FACTORS EFFECTING CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE RATINGS:
AN EMPIRICAL STUDY OF FINNISH LISTED COMPANIES

Artturi Roitto

Master’s thesis
Accounting
April 2013
As Corporate Social Responsibility (CSR) disclosure is becoming more common practise amongst companies, it is valuable to understand the underlying factors involved. The Goal of this thesis is to examine if the factors suggested by previous studies seem to have significance in a Finnish sample composed of 31 listed companies. As an ancillary research question linkage between Corporate Governance recommendation deviations and CSR ratings were examined.

The research was executed by utilizing raw data from Thomson ONE Banker financial database, public information available in the 2012 annual reports, corporate governance statements and company web sites. This data was used to construct 10 independent variables. The CSRHub overall rating was applied to form the dependent variable. The raw data was then processed using linear regression.

The results were limited as in many variables’ case no significance was found. Age and profitability factors alone had an anticipated affect on CSR disclosure ratings, but other variables fell short when trying to demonstrate positive or negative significant linkages. Average age of board members showed negative significant relationship with CSR ratings at a 1 % level, profitability at a 5 % level.

The relative homogenous nature of Finnish listed companies can be argued to hinder the results. It is unlikely that the variables used in this thesis have such insignificant affect on CSR disclosure in all situations. It can be argued that the Finnish cultural environment is most likely the cause of the variables’ indifference. Finland is seen as a “model student” of the European Union and this cultural atmosphere might be the single most powerful determinant. More important than any specific company characteristic. It would be highly interesting to see more studies thriving to examine this perspective.

Keywords
CSR, Responsibility Reporting, GRI, Global Reporting Initiative, CG, Corporate Governance, CSRHub
ACKNOWLEDGEMENTS

I would like to thank and apologize to my girlfriend Emilia, my family and my friends for the extensive and constant babble about thesis. Fortunately this lasted only two months and before they even knew it, other topics to babble about already emerged.

I am in gratitude to my supervisor Professor Henrik Nilsson from Stockholm School of Economics who was always ready to provide answers to my puzzling questions and guided my work to a swift end. I would also like to thank Professor Juha-Pekka Kallunki from Oulu School of Economics for making this co-operation possible and for providing me some additional answers. Thank you Leena Mäkela for checking the text for grammar errors.

Sincerely,

Artturi Roitto

Written in Oulu 10.4.2013
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1 INTRODUCTION

1.1 Background

Corporate Social Responsibility as an idea has roots at least six decades long but it has become more familiar to the public only a few years ago. The growth of CSR awareness can be linked to the growing environmental concern and green movement that has been popularized across the media. Companies’ obligations have gradually shifted from narrow shareholder vision, to cover more vast groups of stakeholders. Due to the high-speed information of social media, the asymmetry of knowledge has grown so little that it is impossible or impractical to hide doubtful actions. This means that ethical operations are seen more and more as a norm for viable business.

Although CSR is voluntary by Finnish law, it is increasingly compulsory for a company to maintain its brand. Public reactions to uncovered wrongdoings spread like wildfire across social and conventional media having terrifying impacts on the target company’s image. Voluntary CSR disclosures are a way to communicate that the company values are in line with the public’s values. To further encourage and standardize the process of CSR disclosing, organizations such as Global Reporting Initiative (GRI) were founded in the beginning of 21st century. Organizations such as CSRHub were founded to collect and rate these reports to form comprehensive and comparable directories.

Other topics like Corporate Governance are also related to the disclosure issue. After such cases as Enron and Parmalat, more regulatory actions have sprouted to guide aspects of board composition and work. It can be asked if these issues are related to the growth of CSR engagements, and if so, why. At the end it can also be said, that nowadays it is increasingly difficult for a company to detach itself from surrounding society. Every action has a counterforce, whether desirable or undesirable.
1.2 Previous Research

A large number of theories have been gathered to construct the theoretical framework for the thesis. In this section, these theories are summarized to give an overview of the issues that are later explicated. The theory section of the thesis is divided into two parts. The first one presents a vast collection of general CSR related theories and the second part concentrates on the theories linked to specific factors. The evolution of the modern CSR notion is described by several scholars including Asongu (2007), Carroll (1999) and Moura-Leite & Padgett (2011). They describe the developments specifically from the 1950’s to 2000’s. From a historical point of view, one of the most important CSR scholars is Bowen (1953), who is said to coin the concept. Many other scholars have also contributed to CSR research during the last decades (Davis 1960, Frederick 1960, Johnson 1971, Maslow & Herzeberg 1954, McGuire 1963, Tuzzolino & Armand 1981).

Major theories related to CSR issues can be divided into Psycho-social Theories, Economic Theories and theories explaining the Driving Forces behind CSR disclosures. Psycho-social theories involve factors that are built in individual thinking processes and social constructs. The theories describe how individual thinking is translated into pro-environmental behavior. (Bamberg & Möser 2007, Hines et al. 1986/87, Schmitz et al. 2012.)

Interpersonal and intrapersonal motivational triggers are also linked (Weiner 2001). The affect of attitudes on sustainable choices is argued by Hines et al. (1986/87) and Oskamp et al (1991). Resistance to change is also linked to a previous line of theories. (Kotter 2007) House (1996) brings forth some elaborate motivational theories to further explicate human nature. Other important theories include Political Economy, Stakeholder, Legitimacy and Institutional theories. Political Economy theory is explicated by Merlo (2005), Stakeholder theory by Freeman (2009) and Mitchell et al. (1997). Legitimacy theory is presented referring Tilling (2004) and Institutional theories referring Scott (2004).
The second category of theories is economical. This section presents a list of theories with an evident link to CSR disclosures. Economical theories are important due to the fact that they are intuitively the easiest way to communicate CSR benefits to management in such terms as profitability. Important economical theories covered in this section are Positive Accounting Theory (PAT), Agency Theories, Voluntary Disclosure Theory (VDT), Signaling Theory, Resource-based Theory and Proprietary Cost Theory. These theories are explicated through various prominent scholars such as Zimmerman & Watts (1986), Mitnick (1973), Ross (1973), Guidry & Patten (2012), Verrecchia (1983), Spence (1973), Wernerfelt (2006), Ellis et al. (2012).

Driven forces of CSR are examined to further construct the underlying theoretical framework for the issue at hand. Different approaches to these forces are presented and briefly discussed in this section. Plausible theories are provided by Chandler & Werther (2010: 94-107) who have built an impressive model in their book. Scholars such as Pederson (2010) and Visser (2008) give a bit of alternative sets of drivers to the table, but the overall idea is the same. The next section describes the relationship between the Board, CSR and CG brings light to the theoretical base needed in ancillary research question. It also combines sources such as Finnish Corporate Governance Code (2010), Jamali et al. (2008), Friedman (1970), Knudsen et al. (2012), Zollo et al. (2009) and Chih et al. (2010) to open up the aspects involving the relationship.


(1998), Clarke & Gibson-Sweet (1999), Gray et al. (1995), Cullen & Christopher (2002) and Patten (2002). These theories explain that company size has something to do with CSR disclosures and this thesis thrives to prove this result. Media exposure is the next variable included in the study. Such studies as Patten (2002), Simon (1992), Bansal & Roth (2000) and Bansal & Clelland (2004) are utilized to explain the linkage. Institutional ownership variable is constructed using knowledge attained from Coffey & Fryxell (1991), Graves & Waddock (1994a), Fauzi et al. (2007), Saleh et al. (2010) and Cox et al. (2004).

The three financial variables used in the thesis are profitability, leverage and liquidity. Profitability was chosen based on studies done by Cowen et al. (1987), Ismail & Chandler (2005), Brammer & Pavelin (2008), Hackston & Milne (1996a), Freeman (2009), Belkaoui & Karpik (1989), Inchausti (1997), Ng & Koh (1994) and Tilling (2004). There was a formidable amount of studies related to CSR’s profitability aspect. The link of CSR and leverage is also backed by several studies (Brammer & Pavelin 2008, Jensen & Meckling 1976, Purushothaman et al. 2000, Webb 2005), as well as link between CSR and liquidity of a company (Abd-Elsalam & Weetman 2003, Aly et al. 2010, Ezat & El-Masry 2008, Samaha & Dahawy 2011).

The last part of the variables is describing companies board member related characteristics such as gender diversity, independence and average age. Proof of gender diversity’s affect on CSR disclosure was gathered from a quantity of previous studies and some of these were included (Babcock 2012, Grosser & Moon 2005, Soares et al. 2011a). Similar method with independence variable (Honnold 1984, Vlosky & Vlosky 1999) and average age (Ibrahim & Angelidis 1995, Wang & Dewhirst 1992, Webb 2004).

