural dimensions model due to its wide acceptance and application will also be applied in this paper to explain cultural differences between Sweden and Croatia. Culture contains the most basic values that an individual holds, it affects how the society is structured and how individuals interact with their substructure such as accounting (Nobes & Parker, 2010). Because Hofstede four cultural dimensions model does not include Croatia we apply the results of Hungary. Hungary is chosen because the two countries border each other, there is a Hungarian minority living in Croatia and Croatia was under many centuries under Hungarian rule. However we do understand that there are probably cultural differences between Croatia and Hungary, but we see Hungary as the country that had most in common with Croatia and is therefore used.

Based on a study of more than 100 000 IBM employees in 39 countries Hofstede defined and scored the following four dimensions of culture.

- Individualism versus collectivism – In individualistic societies people are supposed to take care of themselves and their closest family members. The fundamental issue in this dimension is how much interdependence the society maintains among individuals. The score for Hungary in this dimension was 80, meaning a strong preference for individualism. The score for Sweden was 68. (Hofstede, 2001).
- Large versus small power distance – Power distance addresses how members of a society accept that power in institutions and organizations is distributed unequally. Large power distance means that members of that society are more likely to accept that everybody cannot be an equal. The score for Hungary in this dimension was 46, and for Sweden 28. (Hofstede, 2001).
- Strong versus weak uncertainty avoidance – The stronger uncertainty avoidance the more members of the society feel uncomfortable with uncertainty and ambiguity. Those societies that have strong uncertainty avoidance maintain rigid codes of belief and behavior, they are as well intolerant towards deviant ideas and persons. In this dimension the score for Sweden was 27 while Hungary scored a high 82. (Hofstede, 2001)
- Masculinity versus femininity – If a society is masculine it has a preference for achievement, heroism, assertiveness and material success. Feminism societies have a preference for relationships, caring for the weak, the quality of life and modesty. In the study Hungary proved to be a very masculine society scoring 88, while Sweden scored 10. (Hofstede, 2001).

In addition to the Hofstede four cultural dimension model Gray (1988) tried to classify countries depending on cultural aspects derived from the Hofstede four cultural dimension model. Gray (1988) suggests that countries with high uncertainty avoidance will tend to be more conservative and limit their disclosures to those that are closely involved in the business, meaning that companies in those countries tend to disclose less information. Hussein (1996) follows this line of thought and suggests that if there are only two cultures the accounting differences will be more obvious. He describes that if one of the cultures is individualist, has low power distance, weak uncertainty avoidance and is feminine and the other one is collectivist, masculine and has large power distance and high uncertainty avoidance the differences will become apparent. He argues that the first culture will have a reporting system that addresses the individual user, is comprehensive, has fewer detailed rules and will provide more information on their CSR activities. The other culture is somewhat the opposite of the first culture, the second accounting culture will focus on the needs of the institutions (governments etc), have a less comprehensive system and more detailed rules, they will also tend to disclose less information about their CSR activities. While there are cultural differences between Sweden and Croatia, Nobes & Parker (2010) argue that only studying what effect culture has on accounting is vague and indirect why other factors such as legal systems, providers of finance and other external influences have to be considered.

4. 4. 2. Political and legal influence

Legal systems are often divided into two different systems, common law countries and civil law countries. Common law is practiced in Anglo-Saxon countries such as England and the United States while civil law is practiced in continental Europe and Scandinavia. (Nobes & Parker, 2010). Nobes & Parker (2010) argue that even though that the legal system in a country might affect accounting other issues such as the adoption of IFRS might be a greater cause for how accounting looks like. Therefore since listed companies in both Sweden and Croatia have to apply IAS/IFRS due to EU regulation 1606/2002 legal systems do not seem to affect the companies that much. Providers of finance is another factor that might influence, generally Anglo-Saxon countries have been financed through equity financing while debt financing is more generally used in continental Europe. (Nobes & Parker, 2010). Companies that have more widespread ownership demand more information and therefore those companies tend to disclose more information. (Nobes & Parker, 2010). Another factor that might affect is political events in a country, while Sweden has for a long time had a free market it is something that was absent in Croatia until 1990. (Nobes & Parker, 2010). However, despite historical practical differences between Sweden and Croatia the EU has done much to harmonize accounting within Europe. (Nobes & Parker, 2010).

4. 5. Formulating Hypothesis

We have chosen to apply four different theories in our quest to try to explain CSR reporting in Sweden and in Croatia. Positive accounting theory is a theory that is based on self-interest and can be used to explain voluntary disclosures such as CSR. (Tagesson et al., 2009; Broberg et al., 2009). However theories that have been more successful in explaining voluntary disclosures, specially CSR information, are systems-oriented theories such as institutional theory, legitimacy theory and stakeholder theory. (Tagesson et al., 2009).

In our eclectic approach we have chosen to identify several factors that could explain the extent and variations in CSR disclosures. As mentioned earlier Tagesson et al. (2009) identifiy size, industry, profitability and ownership structure as variables that are correlated with the amount of CSR disclosure that corporations at the Stockholm Stock Exchange made during 2006. Since our inspiration for this thesis came from the Tagesson et al. (2009) paper we intend to use the same factors to see if they are connected to CSR disclosures in Croatia and in Sweden. In addition to these four factors we have identified three other factors that influence the amount of CSR disclosures. The first factor is if a company is listed at any foreign stock exchange (foreign listings), by being listed at a foreign stock exchange a company may experience institutional pressures to adopt certain policies (Broberg et al., 2010). The second factor that we have decided to add is the origin of a company (country of origin). Country of origin can be the cause for international differences due to different cultures, legal systems and due to political events that have occurred in different countries (Nobes & Parker, 2010). The third factor is the choice of auditing firm since it is considered that audit firms can exercise normative pressure on corporations to behave in a certain way. (Touron, 2005).

The hypothesis will be developed by applying all theories simultaneously to each of the six factors with the country of origin variable excluded. Therefore for some factors the theories will develop the same hypothesis while for other factors they might develop different hypothesis and for other factors only one of the theories might be applied. (Collin et al., 2009). If the theories develop different hypothesis for the same factor all hypothesis will be tested in order to see which theory has the greatest ability to explain CSR disclosures.

4. 5. 1. Size

The fact that the size of the corporation is affecting the amount and the type of CSR disclosures is found in many studies. (Tagesson et al., 2009; Patten, 1991; Scott, 1994; Meek et al., 1995; Hackstone & Milne, 1996; Adams et al., 1998; Knox et al., 2005). The studies found that the size of the corporation has a positive effect on the amount of CSR information being disclosed. The reasons for the amount of CSR information differ however.

A larger corporation has more employees and can therefore involve more people in the process of acquiring the information that they want to disclose. (Tagesson et al., 2009). The same corporations also have more financial assets and if considering cost of obtaining and disclosing such information in relative terms rather than absolute terms then bigger corporations have a smaller cost of obtaining such information. (Knox et al., 2005). This could be an argument supported by the positive accounting theory. If managers want to increase income, and by that increase results, in order to increase their own bonuses then one might argue that managers are not willing to add extra costs, assuming that income is not affected, because this will mean a decrease in their bonuses because of a decrease in result. In larger corporations with better finances managers might not consider that these costs are affecting their bonuses and therefore might be willing to disclose more information. Larger corporations are also more complex, due to their complexity and the separation of management and ownership they are also more exposed to agency costs, to reduce agency costs they disclose more information (Meek et al., 1995). Political attention is not always wanted by corporations, to be able to reduce political attention companies might disclose CSR information in order to satisfy politicians and avoid political scrutiny. It has been shown that larger corporations are more sensitive to political costs and to avoid political costs they disclose more CSR information. (Meek et al., 1995).

A larger corporation has more employees but it also has more stakeholders, the more stakeholders a company has the bigger the demands will be from the stakeholders. (Tagesson et al., 2009). Pressure from the public might also play a role in deciding on the amount of CSR information that will be disclosed. Larger corporations tend to be exposed to more public pressure than smaller companies but at the same time larger companies are better than small companies at communicating the information to important stakeholders. (Patten, 1991; Knox et al., 2005). Larger companies also tend to have more investors who demand more information about the company. (Scott, 1994). Some have even argued that larger companies are trendsetters for smaller companies. (Meek et al., 1995). The systems-oriented arguments are used in this section, companies might be under coercive pressure or they do not wish to lose their social contract with the society or with the stakeholders. Smaller companies might even imitate bigger corporations in order to reach the status that the larger companies have.

All four theories develop the same hypothesis regarding what effect size has on CSR disclosure. All of them predict, however in different ways, that the amount of CSR information being disclosed will increase with the size of the company. Thus we hypothesize that:

H1: There is a positive relationship between the amount of CSR disclosures and the size of the company.

4. 5. 2. Industry

Industry is one factor that is hard to interpret since it can also be a proxy for size (Watts & Zimmerman, 1986 through Tagesson et al., 2009). Nonetheless industry is, together with size one of the most commonly used variables in explaining CSR disclosures. (Tagesson et al., 2009; Broberg et al., 2010; Cowen et al., 1987; Patten, 1991; Meek et al., 1995; Hackstone & Milne, 1996; Adams et al., 1998; Douglas et al., 2004; Ness & Mirza, 1991; Clarke & Gibson-Sweet, 1999; Jenkins & Yakovleva, 2006). Tagesson et al. (2009) show that CSR disclosures vary across industries. They show that ethics disclosures are most common in consumer goods industry while environmental information is mostly disclosed by raw material industries. However they also show that companies in the IT industry disclose least information, somewhat surprising since their study focused on what corporations disclose on their websites.

Certain industries might be more sensitive than others about disclosing certain information since it can be regarded as a competitive disadvantage to disclose what is regarded as sensitive information. (Meek et al., 1995).

Raw material industries such as oil companies, chemical companies and mining companies have been much better at disclosing CSR information, mostly health and safety issues and environmental issues. (Ness & Mirza, 1991; Meek et al., 1995; Line et al., 2002). The explanation for that is that those industries are more politically sensitive industries (Meek at al. 1995), they might experience more pressure from the public and to assure the public that they contribute to the society they disclose more (Hackstone & Milne, 1996; Patten, 1991) and it might also be the case that these industries are more environmental damaging and managers disclose such information to increase their own welfare (Ness & Mirza, 1991). Some researchers have claimed that disclosures will be affected by stakeholder concerns (Douglas et al., 2004), others follow this line and say that industries where the degree of public presence is higher will disclose more (Clarke & Gibson-Sweet, 1999). Several researcher also find that the financial sector is very bad at disclosing CSR information (Douglas et al., 2004; Line et al., 2002).

Based on earlier research it is quite obvious that industry is affecting the amount of CSR information that a corporation discloses. In some industries companies will disclose more information and in some industries less information, the explanation can be found in both the systems-oriented theories and in positive accounting theory, since such information can be disclosed both in self-interest and because of public pressure or might even be a mimetic isomorphism. Based on earlier studies and the prediction of the theories we can hypothesize following:

H2: The amount and the content of CSR disclosures will vary between companies operating in different industries.