The last section consists of theory related to the ancillary CG issue. It attempts to build a theoretical foundation for a claim that CG recommendation deviances are linked to CSR disclosures. This relationship would manifest itself in a way that when the number of deviances grows higher, the CSR rating consequently suffers. The
theory is backed by a list of findings. (Babcock 2012, Nasrullah 2010, Ibrahim & Angelidis 1995.)

1.3 Purpose

The purpose of this thesis is to examine whether the factors described in prior research seem to have an affect on Finnish listed companies. The idea was to collect a comprehensive gestalt of variables that seem to have something to do with CSR disclosures and test if these variables have a significant relationship to the Finnish sample. The variables are gathered from numerous studies trying to identify factors that affect CSR disclosures significantly in a positive or negative way. The factors are a collection of issues describing board composition, financial and general company characteristics. This collection is meant to give an ample picture of the factors that could be important in explaining high or low CSR ratings.

The primary research question of this thesis can be expressed as follows: Do factors presented in prior studies seem relevant in explaining Corporate Social Responsibility disclosure ratings amongst Finnish listed companies? The data used in the thesis also allowed constructing a secondary research question to briefly examine the linkage between Corporate Governance deviations and Corporate Social Responsibility disclosure ratings: Is there a link between deviations from Finnish Corporate Governance Code and CSR rating?

1.4 Structure

The thesis starts with an introduction which sheds light on the background of CSR issues, summarizes previous studies and explains the purpose and structure. After the introduction it begins to explain the theoretical framework it utilizes in order to lay a foundation for answering the primary and secondary research questions. In the next portion of the study, some elementary CSR theories are introduced and explained. These theories are divided into more specific areas of interest such as psycho-social
and economic theories. This section also explicates the historical evolution of modern CSR, proposes some driving forces and examines the relationship between the Board, CSR and CG. The latter part of the section is meant to describe important elements such as Finnish Corporate Governance Code, Global Reporting Initiative and CSRHub Rating System. These institutions are highly needed to construct a comprehensive framework for the thesis. The theoretical framework is followed more specific theories that involve specific variables. This way the thesis is focusing its vision from encompassing to much more concentrated issues. The direction of the whole thesis is from general to specific. In this section each variable used in the thesis is explained individually. The validity is examined through prior studies and some direction for the expected significance is presented. After the background of an individual factor is examined, a hypothesis is formed.

Research design and method chapter informs how the variables are collected and measured. It presents the sample and expresses some sample related issues. As the thesis utilizes the linear regression model, the model is then constructed and briefly explained. This section ends with issues related to the secondary or ancillary research question. The results and discussion section brings forth the results after the raw data is processed. It begins with some elementary statistics to describe the data and presents correlation coefficients in the form of tables and supporting explanations. It then continues with the presentation of factors effecting CSR disclosure ratings. Some regression results are shown and discussed. After the results related to the primary research question, the secondary results related to CG are examined. This section concludes with the discussion of limitations and ideas for further studies.

The thesis ends with concluding remarks and a list of references used. The list consists of large a variety of books, research papers and internet sources. Most of the papers are accessed through Scopus database, but many other resources are utilized. The thesis follows all the guidelines for a Master’s thesis provided by Oulu Business School. Pictures and tables are all drawn to fit the guidelines. Some streamlining has been done to make sure the figures are more useful.
2 THEORIES OF CORPORATE SOCIAL RESPONSIBILITY

This “theoretical inventory” paragraph works as an introduction to general theoretical framework of CSR by presenting some valuable studies, theories and scholars behind it. The word ‘inventory’ depicts the section’s toolbox-like quality which endeavors to help building an encircling frame for the thesis’ actual research question issues, addressed later on in the thesis. After this broader perspective the thesis continues to more specific studies related to the selected variables and the hypothesis building.

2.1 Defining Corporate Social Responsibility

The purpose of this section is to explain how the CSR came to be over the decades and which characteristics were on the top any given time. Simply put, the section provides the thesis its historical perspective and this way hopes to contribute the big picture of this research. Some environmental laws can be traced almost 5000 years (Asongu 2007), but the modern notion of Corporate Social Responsibility or shortly CSR came into play over 60 years ago.

The development continued through the half century and came across many different forms (Carroll 1999). Some people have felt it concealing a profoundly anti-corporate agenda and having a nature that condemns the old ways of doing business, but the widely accepted definition of CSR is that it’s about the processes a corporation conducts that benefit the society in which it operates in (Baker 2004). Figure 1 shows how CSR research has moved towards a higher level of refinement in course of decades. It also includes some scholars and their research regarding CSR issues. These specifics are explained more thoroughly later in the section.

As mentioned in the beginning, the journey of modern CSR started in the 1950’s and at this time was only named as SR. The lack of corporate emphasis is believed to stem out of the era’s mentality that did not yet recognise the dominance of the busi-
ness sector. The clear landmark to note the rise of CSR is argued to be Howard. R. Bowen’s (1953) publication: “Social Responsibilities of the Businessman”. The mentality of the era can also be seen in the title, which indicates the corporate world was highly masculine. (Carroll 1999)

Carroll (1999) describes Bowen as the “Father of Corporate Social Responsibility” as he laid the foundation to the discipline with his seminal work over half a century ago. Although Bowens work was stamped by the mentality of the time, meaning that the simple idea that a firm could have other than monetary obligations was ground breaking, he was the first one to say so. It was absolutely controversial to say that the beneficiaries of the firms “manna” should included stakeholders other than shareholders. (Bowen 1953, Carroll 1999.) After Bowen, many more seem to have adopted his original idea of CSR and the cultivation of the seminal thought that leads to our days had began (Carroll 1999).
The next decade, the 1960’s, meant explosive expansion in the field of CSR literature. The era was characterised by a drive to formalise and standardise the subject. In other words the topic was trying to find a solid common ground to stand and universal language to share ideas with. (Asongu 2007, Carroll 1999, Moura-Leite & Padgett 2011.) The most significant figure in the 1960’s CSR research scene seems to be Keith Davis (1960). He brought CSR to the next level by bringing the notion of possible long-term financial benefit to the table. He suggested in his work that being socially responsible cannot just be perceived as a charity function, but as a way of boosting company’s profitability. He also explained the linkage between social power and social responsibility. Irresponsible actions lead to corrosion of social power. (Carroll 1999, Davis 1960.)

There were also a few other heroes of the CSR cause in the 1960’s who had precious ideas on the topic of how firms should extend their obligations over the legal and economical boundaries. Such researchers include Joseph W. McGuire (1963) and William C. Frederick (1960). The overall mentality shifted more and more to include moral guidelines to effect institutions, not just individuals. Ideas of voluntarism also emerged, stating that organisations should voluntarily, not by coercion, participate in society benefitting actions and accept the possible costs without money as an incentive. (Asongu 2007, Carroll 1999, Moura-Leite & Padgett 2011.)

In the 1970’s the definitions of CSR rapidly increased. Some studies concentrated on identifying the motivations behind CSR. Idea of companies balancing with multiple objectives was beginning to form. One of these theories was lexicographic view of social responsibility by Johnson (1971). It explained that firms have a set of goals that they place in order of importance. Some firms might emphasize economic factors as some social. These states of order are built around certain factors that affect the emphasis. This further indicates that firms with strong profit maximising goals primarily endeavour to fill monetary goals and later move to social ones. This leads to a situation where some firms pretend to care about the responsibility issues more than they actually do. (Carroll 1999, Johnson 1971.)
The most influential finding was made by the Committee for Economic Development (1971), when it published its report on CSR. They had noted that the social fabric between society and businesses had started to change in important and substantial ways. The businesses were more connected to the society than before and they were asked to serve a wider range of human values than before. After the arduous definition searching of the 1970’s, years of 1980’s brought with them less definitions but more research and alternative themes. The previous focus had now stemmed into various kinds of themes and alternative ways to approach the issue of CSR. (Asongu 2007, Carroll 1999, Moura-Leite & Padgett 2011.)

One of the most intriguing research efforts was done by a duo, Frank Tuzzolino and Barry Armandi (1981). They felt that CSR research was in a need of a hierarchy model and decided to implement the one composed by famous Abraham Maslow (1954). Maslow’s (1954) hierarchy of needs dictates that we all have different level needs which start from basic needs like sleep, food, breathing and shelter. When these are fulfilled we are able to step to the next level of needs and so work our way to the top, where lies the high-level functions like creativity and morality.