4. 5. 3. Profitability

Profitability is also often used as a variable when trying to explain CSR disclosures by a corporation (Tagesson et al., 2009; Hackstone & Milne, 1996; Roberts, 1992; Pirsch et al., 2007; Brammer & Pavelin, 2008; Ullman, 1985; Belkaoui & Karpik, 1989; Giner, 1997; Ng & Koh, 1994; Reverte, 2009). However, the results whether profitability is associated with the amount and content of CSR disclosures vary. Some researchers have shown that profitability is positively correlated to the extent and content of social disclosures. (Tagesson et al., 2009; Roberts, 1992; Ullman, 1985; Belkaaoui & Karpik, 1989; Ng & Koh, 1994; Giner, 1997). Other researchers have not been able to find any connection between profitability of a company and their social disclosures (Hackstone & Milne, 1996; Brammer & Pavelin, 2008; Reverte, 2009).

Tagesson et al. (2009) reach the conclusion that more profitable companies can afford to disclose more information, in the case of their study more social disclosures. Roberts

(1992) claims that corporations most important ambition is to become profitable, when they have become profitable they can also become more socially responsible and therefore disclose more CSR information. Ullman (1985) follows this line of thought, saying that more profitable firms can afford to disclose more CSR information. Belkaoui & Karpik (1989) continue on the same assumption and claim that managers who know how to make a company profitable are also competent enough to understand the importance of social responsibility, therefore they tend to disclose more social information. While the arguments of Tagesson et al. (2009), Roberts (1992), Belkaoui & Karpik (1989) and Ullman (1985) can be associated with both the systems-oriented theories and positive accounting theory some scholars have chosen arguments that are consistent with one line of thought.

Managers that choose for their company to be a socially aware company by providing a lot of CSR information can do so in order to protect their own position. (Giner, 1997). Ng & Koh (1994), in accordance with positive accounting theory, claim that profitable organizations are under more political scrutiny and more public pressure and to avoid regulations they disclose social information as a self-regulating mechanism.

Pirsch et al. (2007) claim that companies can use CSR information in order to distinguish themselves on the market. By distinguishing themselves they get more attention from consumers who will buy their products and therefore the organization will receive financial benefits. This can be seen as a way for a company to obtain legitimacy and to receive a social contract from the society or from the stakeholders.

Thus based on earlier research we can hypothesize two different hypothesis, one saying that there is a connection between profitability and one claiming that there is no such connection. The two hypothesis are:

H3a: There is a positive correlation between the extent and content of CSR information that a corporation discloses and the profitability of the corporation.

H3b: There is a negative correlation between the extent and content of CSR information that a corporation discloses and the profitability of the corporation.

4. 5. 4. Ownership structure

When ownership of a corporation is separated from the management of the corporation agency costs arise due to different interests between the owners and the management. (Fama & Jensen, 1983). Dispersed ownership means that the corporation has more shareholders and therefore there is also a higher degree of information asymmetry between the agents and the principals. This higher degree of information asymmetry means that the agency costs in the corporation rise. (Prencipe, 2004). However, the results of whether ownership structure is affecting the extent of social disclosures vary.

Tagesson et al. (2009) cannot find any correlation between the concentration of ownership and CSR disclosures. Broberg et al. (2010) showed that voluntary disclosures in general did not increase with dispersed ownership on the Stockholm Stock Exchange, but they could show that corporations with a large share of management ownership disclosed less information. But several other studies show that ownership structure does matter for social disclosures. Roberts (1992) claims that the ownership structure has an impact on social disclosure. Following this line Reverte (2009) showed that Spanish companies with concentrated ownership disclosed less social information than companies with dispersed ownership. The case seems to be the same in the UK as in Spain where Brammer & Pavelin (2006) show that how the ownership of the corporation is structured does have an impact on social disclosures.

Based on earlier studies and both positive accounting theory and the systems-oriented theories we hypothesize following:

H4: CSR disclosures made will decrease as management ownership increases.

4. 5. 5. Foreign listing

Companies that are listed on several stock exchanges disclose more detailed information, this might be an effect that companies that are listed on several stock exchanges have to follow disclosure requirements of several stock exchanges. (Cooke, 1989 through Reverte, 2009). In line with this assumption Meek et al. (1995) argue that companies that are listed on several stock exchanges face more capital market pressure. Haniffa & Cooke (2002) argue that corporations that are listed on several stock exchanges have to, in addition to regulation requirements, disclose more information to be able to obtain funds on more favorable terms.

Hackstone & Milne (1996) show that companies from New Zealand that are listed on more than one stock exchange disclose more social information than companies that are only listed on one stock exchange. They however question if that would be the case if the countries where the exchanges are located would have similar social reporting requirements.

Companies that are listed on several stock exchanges also have more shareholders and therefore higher agency and monitoring costs. Because it is in the interest of the management to reduce agency and monitoring costs they are more willing to disclose more CSR information. (Reverte, 2009). Following the same line but from a systems-oriented perspective Haniffa & Cooke (2005) argue that stakeholders in different countries have different powers and therefore they put different pressure on what the company should disclose. They argue that less developed countries will require less social disclosure due to lower public awareness but by listing in a developed country stakeholders there might exert more pressure on the company to disclose certain information. A study made on 192 companies from Australia, Canada and the United States showed that several stock exchange listings had a strong impact on non-financial disclosures (Robb et al., 2001).

Earlier studies have shown that a corporation that is listed on several stock exchanges will disclose more social information, this is even supported by both positive accounting theory and the systems-oriented theories. Thus we hypothesize that corporations that are listed on several stock exchanges will disclose more CSR information.

H5: Companies listed on more than one stock exchange are more likely to disclose more CSR disclosure.

4. 5. 6. Country of origin

Several scholars have looked at differences between countries (Jaggi & Low, 2000; Haniffa & Cooke, 2005; Hussein, 1996; Adams & Kuasirikin, 2000; Andrew et al., 1989; Gamble et al., 1996, Gray et al., 1995a; Tschopp, 2005; Steurer & Konrad, 2009; Koleva et al., 2010; Maignan & Ralston, 2002; Smith et al., 2005). The different studies have reached somewhat interesting and often the same conclusions. The only study where the results differ from the other studies and who claims that there are no cultural nor country wide differences is the study conducted by Jaggi & Low (2000). They argue instead that global cultural values might be more important than country specific values, however one should bear in mind that their conclusion is based on studies that are conducted on only common law countries.

Other scholars have shown that there are differences between countries, continents and even differences within continents such as differences within Europe. (Haniffa & Cooke, 2005; Hussein, 1996; Tschopp, 2005; Steurer & Konrad, 2009). Adams & Kuasirikin (2000) argue that social reporting is more developed in some countries than in other countries. They further argue that differences in the development stage can be a result of both political pressure and due to differences in legislation. Companies will face different pressures in different countries and will have to adjust to the pressure in the different countries. This is due to the fact that the organizations exist within a cultural context where culture has an impact on the organization and therefore those companies that operate in more socially concerned countries will disclose more CSR information. (Smith et al., 2005).

Depending on where the company is based will have an effect on their CSR disclosures and what CSR issues that the company will provide to the public. (Maignan & Ralston, 2002). Those companies that are based in countries that are under economic development seem to disclose less information than those companies that are based in countries that are already economically developed. (Gamble et al., 1996). However there has been some evidence that social reporting in developed countries will be copied by companies that are based in less developed countries. (Andrew et al., 1989; Koleva et al., 2010),

We have shown that Sweden and Croatia are very different regarding culture, history and economic development. Hence, based on earlier studies and on the differences between the countries we can hypothesize that there will be differences between those companies that are based in Croatia and those that are based in Sweden. Therefore we hypothesize:

H6: Country of origin will have an effect on the extent and content of CSR disclosures,

4. 5. 7. Auditing firm

Whether the auditor of the corporation can affect the corporations accounting and disclosure policies can be debated, but several studies have shown that auditors can exercise pressure on companies to disclose certain information or to behave in a certain way. (Falkman & Tagesson, 2008; Collin et al., 2009).

DiMaggio & Powell (1983) argue that members of a professional occupation such as auditors will try to define the conditions of their work. They further argue that despite that professionals might differ they are still as professionals subject to coercive pressure or mimetic pressure. They also explain that professionals will be affected by their education, network, culture and their client portfolio. Meyer & Rowan (1977) also explain that professionals develop a common language, but that auditors cannot exercise coercive pressure on corporations by withholding an unqualified opinion.

Falkman & Tagesson (2008) cannot prove, but cannot either exclude that audit firm does have an effect on accounting in municipals. In line with this Collin et al. (2009) finds strong support that the audit firm does have an effect on accounting choice. Earlier studies have shown that companies that are audited by one of the Big 4 audit firms tend to disclose more information (Inchausti, 1997 through Collin et al., 2009).

Based on earlier studies and on theory we can make the assumption that the CSR disclosures will be affected by the audit firm of the corporation.

H7: There will be differences in the extent and content of CSR disclosures depending on the audit firm of the corporation.

4. 6. Summary of Hypotheses

Hypothesis 1: *There is a positive relationship between the amount of CSR disclosure and the size of the company.*

Hypothesis 2: *The amount and the content of CSR disclosures will vary between companies operating in different industries.*

Hypothesis 3a*: H3a: There is a positive correlation between the extent and content of CSR information that a corporation discloses and the profitability of the corporation.*

Hypothesis 3b: *There is a negative correlation between the extent and content of CSR information that a corporation discloses and the profitability of the corporation.*

Hypothesis 4: *CSR disclosures made will decrease as management ownership increases.*

Hypothesis 5: *There are differences between companies that are listed only on one stock exchange and companies that are listed on several stock exchanges.*

Hypothesis 6: *Country of origin will have an effect on the extent and content of CSR disclosures.*

Hypothesis 7: *Companies listed on more than one stock exchange are more likely to disclose more CSR disclosure.*

5. Empirical Method

In this chapter we will explain our selection of countries and data. We will also explain what the dependent and independent variables are and how we have decided to code them.