Tuzzolino and Armandi (1981) stated in their research that like individuals, also companies share this need hierarchy. This indicates that if a company is to implement CSR reporting and other related functions, it has basic needs it has to fulfil before. A company’s lowest level basic functions could be for example related to fundamental economical issues and profitability. Figure 2 shows the total 5 levels of Maslow’s (Maslow & Herzeberg 1954) need hierarchy. When you look at the structure of the theory and the descriptions of the levels it’s easy to imagine the adaptation from individual to organisational. The viewpoint is collective rather than personal, but the theory seems credible.

In the 1990’s only a few new unique contributions to CSR research were made. The theory-base stabilized, but the new alternative themes still continued to emerge. New theories made use of the formed building blocks of CSR and were guided by the
CSR-thinking. Some of these mentioned theories include CSP (Corporate Social Performance), stakeholder theory, business ethics theory and corporate citizenship. Although these theories fall into the realm of CSR, they have their own strong literature and due to this they are left without further discussion. CRS responsibility related studies mainly consisted of revision to older models and definitions. One of these was Carroll’s (1999) revision to his four-part definition of CSR.

Nowadays CSR-thinking is as important as ever. Unnerving news concerning malpractices have swept the media, as some companies like the Swedish healthcare company Carema Care, have been caught practicing at best questionable ideas. The firm has been accused of neglecting elderly care in its units by absolutely minimizing the services and the workforce. (YLE news 2012.) To my understanding the company started this drastic profit maximisation behaviour after it was sold to North-American equity investors. Not that the problem has anything to do with the buyers
being Americans, but the issue lies in the social and physical distance. Before the trend of outsourcing healthcare began, these units were closely tied to surrounding community which protected customer rights from major corrosion.

Healthcare industry wrongdoings in general and previous types of malpractices are very good examples of cases that can be avoided with good CSR practices (YLE news 2012). These are one of the most sensitive industries in situation of building lack of social conscience, and these types of firms should not only operate in boundaries drawn by state, but construct their own social standards over the bare outside coercion. Spreading CSR standards help them to build this mindset. The selected sample of this thesis unfortunately does not contain examples of these types of companies, as this would have been highly interesting. Nevertheless, the understanding of this, let’s say trend, is vital especially in the healthcare industry and other similar industries. (EFPIA 2013.)

2.2 Psycho-social Theories

To entirely understand the underlying relationship between organisations and the quality of their responsibility disclosure ratings, some portion to human psyche in form of psycho-social determinants must be explored. The contribution of this section is to help the thesis in providing the larger framework with environmentally and socially beneficial actions.

The previously mentioned objectives are achieved by reviewing pre-environmental human behaviour research literature and linking this to the elements of the thesis with some discretion as the presented viewpoint are mostly from the fields of psychology and sociology. As these views are highly important elements, the emphasis of the thesis is still selected to be mainly economical.

As the other aspects of the framework like Finnish Corporate Governance Code, Global Reporting Initiative Standards, CSRHub rating system and sample restric-
tions, the behaviour sheds light on the mental processes we are all subject to. The motives that drive us to work towards an environmentally and socially better corporate world are this section's top interests.

Figure 3. Psycho-social factors (Bamberg & Möser 2007).

It has been almost 30 years since Hines, Hungerford and Tomera (1986/87) conducted an impressive meta-analysis of 57 samples describing the motivation behind pro-environmental behaviours. Their research was later revisited by a pair of German academics Bamberg and Möser (2007) who used the old research as a platform by replicating it and also extending it to be more comprehensive. Although these studies focus on the environmental side of responsibility, the theories are quite universal in the realm of human psyche and are excellent in explaining the reasoning behind any other form of similar responsibility. (Schmitz et al. 2012.)

Figure 3 loosely presents the determinants of pro-environmental behavioural actions as they are explained by Bamberg & Möser (2007). The meta-analysis suggests that moral and social norms, feelings of guilt, internal attributions, attitudes and perceived behavioural control have direct connection to behavioural intentions which ultimately share unity with resulting pro-environmental actions. Problem awareness
is mediated through norms, feeling of guilt and internal attributions. (Bamberg & Möser 2007, Hines et al. 1986/87.)

Moral norms originate from feelings of obligation towards other human beings. These norms have a cognitive link to problem awareness as the knowledge of injustice helps the feelings of responsibility to emerge. (Bamberg & Möser 2007.) Weiner et al. (2001) bring forth two interlinking theories that explain the intrapersonal and interpersonal motivational triggers. The intrapersonal processes include self-directed thoughts like pride, guilt or shame. Interpersonal theory explains other-directed feelings of for example anger or sympathy. Interpersonal theory also includes feelings of responsibility towards systems and individuals. (Weiner 2001) The question of attitudes might feel quite straightforward, but there are some differences in the results as some have found that positive attitudes translate into more sustainable choices (Hines et al. 1986/87) and others find the linkage to be significantly weak (Oskamp et al. 1991).

Perceived behavioural control (PBC) means the set of behaviours a person thinks he can make choices between. In other words PBC is the individual’s perceived ability to make effective actions. This clearly has a strong link to an individual’s motivation to support certain behaviours. (Bamberg & Möser 2007.) Other important theories that explain our willingness to work for sustainable issues are general motivational theories and theories concerning resistance to change. Some studies indicate that even so much as 70 % of all efforts to change corporate practices fail to achieve their goals due to resistance. (Kotter 2007.) I cannot find any reason why CSR would be efforts any less cumbersome to implement.

Motivational theories underline the importance of goals. To be motivated, people need to have goals which reward them with something valuable in the end. If a individual does not perceive the value to be sufficient compared to the workload, the motivation crumbles. The process of attaining the goal has to also be challenging, but not impossible. This also leads to low motivation. (House 1996.)
The final part of the motivational scene is the probability of achieving the goal that has been set. If an individual experiences that the probability is insufficient, he or she might undergo desperation which harms the person’s motivation. The before-mentioned ideas and theories bring us to discussion about the determinants behind motivation to conduct SCR reporting. Companies are built around people like everything else, so it’s natural to assume that we take also the same needs and mental assets to the corporate decision making. (House 1996.) For example the board of directors that ultimately makes the decision whether to implement CSR reporting or not, is truly influenced by the same interpersonal and intrapersonal traits that were explained above. This is just a simple case of deduction.

The board is only the tip of the iceberg, since motivational thinking is easily applied to individuals. Nevertheless it indirectly influences every part of the company, like wise, because the company consists of people. It must be mentioned though that the financial ratios and company characteristics have many aspects which are quite far from being easily explained through simple motivational reasons. (House 1996.) Due to these and many more reasons, thesis continues to make the final judgements based on regression model explained a bit further. This does not hinder the importance of mental processes which are highly useful. These are factors that must be taken in to account when thinking about all problems involving human beings. The idea of this section was not to provide so many answers, but to give the reader a holistic view of the research framework and this way expand the whole picture.

Other related studies include Political Economy, Stakeholder, Legitimacy and Institutional theories. Political Economy Theory and later International Political Economy Theory explain the relationships and behaviours in settings that include political elements like law and government, as well as economical elements. These studies research how these affect each other and in process develop into social systems like capitalism and communism. (Merlo 2005.)
The Stakeholder theory approach suggests that a company is not only obligated to answer to shareholders but many other stakeholders alike. A Company’s mission is this way unlike in Friedman’s (1970) more concise theory to create value to stakeholders, not only concentrating on shareholders. The theory idea is to arouse ethically sustainable business practices and to give guidance to more profoundly society benefitting managerial decisions. (Freeman 2009, Mitchell et al. 1997.) Figure 4 demonstrates the 12 important stakeholder groups that an organization has. Polonsky’s model is based on key points of Freeman’s original theory.

The Legitimacy Theory is one of the most cited theories in the field of CSR. It suggests that every organisation is deeply bound to the surrounding social environment and due to this has to be accepted by it in order to remain operational. The organisation needs to fulfil the presently accepted norms, morals and standards to survive. The severity of these social expectations differs, mostly because of the differences in
economic systems. For instance, a socialistic country’s ideals greatly vary from capitalist ideals. (Tilling 2004.) The Institutional Theory emphasises on the hardy and ever-chancing social structures. It explains how things such as social norms and rules become behaviour effecting elements and coerce our decisions in conscious and subconscious levels. It strives to explain how these elements are shaped, used and eventually discarded in cycles. (Scott 2004.)

2.3 Economic Theories

While psycho-socio-political theories are very interesting and valuable sources of a broader understanding of CSR, the economic theories are very much needed when we are talking about profit seeking entities such as Finnish listed companies. This section sheds light on some of the most important theories covering the economical motives of CSR behaviour. Some of these theories include Positive Accounting Theory (PAT), Agency Theories, Voluntary Disclosure Theory (VDT), Signaling Theory, Resource-based Theory and Proprietary Cost Theory.