5. 1. Selection of countries

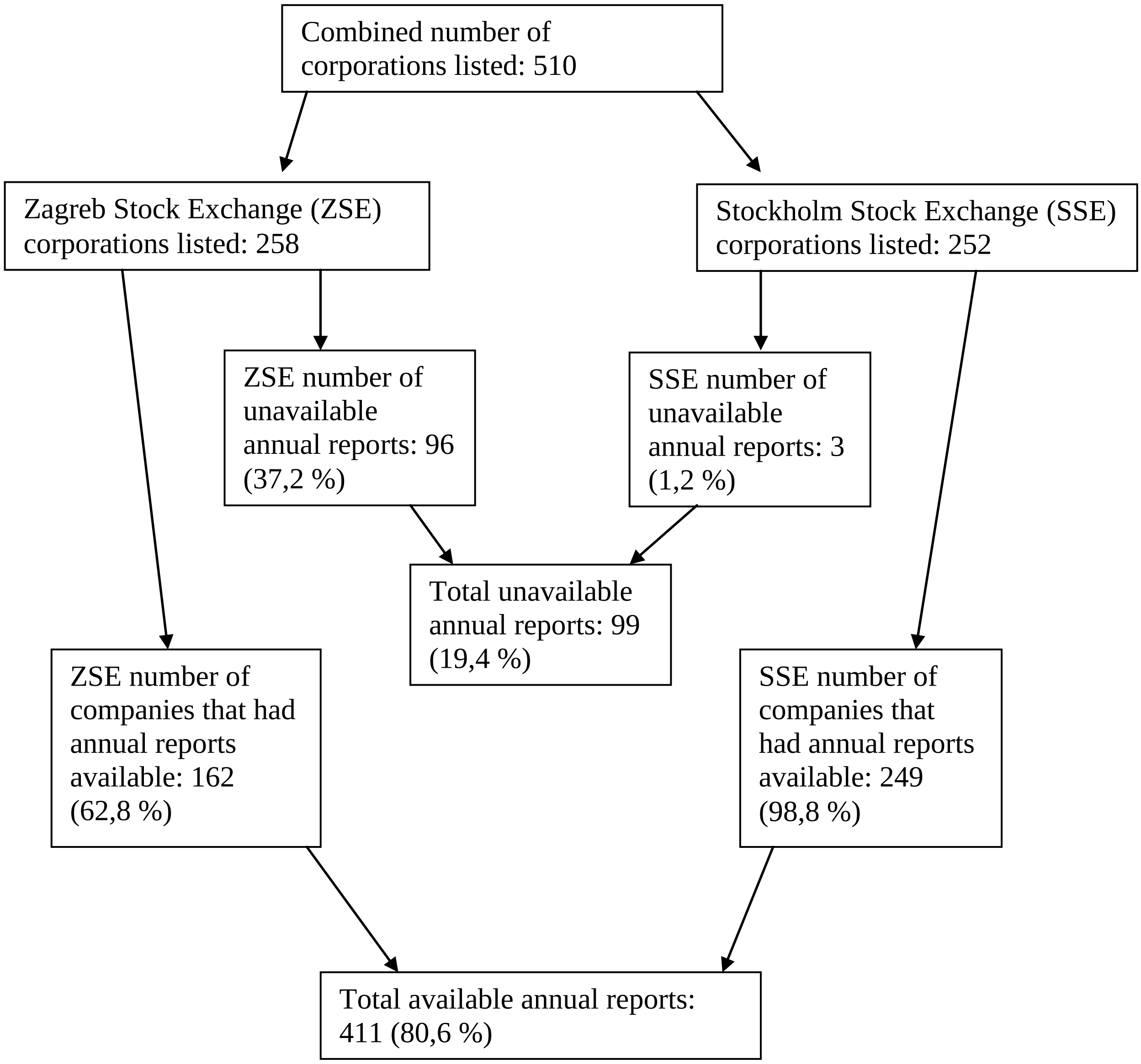
An important question in this study is the selection of countries for an investigation of CSR disclosures. Our aim is to combine two European countries that are at different economic development levels. Both countries apply the same accounting rules, one due to its membership of the EU and the other due to its aspiration to become a member of the EU. It is clearly that Sweden will be chosen because both authors are studying at Lund University in Sweden. Since Sweden is considered to be a rich country with high economic development, then Sweden will be a sample of a developed country in this study. We considered that a sample of a transition economy should be Croatia because Croatia is a country that is culturally different from Sweden. The reason for the selection of the two countries is that both Sweden and Croatia follow and apply EU-approved IFRS and thereby both countries share what is regarded as one of EU characteristics, namely the EU challenges of globalization. The sample represents also a range of cultural differences among these two chosen countries which are indentified through the Hofstede four cultural dimensions model. Another reason for the choice of Sweden and Croatia is that both authors speak both languages fluently.

5. 2. Selection of data

The empirical data in this study is based on CSR information collected from listed corporations' annual financial statements. With the purpose as a starting point, we have chosen to include our in data collection from companies listed on the Stockholm Stock Exchange in Sweden and companies listed on the Zagreb Stock Exchange in Croatia. Stockholm Stock Exchange has currently 252 listed companies and the Zagreb Stock Exchange has 258 listed companies. To increase the reliability of the study, we have chosen to examine annual reports of all listed corporations in each country. In order to have new and fresh information for our investigation, we have chosen to use the listed companies' recent financial statements. For the data collection annual reports related to the financial year that ended December 31 2009 are used. We have not chosen to base our study on the annual reports related to financial year of 2010 because it can still be difficult to get hold of annual reports from all listed corporations from that year. The target population consists of 252 corporations listed on the Stockholm Stock Exchange and 258 corporations listed on the Zagreb Stock Exchange. We do not provide a rigid definition of "CSR concept", as we wish to see how the collected data inform emergent CSR image in Sweden respectively Croatia. Rather, we take as CSR activities all policies, codes and initiatives disclosed in annual reports. With this study we will examine which factors that are influencing the CSR disclosures, such as size, industry, profitability, ownership structure (management ownership), foreign listing, audit firm and country of origin. The disclosures of CSR activities of these corporations are classified as the following: environmental disclosure, ethics disclosure, and human resource disclosure. Through this study we investigate whether the corporations are likely to disclose a CSR activity and if CSR reporting in annual reports varies between a developed and a transition economy that both follow the same rules of the European Union.

For the purpose of establishing reliability, we have chosen to use Corporate Social Responsibility activities only disclosed in annual reports of companies and not on the corporations' website or in other media of communication. We consider that management may feel tempted to create a good CSR reputation through disclosing more aggressively CSR activities on its company's website since the information on websites is not reviewed by the auditors. Therefore, the high degree of credibility added to information disclosed in this manner results in that the study focuses only on annual reports (Haniffa et al., 2005, p.404).

Figure 1: Selection of data



5. 3. Content analysis

We intend to do a study based on implementing a document study (Lundahl & Skärvad, 1999) in the form of a content analysis (Lundahl & Skärvad, 1999) comprehensive 411 listed corporation annual reports from both Sweden and Croatia. This document study is being conducted through the review of corporations' annual reports. The content analysis is defined by Bryman & Bell (2005) as an approach that is well suited for a systematic and replicable way to analyze and quantify the texts based on categories that are determined in advance. To keep the objectivity of a content analysis at a high level, it is important to clearly show how the researcher should proceed when the "raw materials" are categorized as the researcher's personal beliefs should have the smallest possible impact on the process (Bryman & Bell, 2005). A content analysis approach is applicable in this study when using the approach, CSR disclosure is categorized in a clear and systematic way and in a manner that is transparent and replicable for other researchers (Bryman & Bell, 2005).

The authors are aware that despite the usage of a checklist there is a possibility that different interpretations by the two authors might result in differences on the checklist. However to resolve this issue the authors have decided to review ten annual reports together and identify what they consider as CSR disclosures. When the identification was done one of the authors was assigned to collect all data, meaning from both stock exchanges. This was done to input both authors view on what CSR disclosures are. The choice that only one of the authors should collect all the data is done to exclude any difference problems.

5. 4. The dependent variable

The dependent variable in this study is *Corporate Social Responsibility (CSR)* disclosure in corporations' annual reports. The entire research problem is based on the dependent variable, CSR, which is divided into three main categories like environmental disclosure, ethics disclosure, and human resource disclosure (Adams et al., 1998; Tagesson et al., 2009). To categorize the text in those three divisions, we have obtained the knowledge and orientations mainly from research conducted by Tagesson et al. (2009) as well as from previous similar studies (such as Gray et al., 1995b; Adams et al., 1998) and from various guidelines provided by the GRI (Global Reporting Initiative). Adams et al. (1998) and Broberg et al. (2010) state that some disclosures could be of greater interest or importance to stakeholders/users than others disclosures. However, we do not consider that and all kind of CSR disclosures are considered equal in this study. With that said studies should perhaps not be given the same weight to all disclosures, but it would be equally subjective to have some disclosure weight more than others and therefore we use an "unweighted-scoring approach" (Tagesson et al., 2009, p.356). To measure the amount of CSR disclosure provided by corporations, we used a checklist complied after the treatment of similar checklists from previous studies (see for example Tagesson et al., 2009). Consequently, the quantity of CSR disclosure in this study is calculated based on a checklist of 22 items which are categorized into environmental disclosures containing 8 items, ethics disclosures containing 8 items and human resource disclosures containing 6 items. Furthermore, each item on the checklist becomes a kind of dummy variable and it is marked with "1" if the disclosure is made and with “0” if there is no disclosure. Since the aim of this study is to measure the content and extent of CSR disclosed in annual reports of listed corporations, a percentage for each category of CSR disclosure is recalculated (Tagesson et al., 2009) and which is later also used in the analysis. The checklist is not part of the thesis but falls to the paper as an Appendix.

5. 5. The independent variables

The independent variables included in this study are *size, industry, profitability, ownership structure (management ownership), foreign listing, audit firm and country of origin.*

- *Size* of a corporation can be measured by number of employees, balance sheet total as well as by turnover (Gray et al., 1995a; Adams et al., 1998; Tagesson et al., 2009; Broberg et al., 2010). As we can see, it is quite unclear how size of a corporation should be measured. Meek et al. (2005) also states that it is unfortunately not clear what size proxies (Meek et al., 1995, p. 558). In an attempt to evaluate the relationship between the size of a listed corporation and CSR disclosure, we used turnover and balance sheet total as measures of size. Of course Sweden and Croatia have different currencies and therefore both currencies have been converted into the currency of the European Union, namely Euros. The exchange rate that was used was the one that the Swedish Kroner and the Croatian Kuna had at the 31th of December in 2009.

- *Industry* classification is done in line with the divisions made in the Scandinavian Information Exchange (SIX) index. The following industries can be placed: Energy, Health Services, Manufacturing, IT, Consumer Goods, Raw Materials, Telecommunications and Finance. Those industries are represented by dummy variables.

- *Profitability* can be measured by return on total assets (ROA) and return on equity (ROE) (Belkaoui & Karpik, 1989; Tagesson et al., 2009). In this study we have chosen to measure profitability using one of the same methods as Tagesson et al. (2009), namely ROA.

- *Ownership structure (Management ownership)* is measured by number (as the percentage) of votes controlled by the management. It must be pointed out here that we examine if listed corporations are mostly family controlled and where managers and owners are not really separated (Prencipe, 2004).

- *Foreign listing* is measured using dummy variable, where value “1” represent corporations listed on more than the Stockholm Stock Exchange in Sweden and Zagreb Stock Exchange in Croatia, and value “0” represents corporations only listed on the Stockholm Stock Exchange in Sweden and Zagreb Stock Exchange in Croatia (Adrem (1999) in Broberg et al., 2010).

- *Country of origin* is measured by a dummy variable, where the corporations that have Swedish or other western society origin such as EU15, the U. S., Norway or Japan are indicated by “1” and companies that have a different origin (Croatia, Poland etc.) are marked with “0”.

- *Audit firm* is measured by a dummy variable. Since there are several audit firms they each got a number from 0 to 5, these numbers are then recoded into 0 and 1 depending on who the auditor of the company is. The audit firms that are used are PWC, Deloitte, Ernst & Young, KPMG and Grant Thornton. There is also a fifth category called “others” for those companies that have auditors that are not one of the Big 4 or Grant Thornton. Because most of the corporations on the Stockholm Stock Exchange have one of the Big 4 or Grant Thornton we have decided to only have an “others” category for those companies, but companies that are listed on the Zagreb Stock Exchange often have audit firms that are Nexia, BDO or Moore Stephens which are international firms. That is why we decided to recode the “others” category into two categories for those companies that are listed on the Zagreb Stock Exchange. The categories then became “others domestic” and “others international”.

The identified independent variables are set against the dependent variable in order to find the underlying factors to the research problem.

6. Analysis

In this chapter we are going to present the results of our findings and analyze those results. This chapter will be the chapter upon which our conclusions will based. The chapter begins with some descriptive statistics. The second part of the chapter will be our tests of our hypothesis.

By analyzing our findings in SPSS we are able to see if there is any correlation between certain variables that are affecting CSR disclosures and the ability to explain our results with the presented theory increases. The descriptive section of this chapter is written so that the reader can get a clear picture of differences between Sweden and Croatia. The section of testing our hypothesis is written so that reader can get statistically accurate results.

6. 1. Descriptive statistics

As already mentioned there are differences between Sweden and Croatia. This section will help the reader to get an understanding of how apparent these differences are. For every of our hypothesis we present the differences between the countries and every difference is analyzed and explained.

Table 1: Companies included and excluded

Country of origin	Frequency	Valid Procent	
Sweden	249	48,8	48,8
Croatia	162	31,8	80,6
Missing	99	19,4	100
Total	510	100,0	

Table 1 shows how many companies that are included in the study, as we can see there are 249 out of 252 companies included in the study from the Stockholm Stock Exchange while there are "only" 162 out of 258 companies included from the Zagreb Stock Exchange. The reason for the big exclusion of Croatian companies is due to the fact that so many companies (86 companies) did not have their annual reports available, not on their web page nor on the Zagreb Stock Exchange web page. The fact is that in many circumstances the companies did not even have a web page. The exclusion of 3 Swedish companies is also because they did not have their annual reports available. Despite the big exclusion of Croatian companies we consider our study to be representative and since the excluded companies did not have their annual reports available the question is whether if they were would have done anything to help the Croatian results.

Table 2: Differences in size and profitability (T-test: Significance level 0.001)

	Turnover (Million €)		**Balance sheet total (Million €)**		**Profitability (Precentage)**	
	Mean	Std. Deviation	Mean	Std. Deviation	Mean	Std. Deviation
Sweden	82,7	271,9	543,5	3 895,1	11,97	21,30
Croatia	13,3	13,3	23,8	86,3	-12,63	7,50
Both countries	55,5	216,9	340,2	3 047,8	0,24	17,29

Table 2 displays the differences in size and profitability between Swedish and Croatian companies, the table also discloses the average size of companies in both countries combined. As we can see it does not matter if turnover or balance sheet total is chosen as a size measure Swedish companies are bigger than Croatian companies. We can also see that Swedish companies are more profitable than Croatian companies. When regarding both countries at the same time we see that Croatian companies bring down the results of Swedish companies.

Table 3: Difference in CSR disclosures (T-test: No significance)

	Environmental disclosures		**Ethics disclosures**		**Human resource disclosures**		**Total disclosures**	
	Mean	Std. Deviation	Mean	Std. Deviation	Mean	Std. Deviation	Mean	Std. Deviation
Sweden	34,67	29,99	21,01	23,42	45,14	26,84	32,35	23,67
Croatia	7,7	19,91	5,44	16,59	20,71	24,67	10,34	18,16
Both countries	24,12	29,58	14,92	22,32	35,58	28,59	23,74	24,18

When studying table 3 we see that Swedish companies disclose on an average more than Croatian companies. No matter if the three CSR "sections" (environment, ethics and human resources) are looked at separately or if they are viewed at combined Swedish companies disclose more information. Once again, if the countries are looked at as one sample, Croatian companies bring down the results of Swedish companies. We will however conduct further tests to see if the same variables that are affecting CSR disclosures in Sweden are also affecting CSR disclosures in Croatia.

6. 1. 1. Foreign listings

Table 4: Differences in foreign listings and disclosures (T-test: No significance)

	Lisitngs and number of companies	**Environmental disclosures**		**Ethics disclosures**		**Human resource disclosures**		**Total disclosures**	
		Mean	Std. Dev	Mean	Std. Dev	Mean	Std. Dev	Mean	Std. Dev
Sweden	218 (87,6 %) single listing	34,29	29,60	20,05	23,44	44,42	26,65	31,71	23,46
	31 (12,4 %)multiple listings	38,09	33,07	28,00	22,78	50,74	28,17	37,42	25,01
Croatia	161 (99,4 %) single listing	7,28	19,23	5,01	15,68	20,78	24,74	9,90	17,32
	1 (0,6 %) multiple listings	75,00	None	75,00	None	10,00	None	81,00	None
Both countries	379 (92,2 %) single listing	22,86	28,97	13,69	20,81	34,43	28,35	22,49	23,66
	32 (7,8 %) multiple listings	39,25	33,18	29,47	23,90	49,47	28,63	38,78	25,78

Table 4 might be little bit trickier to interpret. We can see that out of 249 Swedish companies 31 (12,4 %) were listed on more than one stock exchange and 218 (87,6 %) were listed only on the Stockholm Stock Exchange. We can also see that those companies that were listed on several stock exchanges also disclosed more information than those that were listed only on the Stockholm Stock Exchange. Croatia is a completely different story, only 1 (0,6 %) company was listed on a stock exchange besides the Zagreb Stock Exchange, the majority of Croatian companies, 161 (99,4 %), were listed only on the Zagreb Stock Exchange. The company that was listed on several stock exchanges disclosed more information, but the results cannot be generalized since one company is a far too small sample. If the both countries are combined we see that companies that are listed on several stock exchanges disclosed on an average more than companies that were listed on only one stock exchange.

379 (92,2 %) out of 411 companies were listed on only one stock exchange, 32 (7,8 %) were listed on several stock exchanges.

6. 1. 2. Ownership structure

Table 5: Differences in ownership structure and disclosures (T-test: No significance)

	Type of ownership	**Environmental disclosures**		**Ethics disclosures**		**Human resource disclosures**		**Total disclosures**	
		Mean	Std. Dev.	Mean	Std. Dev.	Mean	Std. Dev.	Mean	Std. Dev.
Sweden	90 (36,1 %) management	26,08	26,17	14,32	20,86	38,31	25,04	24,82	20,33
	159 (63,9 %) none-management	39,54	30,98	24,79	23,99	49,00	27,12	36,00	24,41
Croatia	43 (26,5 %) management	2,91	12,45	3,77	16,93	14,54	21,47	6,07	15,33
	119 (73,5 %) none-management	9,46	21,80	6,06	16,49	22,98	25,46	11,92	18,91
Both countries	133 (32,4 %)management	18,57	25,10	10,91	20,23	30,62	26,35	18,76	20,76
	278 (67,6 %) none-management	26,77	31,20	16,85	23,05	37,97	29,35	26,14	25,35

Table 5 shows that 90 (36,1 %) out of 249 companies listed on the Stockholm Stock Exchange were in fact owned by the management, 159 (63,9 %) had dispersed ownership. Those Swedish companies that had dispersed ownership also disclosed more information. The Croatian results are in line with the Swedish, companies that had dispersed ownership disclosed more information. 43 (26,5 %) out of 162 Croatian companies were owned by the management and 119 (73,5 %) had dispersed ownership. If we combine the results of both countries we see that 133 (32,4 %) out of 411 companies were controlled by the management, 278 (67,6 %) had dispersed ownership. Even if the countries are combined companies where the management are also the owners disclose less information than those companies where management and ownership are separated. It becomes somewhat apparent that companies where the management of the company and the ownership of the company is not separated disclose less information than companies where the management of the company and the ownership of the company are separated.

6. 1. 3. Industry

Table 6: Distribution of companies between industries

Industry	Sweden	Croatia	Total
Energy	6 (2,4 %)	3 (1,8 %)	9 (2,2 %)
Health Services	29 (11,6 %)	4 (2,5 %)	33 (8,0 %)
Manufacturing	65 (26,1 %)	65 (40,1 %)	130 (31,6 %)
IT	46 (18,5 %)	1 (0,6 %)	47 (11,4 %)
Consumer Goods	44 (17,7 %)	56 (34,7 %)	100 (24,4 %)
Raw Materials	12 (4,8 %)	4 (2,5 %)	16 (3,9 %)
Telecommunication	6 (2,4 %)	3 (1,8 %)	9 (2,2 %)
Finance	41 (16,5 %)	26 (16,0 %)	67 (16,3 %)
Total	249 (100 %)	162 (100,0 %)	411 (100,0 %)

Table 6 shows the distribution of companies between industries. Manufacturing is the most common industry in both countries and therefore naturally also when the countries are combined. Consumer goods is the second most common industry in Croatia and combined, but the third most common in Sweden. There are big differences between Sweden and Croatia in the industries of health services and IT. Sweden has many more companies of those types, especially IT companies which seem to be absent in Croatia. The reason for the absence of IT and health services companies in Croatia is beyond the scope of the paper and will therefore not be discussed.

Table 7: Disclosure by industry, both countries (T-test: No significance)

Industry	Environmental disclosures		Ethics disclosures		Human resource disclosures		Total disclosures	
	Mean	Std. Dev.	Mean		Mean	Std. Dev.	Mean	Std. Dev.
Energy	41,67	37,50	24,78	21,43	53,44	36,99	38,66	29,56
Health Services	14,91	19,58	7,85	19,85	31,76	27,28	16,76	19,22
Manufacturing	26,10	30,72	15,15	24,21	35,06	28,60	24,57	26,09
IT	16,36	18,98	10,75	15,05	39,26	28,61	20,06	15,13
Consumer Goods	23,39	29,96	18,39	23,45	34,71	28,20	24,40	24,71
Raw Materials	46,63	36,26	17,00	20,23	42,50	30,31	34,63	26,42
Telecommunication	20,67	29,87	12,44	24,88	31,22	31,59	20,44	26,40
Finance	24,13	31,15	14,22	22,00	33,71	30,75	22,99	24,53

Table 7 shows the differences between industries when companies from both countries are in the sample. What can be seen from the table is that certain industries disclose more information than others. The energy and the raw material sector seem to disclose the most while the health services sector and the IT industry seem to disclose the least information. As it can be seen from the table, both the energy and the raw material sectors disclose more on environmental and human resource issues. However there is no industry that really stands out regarding the issue of ethics, the industry that gets the highest score in the ethics department is the consumer goods industry. These results are in line with the results that the Tagesson et al. (2009) study found.

Table 8: Disclosure by industry, Sweden (T-test: No significance)

Industry	**Environmental disclosures**		**Ethics disclosures**		**Human resource disclosures**		**Total disclosures**	
	Mean	Std. Dev.	Mean		Mean	Std. Dev.	Mean	Std. Dev.
Energy	45,83	29,23	31,00	20,33	58,00	32,81	43,67	24,66
Health Services	16,97	20,05	8,93	20,98	35,00	27,04	18,76	19,64
Manufacturing	42,40	28,88	24,65	25,35	48,65	26,25	37,99	24,55
IT	18,18	19,03	10,98	15,12	39,39	24,32	20,50	22,87
Consumer Goods	41,84	31,17	34,18	22,84	50,34	23,83	40,98	22,87
Raw Materials	62,17	27,20	22,67	20,45	52,50	25,41	45,08	21,52
Telecommunication	31,00	32,30	18,67	29,16	38,50	32,75	28,80	29,30
Finance	38,24	32,48	19,29	22,78	44,61	30,31	32,85	24,91

Table 8 shows that companies that are listed on the Stockholm Stock Exchange and operate in different industries disclose different amount of information. Once again companies operating in the raw material and the energy sector disclose most information, closely followed by the consumer goods industry. The bad results of the IT industry and the health services sector are not surprising since companies listed on the Stockholm Stock Exchange made up most of the combined sample in the study.