The Positive Accounting Theory (PAT) explains how and why accounting policy decisions are made and how the adopted practices affect the people involved. PAT studies try to identify “positive” or benefitting accounting practices and normatively aspire to construct found positive features into guidelines. The guidelines given by PAT analysis are utilized to maximize company’s survival potential. (Watts & Zimmerman 1986.)

Two agency theories were coined roughly at the same time in the 1970’s by Barry Mitnick (1973) and Stephen Ross (1973). The first one is the scholar behind institutional agency theory and the second one, the researcher behind economic agency theory. Both theories are based on the same ideas, but the assumptions were different. Ross (1973) suggests that the issue is mainly involved with incentives. To make the motivational gap between the principle and the agent as small as possible, well placed and measured incentives are the best way to do it. For instance, in order to
line CEO’s needs with shareowner needs, he must be granted with stocks as an incentive to make him care more about the share value. He is now also an owner with owner motives. Mitnick (1973) sees the issue in a different way. He suggests that institutional systems are built around the problematic relationship between the principal and the agent. The relationship is imperfect and the institutions purpose is to mellow these imperfections with regulations and structures.

Voluntary Disclosure Theory (VDT) studies explain how and why companies voluntarily disclose. It thrives to explain what the endogenous factors are driving voluntary disclosure and the consequences of disclosing. According to the theory, companies conduct voluntary disclosure to minimize information asymmetry between management and investors. This model is much used in the realm of financial accounting, but it is very useful in explaining CSR disclosures as well. (Guidry & Patten 2012, Verrecchia 1983.) Signalling Theory in economics is suggesting that in order to minimize the information gap between a company and stakeholders in general is to give most credible information of its operations it possibly can. The idea is easily explained through a job market example. A job searcher or potential employee has a couple of ways to communicate his competence to a potential employer. (Spence 1973.)

He can tell the employer how good he is, or he can show some credentials, for instance certificates. Obviously the certificates are a more credible way to communicate competence and so the information asymmetry is lowered. This example is similar to a company’s situation. (Spence 1973.) If a company wants to gain something concrete from its CSR disclosure efforts, credible signalling is crucial. Resource-based Theory describes how a company can transform its tangible and intangible resources into a competitive advantage. To gain sustainable long term advantage from a resource it has to be complex and immimicable. It also can’t be very volatile to give any long term gains. (Wernerfelt 2006.) This theory can be valuable in explaining CSR disclosure’s beneficial affect.
Proprietary Cost Theory suggests that there is a threshold to the amount of information a company should disclose. Some amount of information must be disclosed to lower the information asymmetry between company and stakeholders, but too open disclosure might be aiding competitions. This leads to a situation where a company’s viability is in danger to be harmed. In other words there is a point in how much should be disclosed and it should not be crossed. It is a matter of balancing pros and cons. (Ellis et al. 2012.)

2.4 Driving Forces of CSR

Many forces drive CSR developments across companies and many theories have emerged to categorise these drivers. One viewpoint divides the drivers into five basic categories: Increased Affluence, Ecological Sustainability, Globalisation, Free Flow of Information and The Power of the Brand. (Chandler & Werther Jr 2010: 94-107.) Increased affluence means that CSR’s role as a giver of economic growth and stabilisation is heightened. Foremost in developed countries companies have reached a situation where more sublime actions are needed to boost development. (Chandler & Werther Jr 2010: 94-96.) As mentioned before, companies have Maslow’s (1954) hierarchy of needs built into them. Ecological sustainability refers to the interest towards economical choices and nature preservation. Reduction of waste, pollution, depletion of natural resources and the menacing climate change are forces that push companies to ensure their operations longevity. (Chandler & Werther Jr 2010: 96-98.)

Globalisation of companies makes their impact to society and environment far greater than before. Some companies’ authority is exceeding authority of many small countries, which heightens the public pressure they are facing. (Chandler & Werther Jr 2010: 98-101.) Free flow of information makes this pressure even more intense, as bloggers and twitters alike are following every aspect of companies’ operations. (Chandler & Werther Jr 2010: 101-104.) Flow of information has everything to do with the power of the brand. Without positive image it is impossible for a company
to compete in today’s market situation. Positive and unique brand is nowadays strongly linked to sustainable way of doing business. It is a very big part of every large brand out there. (Chandler & Werther Jr 2010: 104-107.)

Although the division to five major drivers seems appealing some studies suggest there is much more to it. Visser (2008) suggests that the forces should be divided into national and international drivers first. He found six different national drivers: Political reform, Cultural tradition, Socio-economic priorities, Governance gaps, Crisis response and Market access. The four international drivers he suggests are: International Standardisation, Investment Incentives, Stakeholder Activism and Supply Chain. Pedersen (2010) adds to the mix some further drivers. He gives examples of more concrete forces like Consumer preference, Employee recruitment and retention, Resource shortages and ROI projects. This means there will be hard dollar justifications for companies to still push towards greater efficiency. Projects might include better material usage and decreased energy usage. The discussion is endless regarding what forces are in affect. The fact still remains that CSR is needed and the whole gravity of modern environmental development rushes to improve.

2.5 Framework of Thesis

In this section of the thesis I began to build the framework around the actual research problem. Now that we understand the historical side of CSR research and have grasped some underlying psycho-social factors that guide out thinking, including motivational elements, our interest should focus on the overall framework that I operate in this thesis. Figure 5 demonstrates the research problem of this thesis with all key elements. In the middle of the thesis is the rating of the CSR disclosure as defined and composed by the organisation named CSRHub. The rating system in use is thoroughly discussed further in the thesis. The rating is used as the dependent variable.
The framework is constructed around a two-tier-model where the inner tier includes the effecting factors or explanatory variables, which are further divided into three groups to simplify the idea. The first group consists of variables affecting board of directors. The selected explanatory variables are: average age of board members, % of women amongst board members and finally % of independent board members. The second group consists of financial figures, as these are also interesting when we are talking about economical entities. The selected variables include Return on Assets, Leverage and Liquidity.

Figure 5. Framework effecting CSR disclosure ratings.

The last group of the three is more general in nature compared to the other two. The group consists of general company characteristics which are also unique to each company in the sample. These variables include: media exposure, company size, in-
institutional ownership and industry sensitivity. The thesis thrives to explain the changes in disclosure ratings with this set of 10 variables provided in the prior CSR research literature. The variables are elaborately explained later on in the thesis.

The first tier with the 10 explanatory variables and the dependent rating variable construct the core of the research. The second tier is a gestalt of institutions as Finnish Corporate Governance Code (later abbreviated FCGC) and Global Reporting Initiative (GRI), as well as other significant factors like previously explicated psychosocial determinants of pro-environmental behaviour and sample specific characteristics. These four indirectly affect the research core and due to this fact are important in comprehending the possible relationships between selected variables. To give an example, the composition of board of directors is directly linked to FCGC.

I also wanted to add sample specific characteristics to the second tier. These characteristics include limitation to Finnish listed companies and companies which CSR reports follow GRI 3 or 3.1 standards. All of the sample companies have also been given a rating by CSRHub ranging 0–100. The firms are also all listed on the Helsinki Stock Exchange.

2.6 Relationship Between Board of Directors, CSR and CG

In the centre of this section is the trinity illustrated in the Figure 6. This trinity is constructed around three of the most influential institutions in this thesis: the Board of Directors, the Corporate Social Responsibility and the Corporate Governance. On the top of the triangle is the Board of Directors. It is perhaps the single most important decision-making element in an organisation. This is true in the sense that it is responsible for implementing the bottom of the triangle, meaning CSR and CG. To be able to comply with FCGC (2010) a Finnish listed company needs to appoint the board members each year in a shareholder’s meeting. This is done using a voting procedure. If the company fails to comply with the code, it is obligated to explain the deviance. (Securities Market Association 2010.)
So even though the code dictates certain rules the company has plenty of freedom to choose which recommendations it wishes to comply with. Of course the social pressure to comply with as much accuracy as possible is huge. The willingness to comply can be seen from my research data. Over 70% out of 31 Finnish listed companies complied with the FCGC with accuracy of 100%. The topic related to willingness to comply is handled in detail later on in the thesis.

The research literature has treated CG and CSR as separate and mainly independent issues. This is due to the fact they have unrelated accountability models, guidelines, reporting standards and oversight mechanisms. In other words, they basically do not share the same foundations. (Jamali et al. 2008.) Regardless of their differences they are both designed to avoid the company from abusing its position. Let that abuse be for instance CEO’s value destructive behaviour in case of CG or in CSR case gained excess returns by disclosing lower than actual pollution quantities to officials.

The dichotomy of CSR and CG is also based on the obligation differences. Both are built over the idea of responsibility, but the target groups differ greatly. By conducting CSR actions, the firm carries out its liabilities towards the society and by complying with the present CG code, it is setting itself on a track that serves the owners’ financial wellbeing. The double arrowhead in Figure 6 indicates the traditional view that emphasises the Board of Directors responsibility towards owners. This view is built on Milton Friedman’s (1970) idea of Corporate Social Responsibility, or more accurately, lack of it. In his opinion the company’s only responsibility is to maximise shareowner value. The double arrowhead also indicates the important notion that follows previously discussed Maslow’s (1954) need hierarchy. To engage CSR goals, the firm needs to make sure its finances are in order. If a company cannot ensure its longevity, its other efforts are rendered useless.

Historically, the board members main duty has been guarding the interest of owners by making well based strategic decisions and by acting as a supervisory organ to other leaders, foremost the CEO. As mentioned, traditionally the focus has been in
profit maximisation (Friedman 1970). Fortunately the contrasting of CSR and profitability has come to an end, according to Knudsen et al. (2012).

![Figure 6. Relationship between Board of Directors, CSR and CG.](image)

Even though the focus towards CSR and CG issues has risen interestingly only few firms actually have specific action plans for either of them. Most boards have not included CSR into their strategy and do not have processes in place to evaluate shareholder demands. The lack of board oversight in these issues leads into skinny results. Knudsen et al. (2012) found three conditions that the company must attain to achieve better CSR. The company must succeed in these following aspects: board mind-set, board competences and compensation structure. (Knudsen et al. 2012.)

The mind-set means how board members view responsibility and what is their understanding of CSR is. The Economist (2008) claimed that companies with stronger share performance also performed well in CSR by paying more attention to CSR issues in general. Knudsen et al. (2012) set off to prove this argument. The contrasting claim was that board members actually do not see this value creation to be true and assess CSR costs as additional strain on budget, nothing more. In other words
they pursued to find out whether the board members see a situation of conflicting interests between goals set for CSR and CG. Do they see CSR as a valuable and integrated part of corporate strategy or as a separate act of goodwill towards stakeholders, something to do with philanthropy, not so much with business. (Knudsen et al. 2012.)

In the CSR point of view the results were crude. Board members still had strong loyalty towards owners and saw themselves mainly as a supervisor and strategist in these aspects. They felt they didn’t need to discuss CSR issues very often and perceived these functions to be highly operational, in contrast to strategic. (Knudsen et al. 2012.) The rhetorical and the action-side seem to differ greatly when CSR issues are considered in strategic framework. Many firms seem to speak about financial rewards of CSR, but the work to actually cultivate the issues falls short in most cases. This is a good indication that companies do not believe in the concrete monetary benefit of implementing CSR, but they perceive only the PR side of it. It is good public relations to say you are for instance pro-environmental, but turning the bluster into progress is harder. (Zollo et al. 2009.)

Taking the relationship between CSR and CG back into consideration, there seems to be interesting linkage between CSR disclosure and strong shareholder rights, as these seem to share negative correlation. In countries that exercise strong pro-shareholder regulation, companies are less willing to engage in CSR activities. It seems that self-regulatory companies operate in countries with better employee relationships, better macro-economical situation and management schools. (Chih et al. 2010.) It can be argued that is this indication of the fact that more morally self-guiding environments need less shareholder right regulations and this more morally aware atmosphere is also reflected on the CSR disclosure.
2.7 Finnish Corporate Governance Code for Listed Companies

The Finnish Corporate Governance Code is implemented in order to raise the level of self-regulation in the stock exchange. As a side-note this proficiency in self-regulation was also proven beneficial to the CSR cause (Chih et al. 2010). The organisation behind the Code is Securities Market Association, which duties include participating in drafting the regulation standards concerning listed companies and when necessary interpreting them (SMA 2013).

Securities Market Association is a co-operation organ founded by the Confederation of Finnish Industries EK, NASDAQ OMX Helsinki Ltd. and Finland’s Chamber of Commerce in December 2006. The Market Practice Board is founded by the Securities Market Association and is set to promote the idea of good CG and good securities market practices within Finnish listed companies. (SMA 2013.) The Code became effective first in 2004 after major fraud cases like Enron emerged. Its intention was to increase companies’ credibility as secure investments to both foreign and domestic investors. (Grünberg & Hägg 2007.) Since then many updated versions have been published. The latest version came into force October 1st 2010. The code consists of 54 recommendations that a Finnish listed firm needs to comply with. If a company is not able to or wishes not to comply with a certain recommendation, it is obligated to explain the deviance. This method is called: comply or explain. The recommendations are mostly set to guide certain abuse-preventing aspects of board composition. (SMA 2013.)

2.8 Global Reporting Initiative

Global Reporting Initiative (GRI) is an international initiative to create vastly excepted reporting guidelines for CSR disclosure. Material for GRI is built by several different stakeholders as a co-op project. GRI is an independent foundation and a co-operational organ of United Nations Environment Programme (UNEP). GRI is an un-profit seeking organisation. (GRI 2013.)
GRI’s mentality is to combine long term profitability with social justice and environmental awareness. They provide organisations the means to start their own sustainability reporting and increase their transparency and accountability towards a large group of stakeholders. GRI is working on a network basis. The global network consists of about 30,000 people, many of them sustainability experts. GRI’s vision is to build “a sustainable global economy where organisations manage their economic, environmental, social and governance performance and impacts responsibly and report transparently.” Their mission is “to make sustainability reporting standards practice by providing guidance and support to organisations”. GRI is provided with institutional funding from many governments and agencies such as the Swedish International Development Cooperation Agency, the Norwegian Ministry of Foreign Affairs, German’s state-owned Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) and the Australian government. (GRI 2013.)

Latest GRI guidelines are G3 and G3.1. These are used by all Finnish listed companies conducting CSR reporting. The new G4 guideline is currently in a development phase. The third generation G3 guidelines were launched in 2006 and 2011 some features were added to form G3.1. G4 plans to be launched in May 2013 as a part of GRI’s commitment to continuous development of the guidelines. All guidelines follow a system where there are three different levels of disclosure. Each level is more demanding and needs more effort from the company’s part. The levels are A, B and C, where A is the most comprehensive reporting level. To indicate third-party checking, plus signs are added accordingly. For instance, level A disclosure with third-party (not the company itself or GRI) validation is turned into A+. (GRI 2013.)

G3.1’s disclosure performance indicators are set into three groups: Economic, Environmental and Social. To further break down the Social group, its subgroups are Labor, Human Rights, Society and Product Responsibility. Indicator Protocols are used to uniform disclosure indicators. These explain how indicator data should be compiled, the intended scope and relevance. Protocols are the recipe on how to construct the performance indicators. Guideline’s structure is divided into two parts. Part one
consists of principles and guidance. Principles define the report content such as Materiality, Stakeholder Inclusiveness, Sustainability Context and Completeness. Reporting quality is also defined: Balance, Comparability, Accuracy, Timeliness, Reliability and Clarity. Part two gives guidance to Standard Disclosures. What is the strategy and profile of individual company and what is the management approach. Specific performance indicators are also explained. (GRI 2013.)

2.9 CSRHub Rating System

CSRHub is a gateway to access CSR ratings on over 7,000 companies in 135 different industries and in 90 countries. CSRHub’s idea is to form a single comprehensive directory to find CSR disclosure and Sustainability performance ratings and a portal to compare these across supply chains, regions and industries. CSRHub webpage encourages organisations to run operations in a transparent, responsible and sustainable way. The database provides a vast set of different tools and metrics to enhance managerial and stakeholder decision-making processes. The database is composed of over 200 sources. (CSRHub 2013.)

CSRHub rates twelve subcategories which constitute four main ratings including environment, community, employee and CG issues. The database is composed of socially responsible research companies’ data, well-known indexes and publications. These research companies are: Thomson Reuters, Carbon Disclosure Project, EIRIS, Corporate Library, IW Financial, Risk Metrics IVA and Impact Monitor, Trucost and Vigeo. These companies provide the data needed to constitute the rating. CSRHub is a Benefit Company and an organisational stakeholder with the GRI (Global Reporting Initiative) a silver partner with CDP (Carbon Disclosure Project) and a founding member of ATBE (Alliance of Trustworthy Experts). It also supports guidelines of GISR (Global Initiative for Sustainability Rating) and IIRC (International Integrated Rating Committee). (CSRHub 2013.)
This thesis is using CSRHub overall rating as a dependent variable. The overall rating follows beta distribution and the idea is that there is a standard for each 12 different measures and four main categories the overall score is composed of. Companies that are following the standard are given a rating of 50 on a 0 to 100 scale. If the firms CSR disclosure is below standard the rating is between 0–49 and companies that exceed the standard expectations are given a rating of 51–100. (CSRHub 2013, Gidwani 2011.)