Table 9: Disclosure by industry, Croatia (T-test: No significance)

Industry	Environmental disclosures		Ethics disclosures		Human resource disclosures		Total disclosures	
	Mean	Std. Dev.	Mean		Mean	Std. Dev.	Mean	Std. Dev.
Energy	33,33	57,74	12,33	21,36	44,33	50,95	28,67	42,10
Health Services	0,00	0,00	0,00	0,00	8,25	16,50	2,25	4,50
Manufacturing	9,29	22,49	5,34	18,59	21,09	23,97	11,18	20,31
IT	0,00	0,00	0,00	0,00	33,00	33,00	0,00	0,00
Consumer Goods	8,89	19,23	5,98	15,00	22,43	25,25	11,38	17,25
Raw Materials	0,00	0,00	0,00	0,00	12,50	25,00	3,25	6,50
Telecommunication	0,00	0,00	0,00	0,00	16,67	28,87	4,33	7,51
Finance	1,86	5,73	6,23	18,42	16,53	28,87	7,42	13,59

As we can see from table 9 the only industry that can even come close to the Swedish standard is energy. In line with the results from the Stockholm Stock Exchange it is the industry that discloses the most information. Somewhat surprisingly the raw materials industry in Croatia seems to disclose very little information. The two industries that disclosed least information at the Stockholm Stock Exchange also disclosed least information at the Zagreb Stock Exchange, namely IT and health services. However there was only one company from IT sector that was listed at the Zagreb Stock Exchange and 4 health services companies.

6. 1. 4. Audit firm

Table 10: Distribution of audit firms between companies, both countries

Audit firm	Sweden	Croatia	Total
PWC	92 (36,9 %)	17 (10,4 %)	109 (26,5 %)
Ernst & Young	57 (22,9 %)	5 (3,1 %)	62 (15,1 %)
Deloitte	28 (11,2 %)	19 (11,8 %)	47 (11,4 %)
KPMG	56 (22,6 %)	8 (4,9 %)	64 (15,6 %)
Grant Thornton	5 (2,0 %)	1 (0,6 %)	6 (1,5 %)
Others	11 (4,4 %)	112 (69,2 %)	123 (29,9 %)
Total	249 (100 %)	162 (100 %)	419 (100 %)

As we can see from table 10 the most common audit firm in both countries combined is PWC, however thanks to their establishment in Sweden where they are the biggest audit firm. The biggest audit firm in Croatia of the Big 4 is Deloitte closely followed by PWC, however Croatian companies seem to most of the time to hire an audit firm that is not one of the Big 4. Two audit firms that were often used in Croatia were BDO and Nexia, these so called "others international" were in total 35 (26,1 %) and are later used as explaining variables for the Croatian sample. There is also another consideration in these results, the Big 4 had more than 90 % of the market share amongst Swedish listed companies while they only had somewhat 30 % of the same market share in Croatia. It might be so that because of the huge absence of the Big 4 that this variable is not a proper variable for measuring differences in CSR disclosures between a country where the Big 4 are present and a country where they are somewhat absent.

Table 11: Audit firm and disclosures, both countries (T-test: No significance)

Audit firm	**Environmental disclosures**		**Ethics disclosures**		**Human resource disclosures**		**Total disclosures**	
	Mean	Std. Dev.	Mean	Std. Dev.	Mean	Std. Dev.	Mean	Std. Dev.
PWC	29,05	28,14	17,54	23,77	39,88	28,99	27,65	23,64
Ernst & Young	32,84	31,24	22,22	24,14	44,00	29,01	31,73	24,27
Deloitte	28,59	33,56	15,28	21,57	38,87	28,09	26,85	25,81
KPMG	34,55	32,56	23,45	24,21	45,53	27,16	33,23	25,76
Grant Thornton	20,50	24,41	2,00	4,90	35,67	28,61	17,83	16,79
Others	8,31	19,36	4,83	14,79	20,85	23,27	10,18	16,84

Table 11 tells us that the difference in disclosure depending on which of the Big 4 audit firm that is used is very small, however it obvious that companies that have Grant Thornton or some other audit firm tend to disclose less information. The reason for the difference between the Big 4 and other audit firms including Grant Thornton is unclear.

Table 12: Audit firm and disclosures, Sweden (T-test: No significance)

Audit firm	Environmental disclosures		Ethics disclosures		Human resource disclosures		Total disclosures	
	Mean	Std. Dev.	Mean	Std. Dev.	Mean	Std. Dev.	Mean	Std. Dev.
PWC	34,24	27,45	20,75	24,55	45,27	27,05	32,28	22,85
Ernst & Young	34,68	31,52	21,98	23,34	44,36	29,50	32,54	24,50
Deloitte	36,43	33,16	19,00	20,43	46,54	23,86	32,57	23,32
KPMG	38,82	32,47	26,14	23,31	49,11	25,95	36,71	25,36
Grant Thornton	24,60	24,87	2,40	5,37	42,80	25,32	21,40	16,03
Others	15,64	17,68	5,45	8,48	25,27	17,22	14,55	12,31

Table 12 shows that even if Sweden is looked at separately the results are the same as those for when the countries are looked at combined. This could be an indication that audit firms do not exercise their power to get companies to disclose CSR information. This might the result that CSR is most often disclosed on a voluntary basis and therefore this might not even be in the interest of the auditor.

Table 13: Audit firm and disclosures, Croatia (T-test: No significance)

Audit firm	Environmental disclosures		Ethics disclosures		Human resource disclosures		Total disclosures	
	Mean	Std. Dev.	Mean	Std. Dev.	Mean	Std. Dev.	Mean	Std. Dev.
PWC	0,00	0,00	0,00	0,00	10,71	21,04	2,98	5,67
Ernst & Young	7,40	11,13	25,00	35,36	39,80	25,12	22,40	21,45
Deloitte	17,05	31,50	9,78	22,56	27,58	30,61	18,42	27,58
KPMG	4,63	9,24	4,63	13,08	20,50	22,94	8,88	12,03
Grant Thornton	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Others Domestic	3,95	12,62	17,32	20,62	2,96	10,97	7,12	12,09
Others International	15,81	28,26	27,94	28,93	8,82	21,87	16,31	24,57

Table 13 tells us that only Ernst & Young and Deloitte result in more disclosures, while there seems to be very little difference between PWC, KPMG and other audit firms. However we can also see that companies have "others domestic" as auditors disclose less than those that have "others international".

6. 2. Hypothesis Testing

This section presents the hypothesis testing by the bivariate analysis and multiple linear regressions. The data material, collected from listed corporations' annual reports, were analyzed by using the SPSS statistical program. First, a correlation matrix was made where Spearman's correlation coefficient was used because there was at least one dummy variable. This was the bivariate analysis, which explains the relationship (correlation) between two variables and reflects the possible causal relationship between variables (Djurfeldt et al., 2003; Aronsson, 1999). The remaining tests were multiple linear regressions where we studied the effect of several independent variables on a dependent variable. We used multiple linear regressions because there is more than one independent variable. (Aronsson, 1999, pp. 245). Direction coefficient determines whether possible correlations (relations) between variables are positive or negative. A minus sign before the direction of the coefficient implies a negative relationship. (Djurfeldt et al., 2003, pp. 165). The measure of the strength of the relationship is represented by the correlation coefficient (Djurfeldt et al., 2003, pp. 161). In our analysis we have chosen to accept a level of confidence of 90 % which means that there is a greater risk of error but also that the hypotheses with a weak significance (0.10) are not rejected.

6. 2. 1. Bivariate tests

Table 13 presents a correlation matrix and the results of the bivariate tests with the total CSR disclosure as constant. The correlation coefficients between the dependent variable (CSR disclosure) and the independent variables are also represented by the table. The hypotheses are tested by the Spearman correlation test by examining the strength of the relationship between variables. In order to test the relationship between the dependent and the independent variables, we used total CSR disclosure (in percentage) as the dependent variable and as independent variables the following variables were used: size (measured in both turnover and balance sheet total), profitability, ownership structure, foreign listing, country of origin, audit firm and industry. In addition, dummy variables were used for factors such as industry and audit firm aimed to be able to compare with other ratio variables and numerical data. Eight dummy variables were created for the factor industry, while the variable energy from the industry factor was excluded and used as reference. For the factor audit firm six dummy variables were created but the audit firm PWC was used as reference.

In accordance with Table 13 which presents the correlation matrix and the bivariate tests, we can conclude that independent variables such as size (measured both in turnover and in balance sheet total), profitability, foreign listing and country of origin are positively correlated with the CSR disclosures, while ownership structure has a lower degree of positive correlation with CSR disclosure. Furthermore, the findings illustrate that there is no relationship (correlation) between any variable of industry factor and CSR disclosure. Regarding the variables of the audit firm factor, the tests show that two audit firms are positively related to CSR disclosure, namely Ernst & Young and KPMG, while Deloitte and Grant Thornton have no association with CSR disclosure and other audit firms have a negative correlation. In line with the information in Table 13, the tests show that there are indications of a multicollinearity problem by the presence of significant correlation between some independent variables (Djurfeldt et al., 2003, pp. 387). There is, for example, a strong correlation between both size variables (turnover and balance sheet total), a significant correlation at 0,810 can be deduced. This could however also have been expected since a company that has higher turnover might also have a bigger balance sheet total.

Table 13: Correlation matrix - correlation coefficients for dependent and independent variables (n=411)

Spearman's rho is presented because all correlations include at least one dummy variable.

	CSR disclosures	2a	2b	3	4	5	6	7a	7b
2a. Size (Turnover)	0,576**								
2b. Size (Balance sheet total)	0,498**	0,810**							
3. Profitability	0,130**	0,300**	0,210**						
4. Ownership structure	0,124*	0,113*	0,149**	-0,124*					
5. Foreign listing	-0,181**	-0,140**	-0,160**	-0,099*	-0,020				
6. Country of origin	0,531**	0,376**	0,258**	0,248**	-0,097†	-0,205**			
7. Audit firm									
7a. Ernst & Young	0,140**	0,109*	0,068	0,085†	-0,070	-0,132**	0,269**		
7b. Deloitte	0,059	0,027	0,034	-0,073	0,070	-0,096†	-0,10	-0,152**	
7c. KPMG	0,183**	0,183**	0,120*	0,015	0,069	0,044	0,235**	-0,182**	-0,155**
7d. Grant Thornton	-0,015	-0,084†	-0,033	0,038	-0,089†	0,034	0,056	-0,052	-0,044
7e. Others	-0,408**	-0,359**	-0,279**	-0,146**	-0,061	0,159**	-0,689**	-0,271**	-0,231**
8. Industry									
8a. Health Service	-0,059	-0,132**	-0,138**	-0,043	-0,093†	0,111*	0,169**	0,070	0,003
8b. Manufacturing	0,010	0,135**	0,015	0,036	-0,015	0,072	-0,140**	-0,065	-0,045
8c. IT	0,024	-0,062	-0,227**	0,033	0,038	0,014	0,273**	0,082†	-0,034
8d. Consumer Goods	0,003	-0,006	-0,018	-0,035	0,044	0,034	-0,198**	-0,082†	-0,063
8e. Raw Materials	0,072	0,046	0,042	-0,073	0,040	-0,077	0,016	0,049	0,155**
8f. Telecomunications	-0,025	0,051	0,023	-0,082†	-0,038	-0,019	0,018	0,076	0,050
8g. Finance	-0,044	-0,046	0,257**	0,010	-0,017	0,051	0,003	-0,003	0,068

**Correlation is significant at the 0,01 level (2-tailed)
*Correlation is significant at the 0,05 level (2-tailed)
†Correlation is significant at the 0,10 level (2-tailed)