Each firm is rated by many different sources and the total score is an average taken from these ratings. Thus the rating is a collective perception of each specific company’s disclosure quality and credibility. CSRHub has total of 2,000,000 separate rating contributions of the 7,000+ companies. There is however always the chance that the collective is wrong and the actual quality of a disclosure is higher or lower than the rating indicates. (CSRHub 2013.)

To be more specific, the 12 subcategories are rolled up into four main ratings: community, employees, environment and governance. The overall rating is average of these four ratings (scaled 0–100 as previously mentioned). All the scores from the 12

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**Figure 7. Structure of CSR rating (CSRHub 2013).**
subcategories to 4 main ratings, given by different sources, are compared and by analysing variations possible biases are determined. Each source is weighted based on CSRHub’s estimate of its credibility and value. If a certain rating does not contain enough information it is dropped. For instance CSRHub requires data from at least nine subcategories from at least two different sources before they attempt to publish the overall rating. The rating pattern is close to normal distribution. All overall ratings taken in account compare their curve against normal curve with a SD of 20.5 and a median of 1.5. Figure 8 shows the distribution graph and Figure 7 presents the rating structure as previously depicted. Figure 8 shows how much each individual score differs from the overall score. If a company gets an overall score of 43, an individual data point score of 60 gives the difference of $43 - 60 = -17$. The chart is adjusted in a way that the different element weightings are in place. (CSRHub 2013, Gidwani 2011.)

![Image of graph showing actual distribution of differences compared to normal distribution.](image)

Figure 8. Weighted rating elements and overall rating (Gidwani 2011).
3 EFFECTING FACTORS: BUILDING THE HYPOTHESIS

This section’s purpose is to identify all variables used in this thesis and to provide some prior direct theoretical background for them. The previous section aspired to build a more holistic view of the CSR issues, but this section aims to start answering the research questions. After handling the theoretical issues related to each variable the, hypothesis’ are constructed. The first 10 hypothesis are related to the primary research question and the final CG variable is an extra for the secondary research question.

3.1 Industry Sensitivity

Studies indicate that industry sensitivity is one of the most powerful factors affecting company’s CSR disclosure ratings according to Adams et al. (1998) and Gray et al. (1995). This sensitivity means the extent in which a certain industry is creating environmentally potentially harmful materials or chemicals. Thus, the more environmentally hazardous the industry is perceived, the more sensitive it is and the more social pressure is directed towards it. Such sensitive classified industries include mining, oil and chemical industries mainly due to the health and environment issues related to the chemicals involved (Jenkins & Yakovleva 2006, Line et al. 2002, Ness & Mirza 1991). In contrast, industries such as financing and service are emphasizing more social aspects in their reports. They do not share the same magnitude burden of obligation towards nature preservation as the previously mentioned more heavy industries. (Clarke & Gibson-Sweet 1999, Line et al. 2002.)

Many studies indicate that industries such as pulp and paper, power generation, water, chemicals, metal and resource industries also share high environmental impacts, mainly due to the same reasons that previously mentioned industries such as mining did. These industries are classified as sensitive (Bowen 2000, Hoffman 1999). Newer more environmentally tuned firms that have been built around the idea of preservation and ideas of responsibility are not sensitive and are not strongly associated to
environmental issues. The pressure from stakeholders is less coercive and the incentive to conduct reporting is less intense. (Reverte 2009) The prior research gives enough guidance to involve industry sensitivity as an independent variable to be used in linear regression in determining the Corporate Social Responsibility disclosure ratings.

H1: There is a positive significant relationship between industry environmental sensitivity and CSR disclosure rating.

3.2 Company Size

Company size is a frequently used independent variable in explaining variances in financial disclosures (Rahman & Widyasari 2009). This provides a good basis for adding this variable to explain CSR disclosure rating variances. Legitimacy theory explains the pressures that a company has to face when its visibility is heightened for instance due to size. The larger a company becomes, the more affects are imposed against it by the surrounding society and foremost government. The political cost hypothesis is also backing this. It explains how bigger companies are more scrutinised by the society. (Watts & Zimmerman 1986.)

Size of a company is related to its market share and power which also adds to its newsworthiness. Bigger companies also have a larger field of stakeholders and through this more interest groups and needs to fulfil to avoid public resentment. (Hackston & Milne 1996a) The incentive to report might be explained with an attempt to avoid unnecessary regulation and perhaps penalty costs. (Adams et al. 1998, Clarke & Gibson-Sweet 1999, Gray et al. 1995). When proof of political visibility’s linkage to CSR is added to the theory base the company size factor seems very well based (Adams et al. 1998, Cullen & Christopher 2002, Patten 2002). It is beneficial for this study as an independent variable in explaining CSRHub overall rating.
H2: There is a positive significant relationship between company size and CSR disclosure rating.

3.3 Media Exposure

If a company is always under strict public scrutiny an incentive to build a more positive public image arises. Patten (2002) in his extension to legitimacy theory describes how media forms new pressures to fulfil certain obligations towards stakeholders. The visibility of a company increases as its media coverage or exposure is heightened. In the modern world the media is more than ever an image shaper that actively influences companies’ processes through positive or negative announcements. The relatively new social media is a major player in mobilizing campaigns in favour for or against organisations. People collectively, through social media, form norms and standards for business operations such as CSR. (Simon 1992) Some studies state that effect of media is particularly factor affecting CSR related issues (Bansal & Roth 2000, Bansal & Clelland 2004). These findings give good reason to add media exposure as an independent variable.

H3: There is a positive significant relationship between CSR disclosure rating and media exposure.

3.4 Institutional Ownership

According to prior research, institutional ownership has a positive significant relationship with CSR disclosures. Companies conducting CSR are explained to be more attractive in the eyes of investors and especially institutional investors. (Coffey & Fryxell 1991). This finding was also confirmed by Graves & Waddock (1994b). Studies concerning institutional ownerships’ linkage to CSR are mainly conducted in North America and Europe, but some interest has recently emerged in Malaysia and Indonesia. (Graves & Waddock 1994b). Recently conducted studies from the Far East have also confirmed the positive significant relationship which adds to the
knowledge that this is a global phenomenon not just confined to developed countries (Fauzi et al. 2007, Saleh et al. 2010). The relationship seems to have much to do with the fact that due to their size, institutions cannot exit investments very flexibly. By investing into high CSR companies, institutions increase their chances to avoid bad investments in terms of public image and subsequent profit, as these two seem to be also related. (Cox et al. 2004.)

H4: There is a positive significant relationship between institutional ownership and CSR disclosure rating.

3.5 Profitability

This is probably one of the most interesting variables due to the fact that if an unambiguous result would be revealed to explain that CSR disclosure actually positively affects company’s profitability by giving it for instance a clear competitive advantage, it would perhaps increase its commonness. This would subsequently lower negative corporate social and environmental impact. Profitability’s linkage to CSR disclosure ratings has divided researchers’ opinions in many cases. It involves many theories and many different opinions. Some have found good evidence to indicate that there is a positive significant relationship between the two (Cowen et al. 1987, Ismail & Chandler 2005) and some argue that there is no such thing (Brammer & Pavelin 2008, Hackston & Milne 1996b).

Studies examining the linkage between profitability and CSR disclosure are mainly based on stakeholder theory that explains companies’ obligations to wide range of stakeholder groups instead of only shareholders (Freeman 2009). One important factor in building the bridge between CSR disclosure and profitability measures is the management and its positive understanding of both aspects. Vast knowledge is needed to transfer the economic thinking into CSR disclosure actions. (Belkaoui & Karpik 1989.)
Agency and political cost theories are also valuable in explaining the linkage. These theories suggest that managers working in profitable companies are motivated to improve CSR disclosure in order to ensure the longevity of their position. (Inchausti 1997). More profitable companies are also in many cases larger companies which could lead to bigger visibility and this way down to size (Ng & Koh 1994). It might be that CSR is not in any means positively affecting profitability but the other way round. The more profitable the company is, the more it has resources to invest into CSR issues. This is probably the easiest way to interpret the linkage. (Cowen et al. 1987.)

Legitimacy theory suggested that due to company’s deep bond to its surrounding society, it is obligated to show that its profits are earned following certain norms and ethical conducts. From this perspective CSR disclosure serves well in situations where high profits are explained to the public. It also serves well in situations where poor profitability is explained and future improvement is promised based on competitive advantage. (Tilling 2004.) After examining all these viewpoints I hypothesize that there is some significant relationship between CSR disclosure ratings and profitability. Greatly different opinions about the sign, so it is not speculated further.

H5: There is a significant relationship between profitability and CSR disclosure rating.