6. 2. 2. Multiple linear regression

Table 14: Regression results – total CSR disclosure

	Total CSR disclosures (n=411)		Total CSR dislosures, Sweden (n=249)		Total CSR disclosures, Croatia (n=162)		Total CSR disclosures, size excluded (n=411)	
	CSR Disclosures	*S. E.*	*CSR Disclosures*	*S. E.*	*CSR Disclosures*	*S. E.*	*CSR Disclosures*	*S. E.*
2a. Size (Turnover)	1,511*10^-9**	0,000	1,506*10^-9**	0,000	-2,516*10^-9	0,000	-	-
3. Profitability	-0,026	0,059	-0,007	0,067	-0,155	0,192	-0,011	0,060
4. Ownership structure	7,354**	2,225	8,877**	2,978	-5,591†	3,338	8,759**	2,251
5. Foreign listing	-2,697	3,961	-0,799	4,34	-64,230**	17,934	-7,288†	3,906
6. Country of origin	24,055**	3,100	-	-	-	-	25,441**	3,152
7. Audit firm								
7a. Ernst & Young	4,041	3,210	1,447	3,598	16,988†	10,225	3,207	3,276
7b. Deloitte	5,088	3,619	1,760	4,653	13,375*	6,099	4,147	3,692
7c. KPMG	3,648	3,184	1,667	3,654	9,928	7,635	4,713	3,241
7d. Grant Thornton	-1,667	8,507	-2,382	9,932	0,807	18,058	-3,048	8,690
7e. Others	0,106	3,481	-10,891	7,146	9,201*	4,495	-0,266	3,555
7e.1. Others Domestic (Only Croatia	-	-	-	-	5,000	4,601	-	-
7e.2. Others International (Only Croatia)	-	-	-	-	16,665**	5,090	-	-
8. Industry								
8a. Health Services	-17,518**	5,973	-13,463	8,259	-11,252	10,719	-15,149*	6,077
8b. Manufacturing	0,418	5,120	4,408	7,616	-3,731	6,514	2,650	5,207
8c. IT	-13,693**	5,047	-9,607	6,922	-13,713	18,712	-13,230*	5,158
8d. Consumer Goods	1,614	4,681	8,753	7,727	-2,738	5,469	2,708	4,778
8e. Raw Materials	3,773	6,856	11,078	9,552	-2,855	10,108	5,661	6,993
8f. Telecommunications	-9,792	8,265	-4,109	11,305	-18,841	12,232	-6,046	8,402
8g. Finance	-4,754	5,409	1,097	7,960	-10,796	7,111	-2,581	5,477
Constant	7,202	6,921	25,510**	8,120	65,577**	19,746	9,472	7,055
R^2	0,353		0,258		0,211		0,321	
Adj. R^2	0,323		0,203		0,117		0,293	
F Value	11,828		4,723		2,235		11,563	
Sig.	0,000		0,000		0,006		0,000	
Durbin - Watson	1,991		2,020		1,966		1,952	

**Correlation is significant at the 0,01 level (2-tailed)
*Correlation is significant at the 0,05 level (2-tailed)
†Correlation is significant at the 0,10 level (2-tailed)

Table 14 presents a multiple linear regression where the hypotheses are tested with the amount of CSR disclosure as the dependent variable. In this test, the data from both countries and the countries individually are included, all the variables are included except in the last column where size is excluded because its significant correlation with the dependant variable. Balance sheet total is also excluded from the table since it often showed the same results as turnover or the opposite results, but balance sheet total will also be commented on throughout the analysis. When the coefficient of determination (R^2 or R Square) is less than one ($R^2 < 1$) it means that there is a weak connection and that leads to the difficulty of predicting CSR disclosures with the help of all independent variables. When $R^2 = 1$, we have a full relation, while when $R^2 = 0$, we have no relationship and therefore cannot make any predictions. (Djurfeldt et al., 2003, pp. 168). In line with table 14, Adjusted R^2 explains how much of the variation in the sample that can be explained by the independent variables, the however rest depends on other factors (Djurfeldt et al., 2003, pp. 169). The Durbin- Watson (d) test has also been used and in general, d- value can vary between 0 and 4 (Aronsson, 1999, pp.250). If $d < 1$, there is a significant autocorrelation, but if d- value is close to 2 it should not be any autocorrelation and there is no significance, while if $d > 3$, there is a negative autocorrelation (Aronsson, 1999, pp.250). We can also deduce from table 14 a significance value (Sig.), also called p-value. By using the p-value one can be determine how the test results should be interpreted and if the p- value is less than 5% (0.05), the null hypothesis is rejected (Wahlgren, 2005, pp.78). The findings indicate a significance value at 0,000 which is less than 5% and therefore null hypothesis will be rejected. This means that the correlation is significant, and thus also the model.

In the first column where all the companies from both countries are included size measured in turnover, ownership structure and country of origin have much explanatory power. These variables have a stronger significance and seem to affect the amount of CSR disclosure. Health services and IT variables of the industry factor show a negative correlation, while other variables (size measured in balance sheet total, profitability, foreign listing and audit firm) do not show any correlation.

The second column from table 14 represents just Swedish corporations. They show the same results of significance as the test results of both countries together reported in the first column. Size measured in turnover and ownership structure show, as in the earlier test, a significant correlation with CSR disclosures. It is not surprising that size measured in balance sheet total, profitability, foreign listing, audit firm and industry variables have no indication of significance.

In the third column are the results of the Croatian companies tested individually. What is surprising is that CSR disclosures of Croatian corporations have no significant correlation with any independent variables as the CSR disclosures of Swedish corporations have except for size. The only variable that presents a significant association with CSR disclosures in this test is foreign listing while variables size measured in balance sheet total, audit firms as Deloitte and others present a weaker correlation. The audit firm section “others” is split into two different variables where audit firms with international connections are divided into a group called “others international” while the audit firms with domestic ties are the group that is called “others domestic”. As the table presents, “others international” have a significant correlation to the amount of CSR disclosures while “others domestic” do not present any such correlation.

In the last column the regression results are presented with the size (turnover and balance sheet total) variable excluded, because they showed significant correlation with CSR disclosure which is the dependent variable in this study. When the variable size is excluded, the regression results show that variables like ownership structure and country of origin are significantly correlated with CSR disclosures. The country of origin variable indicates a significant correlation both when the size variable is excluded and included. This might be an indication that the biggest explanation for differences in CSR disclosures between Croatian and Swedish listed corporation is the origin of the companies and the environments in which they operate. A weaker but negative correlation is also shown by the variables health service and IT. The other variables used in the test show no correlation with CSR disclosures. It would probably have been the case that the energy industry would have been significant since, as shown under the descriptive statistics section, they disclosed significantly more than other industries, especially in Croatia, but the energy industry variable was used as a reference variable.

6. 2. 3. Additional analysis

As shown earlier under the descriptive statistics section we saw that the content of CSR disclosure varied between the two countries, what we can see from additional regression tests is that the content of CSR disclosures depends on different factors in the two countries. In addition to the above multiple regressions tests with the total CSR as the dependent variable, we have also restructured the dependent variable (CSR disclosures) into three different variables: Environmental disclosures, Human Resources disclosures and Ethics disclosures.

Table 15: Disclosures by CSR categories, Both countries

	Environmental disclosures	S.E.	Human Resources disclosures	S.E.	Ethics disclosures	S.E.
2a. Size (Turnover)	2,000*10^-9**	0,000	9,060*1^-10 †	0,000	1,518*10^-9**	0,000
3. Profitability	-0,077	0,071	-0,021	0,076	0,020	0,058
4. Ownership structure	8,581**	2,669	7,905**	2,834	5,221*	2,175
5. Foreign listing	0,569	4,751	-1,900	5,045	-4,691	3,872
6. Country of origin	32,847**	3,718	25,455**	3,948	15,041**	3,030
7. Audit firm						
7a. Ernst & Young	2,53	3,850	3,832	4,089	5,592†	3,138
7b. Deloitte	6,87	4,340	5,337	4,609	2,080	3,537
7c. KPMG	2,925	3,819	3,976	4,055	4,188	3,112
7d. Grant &Thornton	0,78	10,203	4,191	10,835	-8,911	8,315
7e. Others	2,505	4,175	0,665	4,434	-1,751	3,402
8. Industry						
8a. Health Services	-22,437**	7,164	-15,883*	7,608	-14,159*	5,838
8b. Manufacturing	1,009	6,140	-1,774	6,521	0,323	5,004
8c. IT	-21,219**	6,053	-8,239	6,428	-10,269*	4,933
8d. Consumer Goods	0,705	5,613	-1,082	5,961	4,192	4,575
8e. Raw Materials	13,893 †	8,222	1,564	8,732	-4,717	6,701
8f. Telecommunications	-11,024	9,912	-11,020	10,526	-8,021	8,078
8g. Finance	-4,439	6,487	-7,507	6,888	-3,474	5,286
Constant	-1,776	8,301	18,323*	8,815	6,382	6,764
R^2	0,376		0,246		0,275	
Adj.R^2	0,347		0,211		0,241	
F-value	13,057		7,079		8,210	
Sig.	0,000		0,000		0,000	
Durbin- Watson	1,964		1,929		2,069	

**Correlation is significant at the 0,01 level (2-tailed)
*Correlation is significant at the 0,05 level (2-tailed)
†Correlation is significant at the 0,10 level (2-tailed)

What we can see from table 15 is that size, ownership structure and country of origin are correlated to what type of CSR disclosures a corporation makes. Bigger corporations report more on all three categories, however somewhat less on human resource issues. Companies with dispersed ownership also tend to disclose more on all three issues and the differences between the countries are a result of that Swedish corporations disclose more than Croatian companies in all three categories. Of the audit firms it is apparent that only companies that have Ernst & Young as their auditor disclose more on ethical issues. IT and the health services industry continue to have negative correlation in all three CSR categories.

Table 16: Disclosures by CSR categories, Croatia

	Environmental disclosures	S.E.	Human Resources disclosures	S.E.	Ethics disclosures	S.E.
2a. Size (Turnover)	-4,562*10^-9	0,000	-3,708*10^-10	0,000	-4,337*E-9	0,000
3. Profitability	-0,174	0,208	-0,076	0,268	-0,251	0,168
4. Ownership structure	7,640*	3,583	9,101 †	4,624	1,167	2,897
5. Foreign listing	-59,456**	19,311	23,697	24,922	-68,382**	15,617
6. Country of origin	-	-	-	-	-	-
7. Audit firm						
7a. Ernst & Young	11,603	11,052	26,121 †	14,263	18,285*	8,938
7b. Deloitte	14,723*	6,672	19,227*	8,611	6,481	5,396
7c. KPMG	10,247	8,312	17,131	10,727	6,501	6,722
7d. Grant &Thornton	4,173	19,460	-5,007	25,114	-0,903	15,738
7e.1.Others International	19,681**	5,650	21,930**	7,292	9,764*	4,570
7e.2.Others Domestic	4,811	5,108	8,074	6,592	3,315	4,131
8. Industry						
8a. Health Services	-13,798	11,596	-22,872	14,965	-8,788	9,378
8b. Manufacturing	-2,154	7,019	-5,936	9,058	-3,064	5,676
8c. IT	-19,956	20,364	0,668	26,281	-15,809	16,469
8d. Consumer Goods	-1,473	5,893	-4,490	7,606	-0,957	4,766
8e. Raw Materials	4,348	10,918	-6,187	14,090	-1,444	8,830
8f. Telecommunications	-15,605	13,171	-22,910	16,998	-16,138	10,652
8g. Finance	-14,038 †	7,685	-18,922 †	9,918	-6,718	6,215
Constant	56,272**	21,263	-14,612	27,441	69,336**	17,196
R^2	0,236		0,173		0,280	
Adj.R^2	0,139		0,067		0,188	
F-value	2,426		1,634		3,045	
Sig.	0,002		0,059		0,000	
Durbin- Watson	1,940		2,019		1,898	

**Correlation is significant at the 0,01 level (2-tailed)
*Correlation is significant at the 0,05 level (2-tailed)
†Correlation is significant at the 0,10 level (2-tailed)

Table 16 presents the results of the Croatian sample and we can see that there are differences between Croatia and when the countries are tested together. Ownership structure is only significant in environmental disclosures, while foreign listing is a variable that affects both environmental and ethics disclosures. Audit firms also seem to affect what the content of CSR disclosures in Croatian listed corporations will be. What is surprising is that the group “others international” seem to be correlated to all three categories, meaning that companies that have auditors that are of the “others international” category disclose more than those companies that have one of the Big 4 as their auditor. Of the industrial variables only finance show some moderate correlation with environmental issues and human resource issues.

Table 17: Disclosures by CSR categories, Sweden

	Environmental disclosures	S.E.	Human Resource disclosures	S.E.	Ethics disclosures	S.E.
2a. Size (Turnover)	2,084*10^-9**	0,000	7,821*10^-10	0,000	1,459*10^-9**	0,000
3. Profitability	-0,062	0,084	-0,017	0,083	0,054	0,067
4. Ownership structure	10,426**	3,705	7,676*	3,679	7,763**	2,954
5. Foreign listing	2,886	5,399	-3,920	5,361	-2,704	4,305
6. Country of origin	-	-		-	-	-
7. Audit firm						
7a. Ernst & Young	1,019	4,476	-0,230	4,444	2,919	3,569
7b. Deloitte	4,302	5,788	1,847	5,748	-0,749	4,616
7c. KPMG	1,166	4,546	1,766	4,514	2,339	3,625
7d. Grant &Thornton	-0,679	12,356	5,344	12,267	-10,051	9,853
7e. Others	-10,247	8,890	-14,598 †	8,827	-9,013	7,089
8. Industry						
8a. Health Services	-20,953*	10,275	-11,309	-10,203	8,193	8,193
8b. Manufacturing	2,761	9,475	2,967	9,408	7,555	7,555
8c. IT	-18,801*	8,611	-3,923	8,551	6,867	6,867
8d. Consumer Goods	4,390	9,613	4,945	9,545	7,665*	7,665
8e. Raw Materials	23,629*	11,883	6,278	11,800	9,476	9,476
8f. Telecommunications	-7,046	14,065	-6,135	13,966	11,215	11,215
8g. Finance	1,697	9,903	-0,832	9,833	7,897	7,897
Constant	26,078**	10,101	43,190**	10,031	12,588	8,056
R^2	0,284		0,116		0,258	
Adj.R^2	0,232		0,051		0,203	
F-value	5,401		1,789		4,713	
Sig.	0,000		0,030		0,000	
Durbin- Watson	1,967		1,953		2,102	

**Correlation is significant at the 0,01 level (2-tailed)
*Correlation is significant at the 0,05 level (2-tailed)
†Correlation is significant at the 0,10 level (2-tailed)

Table 17 is a presentation of the Swedish sample. As we can see from the table, size is not correlated to human resource disclosures while it is correlated to environmental and ethical issues, this was not the case for Croatian corporations where size did not seem to matter. It does not matter if a corporation is from Sweden or Croatia the company will disclose more on environmental issues if the ownership of the corporations is dispersed, however only Swedish companies with dispersed ownership will disclose more human resource issues and ethical issues. There is a correlation between the consumer goods industry and ethical disclosures and as well between the raw materials industry and environmental disclosures, there are however no such correlations in the Croatian sample.

6. 3. Summary of the statistical results

The results of the bivariate analysis presented in correlation matrix show that independent variables like size (measured both in turnover and balance sheet total), profitability, foreign listing, country of origin, audit firm (Ernst & Young, KPMG) are positively correlated to CSR disclosures while “others” audit firm are negatively correlated to CSR disclosures. However, there is a weaker correlation between ownership structure and CSR disclosures and no significant correlation could be found between the variable industry and CSR disclosures. The bivariate analysis indicate evidence for supporting our hypotheses like H1 (size), H3a (profitability-positive), H4 (management ownership), H5 (foreign listing), H6 (country of origin), and H7 (audit firm), but any support could not be founded for H2 (industry) and H3b (profitability - negative).

However more emphasize should be put on the multiple regression results where we found that size is of importance. In this study we have used two types of size variables measured in turnover and balance sheet total, and the findings show that both variables have a significant correlation with CSR disclosures, but the size variables show also correlation between them. However when the countries are tested individually size has different effects in the two countries. Our results indicate that large corporations disclose much more CSR information than small corporations. Regression results show that ownership structure and country of origin affect the amount of CSR disclosures in corporations’ annual reports in a positive way while industries like health services and IT influence CSR disclosure in a negative way. The tests also show that corporations with dispersed ownership disclose more CSR information than those with concentrated ownership as well as one of the chosen countries in this study has made more CSR disclosures than the other country. The statistical results show that the Swedish corporations disclose much more CSR information in their annual reports than the Croatian corporations. In contrary to what was expected, the Swedish companies with foreign listing show no explanatory value regarding CSR disclosures but the Croatian companies do. The variable audit firm seems to have an effect on Croatian corporations and their CSR practice. Any significant correlation, in the regression results, could not be found between profitability and CSR disclosures. We found support for H1 (size), H2 (industry), H4 (management ownership), H6 (country of origin) and somewhat support for H5 (foreign listing).

7. Conclusions

In this chapter we are going to present our conclusions which are based on the findings of the study and on the presented theories in the paper. We will also try to explain why there are differences in CSR disclosures between Croatia and Sweden.

The study has focused on to find out the extent and the content of CSR disclosures in Sweden and Croatia and to verify any possible differences in CSR practice between those two countries. By statistically processing and analyzing the data collected from Swedish and Croatian listed companies' annual reports, which are in total 411, we are trying to find relationships that describe the amount of CSR information being disclosed by companies listed on the Stockholm Stock Exchange and the Zagreb Stock Exchange. The purpose of this study is to see if the same factors that are affecting CSR disclosures in a well developed economy such as Sweden are also affecting CSR disclosures in a transition economy like Croatia.

We have shown that different variables affect CSR disclosures in the two countries. When both countries are combined size, ownership structure and country of origin seem to be correlated to the amount of CSR disclosures. Industry also seems to matter in the combined sample. When Croatia is tested individually size is of importance once again as well as ownership structure, but foreign listing and audit firm also become significant. In the Swedish sample it seems as only size and ownership structure matter. When the size variable is excluded and both countries combined it seems as if ownership structure, industry and country of origin do matter, however foreign listing also becomes a variable to consider.

Regarding the content of the disclosures it seems as size and ownership structure have an affect no matter if the countries are combined or tested separately. When the countries are combined it also seems to be the case that country of origin matters and the type of industry in which the corporation is operating in. The industry variable also matters when Sweden is tested individually but it does not seem to matter in Croatia. However, audit firms in Croatia seem to exercise normative isomorphism on the corporations they audit since the type of audit firm matters in Croatia.

As we can see there are different variables affecting disclosures in different countries, while it can be generalized that size, ownership structure and country of origin do matter in all circumstances. We can also see that our theory only fails to explain the profitability variable, while all other variables can be used to explain CSR disclosures either in Croatia or Sweden or the two countries combined. We have also been able to prove that a transition economy, in this case Croatia, fails to provide CSR disclosures of the developed economy standard, in this case Sweden.

It came to us as no surprise that bigger corporations provided more CSR disclosures. Bigger corporations tend to have more employees and can therefore involve more people in project of gathering and providing the necessary information. (Tagesson et al., 2009). Smaller corporations have less people to spare and therefore they put most of their employees on more important and urgent tasks that are important for the survival of the corporation. Bigger corporations also have more resources (Knox et al., 2005) why it becomes cheaper for them to get the necessary information, smaller corporations probably have to be careful with how they spend their resources and CSR reporting might not be that high up on their agenda. Bigger corporations also have more stakeholders to address (Tagesson et al., 2009), if they do not address their stakeholders in a proper way the media will pick up on it and the image of the company might be jeopardized. Therefore, they report more as a preventive measure.

That the industry in which the corporation is operating in affects CSR disclosures is also not surprising. Certain industries are more sensitive to public pressure and in certain industries the public is more present. (Clarke & Gibson-Sweet, 1999; Meek et al., 1995). We can all remember the scandal of when H&M used Merino sheep wool or the big oil spill in the Mexican Gulf by BP and we can all remember the media attention those scandals received. Once again in order to protect themselves from any possible scandals companies operating in certain industries disclose more. However the poor results of the IT industry and the Health Services industry have left us with a question mark and we wonder if these corporations think that they are immune to scandals.

One thing that is interesting is that ownership structure matters no matter how it is tested and the results show that companies with dispersed ownership tend to disclose more information than companies where the management is a large owner. It seems as when owners get more distanced from the management then management tries to insure them that they are working in the best interest of the owners. In line with PAT managers start to disclose more information to reduce agency costs. However, as dispersed ownership increases so do also the demands of the shareholders. Meaning that the management, in order to guard their own position, provide more information to the shareholders. (Giner, 1997).

Foreign listing is a factor that is affecting CSR disclosures in Croatia, the case might not be so in Sweden since Swedish corporations might be better than corporations from other countries at reporting CSR issues. However, since it is the case in Croatia it might be a result of more pressure from other capital markets to behave in a certain way to be able to raise funds on the same terms as the companies listed on that stock exchange. (Meek et al., 1995; Haniffa & Cooke, 2002). It might also be the result of that those companies, or as in the Croatian case, that company has more shareholders who have bigger demands. (Reverte, 2009). Even if the results from Croatia should not be generalized it might be an indication of what is becoming practice in Croatia and other companies might follow this lead. It would also be interesting to see if the results would be the same for a company that is listed on several stock exchanges but that the stock exchanges are located in other transition economies. The Croatian company that was listed on another stock exchange was listed on the Vienna Stock Exchange in Austria.

Audit firm affects only disclosures in Croatia. The audit firms there seem to exercise normative pressure on Croatian companies to disclose some fundamental information. (DiMaggio & Powell, 1983). Audit firms might offer their expert opinions to companies that otherwise would have not disclosed anything at all.

Country of origin is probably the most interesting variable in our study. Swedish corporations disclose more than Croatian corporations and country of origin is a significant factor in every test. The reason that Swedish companies disclose more than Croatian companies might be a result of economic development. (Gamble et al., 1996). Croatia is at an economic development where Sweden was decades ago. Therefore Croatian companies probably put more emphasize on developing their financial strength before they start spending resources on issues that are not mandatory.

As mentioned earlier, Croatia was a communist state under many years and it might be the case that some of the old communist manners have followed Croatian companies into their way towards capitalism. It seems to be the case that accounting has not really developed in Croatia and is to some extent still regarded only as a performance measure. Accounting is in the process of developing in Croatia and this can be seen through their adoption of IAS/IFRS. However, they need first time learn to apply IAS/IFRS before they can adopt other western societal manners. One other thing to consider is that Croatia is a very young capital market, has only been a capital market since 1991, this means that the country is still in the development and learning phase. However, there is no doubt that Croatia will copy what other western societies are doing to become as successful as them, including CSR reporting. Transition economies first have to go through the process of being transition economies before they become market economies (Tyrrall, 2003) and it feels as Croatia is currently at the transition economy stage and there will pass a lot of time before Croatian companies reach the standard of the Swedish companies.