3.6 Leverage

Many studies describing leverage’s relationship with CSR disclosure share the view that there is a significant relationship, but have disagreement about the sign. Companies with extensive leverage might engage voluntary disclosures in order to lower their cost of capital by lowering their agency costs. (Jensen & Meckling 1976.) Other scholars argue that the additional pressure that is created by high leverage is confining managers’ hands and this way restricting CSR efforts. As the CSR disclosure efforts are affecting profitability only indirectly (Brammer & Pavelin 2008). The
high leverage companies might also have closer relationships with their creditors, which could dilute some need for extensive CSR disclosures (Purushothaman et al. 2000). Some argue that there is no significant relationship between CSR disclosure overall ratings and leverage at all (Webb 2005).

H6: There is a significant relationship between leverage and CSR disclosure rating.

3.7 Liquidity

Liquidity ratios are once again variables that have given uncertain results in recent studies. Some studies argue that high liquidity companies are more likely to voluntarily disclose because they want to separate themselves from the lower liquidity companies. (Abd-Elsalam & Weetman 2003.) The level of internet CSR disclosures has also been linked to high liquidity (Ezat & El-Masry 2008), while other scholars fail to find any relationship between liquidity and CSR disclosure variables (Aly et al. 2010, Samaha & Dahawy 2011).

H7: There is a significant relationship between liquidity and CSR disclosure rating.

3.8 Gender

In recent decades the percentage of women managers has gone up dramatically. Studies suggest that having more female managers and board members adds to higher levels of CSR. Companies that encourage female leadership have higher level of philanthropy and engage in better quality initiatives. (Babcock 2012, Soares et al. 2011b.) In Soares et al. (2011b) study larger gender diversity was linked to many profitability instruments and the affects were positive. Not just economic measures were heightened, since gender diversity also had impact on CSR disclosure ratings. The larger the percentage of women board members and executives is, the more CSR
actions were taken. The relationship can also be argued to be the other way around as Grosser and Moon (2005) suggests that CSR efforts have a positive affect on organisations equality. In their research they introduce many positive linkages between CSR and presence of female leadership.

H8: There is a positive significant relationship between percentage of female board members and CSR disclosure rating.

3.9 Age

Young people are more accepting and less suspicious of new ideas. The negative relationship between age and environmental concern has been explained through differences in socio-biological aging process and important historical events that have affected different age groups worldviews. (Honnold 1984.) Although the first claim seems intuitively valid, the relationship between age and environmental concern divides researchers. Some state that the age does not have so significant affect on the issue. More important factors are related to each individual’s income class and culture. (Vlosky & Vlosky 1999.) Due to the somewhat undefined nature of the hypothesis no sign is yet determined for the relationship.

H9: There is a significant relationship between average age of board members and CSR disclosure rating.

3.10 Independence

One of the variables related to board composition is independence. Again, many positive, neutral and negative results have been found. Positive results are represented in such studies as Webb (2004) and Ibrahim & Angelidis (1995). Webb (2004) suggests that companies with higher percentage of outside board members perform better than those with majority of insiders. Ibrahim & Angelidis (1995) argue that outside board members are more concerned about the philanthropic component of
corporate responsibility than inside board members. Wang and Dewhist (1992) did not find any differences amongst inside or outside director’s stakeholder orientation and so the ratio of inside and outside board members would be irrelevant to CSR activity. Due to the different results gained from prior studies, no sign is determined for the hypothesis. There is though a belief that a significant relationship can be found.

H10: There is a significant relationship between percentage of independent board members and CSR disclosure rating.

3.11 Ancillary Corporate Governance Factor

Corporate Social Responsibility and Corporate Governance are linked in such way that they are frequently confused with each other. Questions rise though that do CG and CSR guide management decisions to same or different directions and is the CG part of CSR or the other way around. (Nasrullah 2010.) The clear distinction is that CSR is strongly based on voluntarism and CG is in Finland’s case highly regulated. The strength of the linkage is undefined. The wide affects of CG towards CSR are somewhat rarely discussed, but some work to examine the causality between the two has been done. The CG actions have usually been divided into elements such as portion of female board members and independence. (Babcock 2012, Ibrahim & Angelidis 1995.) These variables are already included in this study. My attempt is to bring a new variable into the table that connects CG recommendation deviances according to FCGC and the CSR overall score composed by CSRHub. In this way my attempt is to examine if the level of complying with the code explains some of the success in conducting quality CSR disclosures. I hypothesise that the more a company deviates from FCGC recommendations the weaker its overall CSR score is.

H11: There is a negative significant relationship between CG recommendation deviations and CSR disclosure rating.
4 RESEARCH DESIGN AND METHOD

This section of the text covering research design and method contains a precise description of the collection and measuring process of the dependent variable and each independent variable used in the study. It puts forward the techniques and reasons behind the variables. After variable issues the section covers the sample companies and some sample characteristics. The sample used in the study is presented and explained thoroughly. An empirical model is constructed and presented to give the study its empirical backbone.

Lastly, the section explains similar issues related to the ancillary CG factor. This forms the secondary research question for the study. A portion of the section is separate due to the separate nature of the ancillary question. It is meant to support the primary question, but it is not compulsory in understanding the primary research question. This section includes information of secondary research questions design and method.

4.1 Variables

4.1.1 Dependent variable

Thesis utilizes CSRHub overall rating as a dependent variable. The overall rating can be found from the CSRHub website without the need to subscribe, which involves certain fees. Subscribing gives access to more detailed information on how a specific overall rating is constructed, but the information is not needed to conduct this research. As previously presented, each company is given an overall rating from 0 to 100, 50 being a standard quality level of CSR disclosure. This overall rating was taken without further treatment to act as a dependent variable. Based on the information given to describe the rating process, it seems a highly credible measure. The organizations behind the rating also support credibility.
4.1.2 Independent variables

Age

Board members’ average age was measured by calculating the arithmetic mean of all company’s board members from each company’s website. The data in use was up to date and presented at the 2013 board composition internet page of each company.

Gender

The level of gender diversity amongst a board of directors was measured by calculating the number of female board members and dividing it with the total number of board members. The data was gathered from each company’s up to date 2013 board composition internet pages.

Independence

Board member independence was measured basically the same way as the gender variable. Each company’s board composition internet page had dependence information that is required by Finnish law. If the information was hard to find from the page, data was gathered from 2012 corporate governance statements. Only members that were independent of both company and major shareholders were regarded as independent.

Media exposure

Media exposure was measured following some aspects of Reverte’s (2009) study examining CSR rating determinants. As he counted the number of articles a particular company was mentioned in two Spanish business newspapers ‘Expansión’ and ‘Actualidad Económica’, I also used this method and in similar fashion utilized two Finnish business newspapers ‘Kauppalehti’ and ‘Talouselämä’.
Both magazines’ web research engines were used and the number of hits was examined for wrong results. The data was collected on January 30\textsuperscript{th} 2013 and the time frame selected for ‘\textit{Kauppalehti}’ was from January 1\textsuperscript{st} 2010 to January 1\textsuperscript{st} 2013. The time frame for ‘\textit{Talousläämä}’ articles was from January 2\textsuperscript{nd} 2008 to January 30\textsuperscript{th} 2013, which was the day the data was collected. The difference between time frames was due to differences in research engines and presentation of results. It was more convenient to use a shorter time frame for ‘\textit{Kauppalehti}’. A natural logarithm was then taken from the initial data to even out some large differences amongst the data points.

\textit{Company size}

Measurements of company size differ. For instance Rahman (2009) proxied the size by total assets. Reverte (2009) referred to prior studies as he selected market capitalization as the measure. To prevent large differences to negatively affect the results, a natural logarithm was taken from the subsequent results. He claims that the results of the measure are similar to proxied log of total assets, which was used by Rahman (2009). This thesis uses market capitalization through natural logarithm as the measure for company’s size. The data for the size measurement was collected in ‘\textit{Kauppalehti}’ magazine’s webpage which is a very comprehensive and reliable database to gather financial data.

\textit{Industry sensitivity}

Industry sensitivity was measured by composing a classification system based on studies conducted by Jenkins & Yakovleva (2006), Line \textit{et al}. (2002), Ness & Mirza (1991), Bowen (2000) and Hoffman (1999). This means that for the thesis, companies were divided into sensitive and insensitive groups. In these studies industries involved with mining, chemicals, oil, gas, electricity generation, paper, pulp and metal were flagged having high environmental impact and so being environmental sensitive. Sample companies that fitted the previously formed sensitive industry
group were given a dummy variable of 1. Other industries were given a value of 0. To determine if a company belongs to the sensitive category, each sample company was examined using 2012 annual reports.