7. 1. Our own reflections

The study has shown that Swedish corporations disclose more CSR information than Croatian companies do. The reasons can be many but most often they could be explained by the economic development in the countries. It seems as Croatian companies have other things to focus on and this might also be a reflection of the condition in the country in general. Compared to Swedish companies Croatian companies disclose very little information and even though we decided to conduct a study in this area we are not surprised with results that we got.

We had four questions in the beginning of the paper. Which factors that are affecting CSR disclosures in a transition economy and a developed economy are answered above and we could also see that Croatia as our sample of a transition economy disclosed less information than Sweden. However we were also wondering if CSR disclosures were a subject for the EU to regulate or if the markets had regulated this issue. Our conclusion is that despite of the increased integration of capital markets it does not seem as if the markets have regulated this issue. However, whether it is a subject for the EU to regulate is difficult to say since each company faces different issues. The other question is what benefits such a regulation would have and would the companies be willing to bear the extra costs. In our opinion, as long as the stakeholders of the company are satisfied so should also the governments be since there are other ways for a government to control environmental, ethical and human resource issue in a company. Another question is whether transparency would increase with more CSR disclosures and if investors base their decisions solely on accounting numbers or also on other issues. Our conclusion is that we cannot say that CSR reporting should be regulated and harmonized since we today cannot see the benefits of it.

7. 2. Limitations and further research

Our study is conducted on the annual reports of the corporations, however in today’s modern society one could assume that corporations use the internet as a way of communicating with the society. Therefore it would be interesting to see a study where the web disclosures of Croatian companies are included. Often when we were gathering the data companies had no disclosures in their annual reports but when we visited their web page we could see that the company was disclosing many items. A similar study conducted in ten years time from now would also be interesting, by then Croatia is probably a member of the European Union and has reached a new step in their economic development process. It would also be interesting to see a study where several transition economies are included and several well developed economies. If a study would contain several countries the results could be used to understand differences across borders and could be generalized. Another study that would be interesting is too study CSR practice in Sweden when Sweden was at the same economic development level, using GDP per capita as an indicator, as Croatia is today. By conducting such a study we could see how long it would take for Croatia to reach the same level that Sweden has today assuming that Croatia will have the same growth rate as Sweden has had.

Appendix 1 – The Checklist

A. Environmental disclosures

1. Environmental policy
2. The corporation´s effect on the environment
3. Improvements – environment
4. Consumption
5. Discharge
6. Environmental certification
7. Environmental objectives
8. Follow-up of environmental objectives

B. Ethics disclosures

1. Code of conduct
2. Human rights
3. Charity and sponsoring
4. Investor relations
5. Business ethics
6. Safety and effect of the product
7. Investment policy
8. Supply chain

C. Human resource disclosures

1. Values
2. Conditions of employment
3. Change in number of employees
4. Education of employees
5. Health and Safety
6. Equal opportunities

Appendix 2 – Corporations included in the study from the ZSE

AD Plastik	*Croatia osiguranje*	*Ingra*
Adriachem	*Croatija baterije*	*Institut IGH*
Adriatic Croatia International Club	*Dalekovod tvornica istegnutih metala*	*Istarska Kreditna Banka Umag*
Adrisgrupa	*Dalekovod*	*Istra*
Agromedimurje	*Dalmacijavino*	*Istraturist Umag*
Apartmani Medena	*Dioki*	*Jadran - galenski labratorij*
ArenaTurist	*Dom Holding*	*Jadran tvornica carapa*
Atlantic Grupa	*Drvna industrija Spacva*	*Jadranka*
Atlantska plovidba	*Dukat*	*Jadrankamen*
Atlas Turisticka Agencija	*Elektrometal*	*Jadranska Banka*
Auto Hrvatska	*Elektroprojekt*	*Jadranski Naftovod*
Badel 1862	*Ericsson Nikola Tesla*	*Jadransko osiguranje*
Banko Popolare Croatia	*Excelsa nekretnine*	*Jadroplov*
Banka Brod	*FIMA proprius*	*Jamnica*
Banka Splitsko-Dalmatinska	*Franck*	*Karlovacka Banka*
BC Institut	*Genera*	*Koka*
Belisce	*HG Spot*	*Konzum*
Belje	*Hoteli Croatia*	*Koncar - distributni i specialni transformatori*
Bilokalnik-ipa	*Hoteli Haludovo Malinska*	*Koteks*
Borik	*Hoteli Jadran*	*Kras*
Bozjakovina	*Hoteli Maestral*	*Kreditna Banka Zagreb*
Breza	*Hoteli Omisalj*	*Kutjevo*
Brionka Proizvodnja	*Hoteli Tucepi*	*Laguna Novigrad*
Brodogradiliste Viktor Lenac	*Hoteli Vodice*	*Lantea Grupa*
Brodogradevna Industrija 3. maj	*HPB Real*	*Lavcevic*
Brodomerkur	*Hrvatska eloktroprivreda*	*Ledo*
Centar Banka	*Hrvatska Postanska Banka*	*Liburnia Riviera Hoteli*
Chromos agro	*Hrvatski duhani*	*Losinjska plovidba*
Croatia Airlines	*Hrvatski telekom*	*Luka Ploce*
Croatia lloyd	*HUP Zagreb*	*Luka Rijeka*

Imperial	*Rijeka Promet*	*Zagrebacka banka*
Imunoloski zavod	*Riviera Porec*	*Zagrebacke pekarne Klara*
INA	*Saponia*	*Zlatni otok*
Industrogradnja Grupa	*SEM 1986*	*Zvecevo*
M San Grupa	*Siemens d.d. (Croatian department)*	*Zvijezda*
Magma	*Slatinska Banka*	*Cakovecki mlinovi*
Maistra	*Slavonija modna konfekcija*	*Cateks*
Medika	*Slavonijatekstil*	*Duro Dakovic*
Mediteranska Plovidba	*Slobodna Damlacija*	
Metalska Industrija Varazdin	*Solaris*	
Metronet telekomunikacija	*Sunce Osiguranje*	
MGK-pack	*Tankerkomerc*	
Mirna	*Tankerska plovidba brodardstvo*	
Nava Banka	*Tehnika*	
Nexe Grupa	*Tehnomont*	
Optima telekom	*Tekstilpromet*	
PAN -papirna industrija	*Tisak*	
Petrokemija	*TOZ*	
PIK-Vinkovci	*Transadrija*	
Plava Laguna	*Turisthotel*	
Plodine	*Uljanik*	
Pluto	*Uljanik plovidba*	
Podravka	*Unijapapir*	
Podravska Banka	*VABA*	
Poljuprivredno poduzece Orahovica	*Validus*	
Prehambreno industrijski kombinat	*Varteks*	
Privredna banka Zagreb	*Velebit osiguranje*	
Puljanka	*Velebit zivotno osiguranje*	
Puris	*Viadukt*	
Quaestus nekretnine	*Viro*	
Rabac	*Vjesnik*	
Regeneracija	*Vodoprivreda Zagreb*	

Appendix 3 – Corporations included in the study from the SSE

AarhusKarlshamn
ABB
Acando
ACAP Invest
A-Com
Active Biotech
Addnode
Addtech
Aerocrine
Alfa Laval
Alliance Oil
AllTele
Anoto Group
Arise Windpower
Artimplant
Aspiro
ASSA Abloy
AstraZeneca
Atlas Copco
Atrium Ljungberg
Autoliv SDB
Avanza Bank
Avega Group
Axfood
Axis
B&B Tools
BE Group
Beijer Alma
Beijer G & L

Beijer Electronics
Bergs Timber
Betsson
Bilia
Billerud
BioGaia
BioInvent International
BioPhausia
Biotage
Björn Borg
Black Earth Farming SDB
Boliden
Bong Ljungdahl
Brinova Fastigheter
BTS Group
Bure Eqity
Byggmax Group
Castellum
Catena
CDON Group
Cella Vision
Cision
Chlas Ohlson
Cloetta
Costal Contacts
Concordia Maritime
Connecta
Consilium
Corem Property Group

CTT Systems
Cybercom Group
Dagon
DGC One
Dyamid Medical
Digital Vision
Diös Fastigheter
Doro
Duni
Duroc
East Capital Explorer
Elanders
Electra Gruppen
Electrolux
Elekta
ElektronikGruppen
Elos
Enea
Eniro
Epicept
Ericsson
Etrion
eWork Scandinavia
Fabege
Fagerhult
Fast Partner
Fast Balder
Feelgood Svenska
Fenix Outdoor

Fingerprint Cards
FormPipe Software
Getinge
Geveko
Global Health Partner
Gunnebo
Hakon Invest
Haldex
Havsfrun Investment
HEBA
Hemtex
Hennes & Mauritz
Hexagon
Hexpol
HiQ International
HMS Networks
Holmen
Hufvudstaden
Husqvarna
Höganäs
Industrial & Financial Syst.
Industri världen
Indutrade
Intellecta
Intoi
Intrum Justitia
Investor
ITAB Shop Concept
Jeeves Information Systems
JM
KABE
Kappahl

Kare Bio
Karolinska Development
Kinnevik
Klövern
Konw IT
Kungsleden
Lagercrantz Group
Lammhults Design Group
Latour
Lindab International
LinkMed
Loomis
Lundbergföretagen
Lundin Mining Corporation SDB
Lundin Petroleum
Luxonen SDB
Malmbergs Elektriska
MEDA
Medivir
Mekonomen
Melker Schörling
Metro International SDB
Micronic Mydata
Midsona
Midway
Millicom Int. Cellular SDB
Mobyson
Modern Times Group
Morphic Technologies
MQ Holding
MSC Konsult
MultiQ International

NAXS Nordic Access Buyout Fund
NCC
Nederman Holding
Net Entertainment
Net Insight
New Wave
NIBE Industrier
Niscayah Group
Nobia
Nolato
Nordea Bank
Nordic Mines
Nordic Service Part. Holdings
Nordnet
NOTE
Novestra
NOVOTEK
Oasmia Pharmaeucutical
Odd Molly International
OEM International
Opcon
Orc Software
Orexo
Oriflame SDB
Ortivus
PA Resources
PartnerTech
PEAB
Phonera
Poolia
Precise Biometrichs

Prevas
Pricer
Proact IT Group
Probi
Proffice
Profilgruppen
PSI Group
Ratos
RaySearch Labratories
ReadSoft
Rederi AB Transantlatic
Rejlerkoncernen
Rezidor Hotel Group
RNB RETAIL AND BRANDS
Rottneros
Rörvik Timber
SAAB
Sagax
Sandvik
SAS
SCA
SCANIA
SEB
Seco Tools
SECTRA
Securitas
Semcon
Sensys Traffic
Sigma
SinterCast
Skanska
SKF
Skistar
Softronic
SSAB
Stora Enso
Studsvik
Sv. Handelsbanken
SWECO
Swedbank
Svedbergs
Swedish Match
Swedish Orphan Biovitrum
Swedol
Svolder
Systemair
Säki
Tele2
TeliaSonera
Tieto Oyj
Traction
TradeDoubler
Transcom WorldWide SDB
Trelleborg
Trigon Agri
Unibet Group
Uniflex
Wallenstam
VBG Group
Veneu Retail Group
Wihlborgs Fastigheter
Vitrolife
Volvo
Vostok Nafta Investment
XANO Industri
ÅF
Öresund

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