Institutional ownership

A dummy variable was utilized to measure institutional ownership. General government, financial and insurance institutions and non-profit organisations were included as institutional owners. Companies with institutional ownership over 20% were given a value of 1, and 20% or under were given a value of 0. The threshold of 20% was used because it was the average of the sample. There was no rule to adjust the threshold, so the average made the most sense. The ownership structures were available at company websites and they illustrated the present 2013 situation.

Leverage

The raw data needed to calculate leverage was extracted from Thomson ONE Banker financial database. Leverage ratio is designed to determine a company’s ability to meet its financial obligations and to illustrate how it is financed. Leverage was calculated according to the following formula:

\[
Leverage = \frac{LT\ Debt}{Common\ Equity}
\]  

where, leverage is calculated by dividing a company’s total long-term debt with common equity. Figures used in the calculations are from 2012.

Profitability

Profitability is measured through calculating ROA (Return on Assets). ROA indicates how profitable a company is related to its total assets. In other words it gives an idea
if a company is able to keep its fixed costs low related to profits and how well it is able to utilize its total amount of assets. Although other accounting or market measures could be used, ROA is well known and it is easy to understand measure. It is very commonly used. ROA was calculated using the following formula:

\[
ROA = \frac{NI_{2012}}{(TA_{2011} + TA_{2012}) / 2}
\]

(2)

where, ROA is calculated by dividing 2012 net income with average total assets using 2011 and 2012 figures. All the needed raw data is extracted from Thomson ONE Banker financial database and the final calculations are made with spreadsheets.

Liquidity

A company’s liquidity was measured through quick ratio. Quick ratio indicates how a company is able to meet its short-term obligations with its set of most liquid assets. Higher values indicate higher payment capability. Quick ratio was selected over Current ratio, due to its more conservative nature. It excludes inventories because turning them into cash is uncertain. The following formula was utilized:

\[
Quick\ Ratio = \frac{Current\ Assets - Inventories}{Current\ Liabilities}.
\]

(3)

where, Quick ratio is calculated by subtracting total inventories from total current assets and then dividing them by total current liabilities. The year 2012 figures were extracted from Thomson ONE Banker financial database to make the calculations.

4.2 Sample

The sample of this thesis consists of 31 Finnish listed companies. The sample is geographically confined to Finland because of the familiarity of the companies and the
surrounding society. Although the strict confinement of the sample may create generalization issues in some situations, the decision enabled me to collect quality data. Most of the data used in the thesis was gathered from 2012 annual reports and corporate governance statements. The rest was found from Thomson ONE Banker financial database.

Table 1. Sample's industry distribution and representation.

<table>
<thead>
<tr>
<th>Industry</th>
<th>Sample</th>
<th>Exchange</th>
<th>SR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic industry</td>
<td>6</td>
<td>10</td>
<td>0,60</td>
</tr>
<tr>
<td>Consumer commodity</td>
<td>3</td>
<td>14</td>
<td>0,21</td>
</tr>
<tr>
<td>Financing</td>
<td>1</td>
<td>15</td>
<td>0,07</td>
</tr>
<tr>
<td>Health care</td>
<td>1</td>
<td>5</td>
<td>0,20</td>
</tr>
<tr>
<td>IT services</td>
<td>1</td>
<td>2</td>
<td>0,50</td>
</tr>
<tr>
<td>Manufacturing and services</td>
<td>12</td>
<td>44</td>
<td>0,27</td>
</tr>
<tr>
<td>Oil and gas</td>
<td>1</td>
<td>1</td>
<td>1,00</td>
</tr>
<tr>
<td>Services</td>
<td>3</td>
<td>12</td>
<td>0,25</td>
</tr>
<tr>
<td>Technology</td>
<td>2</td>
<td>19</td>
<td>0,11</td>
</tr>
<tr>
<td>Utility services</td>
<td>1</td>
<td>1</td>
<td>1,00</td>
</tr>
<tr>
<td>Total</td>
<td>31</td>
<td>123</td>
<td>0,25</td>
</tr>
</tbody>
</table>

*Notes:* Helsinki Stock Exchange industry listing is used; SAMPLE: # of companies in sample; EXCHANGE: # of companies in Helsinki Stock Exchange; SR: Sample representation.

The major determinant of selecting the specific sample was also access to CSRHub ratings. This was the best source of finding one clear overall CSR disclosure rating. Most but not all Finnish GRI reporting companies were rated according to this listing. After further trimming the sample the 31 companies remained. To summarize the present 31 company sample is composed of firms that were listed in the Helsinki Stock Exchange, reported according to GRI 3 or 3.1 standards and had given an overall disclosure rating at CRSHub. This arrangement also allowed me to implement some aspects of FCGC into the thesis since every sample company was obligated to comply with it. It must also be mentioned that all of the CSRHub rated companies were reporting following 3 or 3.1 standards. There is no other reason why such standards are the only ones present in the sample.
Table 1 presents how the sample is divided between different industry classifications provided by the Helsinki Stock Exchange (OMX 2013). As it is visible from the table, the sample represents whole exchange quite well, even though the selection of the companies was out of my hands. The SR stands for sample representation, which is as high as 25 % in total. The sample of 31 items is statistically speaking quite low, although the research design is highly scalable. The only industry that was left with very little representation was financing, with SR of 7 % the average being 42 %.

4.3 Empirical Model

Statistical analysis conducted in this research uses of the linear regression model to analyze the relationship between the score of CSRHub disclosure overall rating and each selected effecting factors referred in the corresponding section of the study. As mentioned there is only one dependent variable in use which is the CSRHub overall rating. The method adopted in the empirical analysis is compacted by the following general form of the models:

\[
CSR \text{ rating}_i = \beta_0 + \beta_1 \text{AGE}_i + \beta_2 \text{WOM}_i + \beta_3 \text{INDEP}_i + \beta_4 \text{ME}_i \\
+ \beta_5 \text{SIZE}_i + \beta_5 \text{INDU}_i + \beta_7 \text{OWN}_i + \beta_7 \text{LEV}_i + \beta_8 \text{ROA}_i \\
+ \beta_9 \text{LIQ}_i + \epsilon_i. \tag{4}
\]

where, AGE: Average age of board members; WOM: % of female board members; INDEP: % of independent board members; ME: Media exposure; SIZE: Company's size; INDU: Industry sensitivity; OWN: Institutional ownership; LEV: Leverage (Long-term Debt / Common Equity); ROA: Profitability (Return on Assets); LIQ: Quick ratio.

4.4 Ancillary Corporate Governance Issue

Each company’s number of deviances from the FCGC was counted from the 2012 corporate governance statement. The announcement of these deviances is compulso-
ry. The number of deviances, the deviated recommendations and companies with deviations were listed. The sample used in the secondary question is the same one used in the primary question and is depicted earlier in the thesis. The number of deviances was surprisingly low and for that reason no regressions analysis could be used to examine the relationship. The deviated group of companies was listed and some aspects of the companies were examined.
RESULTS AND DISCUSSION

After designing the research and choosing the research method, actual results were produced. In this section the statistical results are shown and discussed. The section starts with descriptive statistics and correlation coefficients and then presents the results of the linear regression with following discussion and some descriptive graphs. Each factors affects on CSR disclosure ratings are assessed. The section continues to the secondary research question results, assessment of research limitations and finally ideas for further study.

4.5 Descriptive Statistics and Correlation Coefficients

Table 2. Descriptive statistics for the dependent and independent variables.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>Median</th>
<th>SD</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dependent variable</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>RATING</td>
<td>55.968</td>
<td>55.000</td>
<td>5.263</td>
<td>46.000</td>
<td>65.000</td>
</tr>
<tr>
<td><strong>Independent variables</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AGE</td>
<td>57.329</td>
<td>58.000</td>
<td>2.961</td>
<td>52.200</td>
<td>63.625</td>
</tr>
<tr>
<td>WOM</td>
<td>0.286</td>
<td>0.286</td>
<td>0.117</td>
<td>0.125</td>
<td>0.500</td>
</tr>
<tr>
<td>INDEP</td>
<td>0.823</td>
<td>0.833</td>
<td>0.153</td>
<td>0.500</td>
<td>1.000</td>
</tr>
<tr>
<td>ME</td>
<td>6.103</td>
<td>6.217</td>
<td>0.905</td>
<td>4.605</td>
<td>8.699</td>
</tr>
<tr>
<td>INDU</td>
<td>0.387</td>
<td>0.000</td>
<td>0.495</td>
<td>0.000</td>
<td>1.000</td>
</tr>
<tr>
<td>OWN</td>
<td>0.387</td>
<td>0.000</td>
<td>0.495</td>
<td>0.000</td>
<td>1.000</td>
</tr>
<tr>
<td>LEV</td>
<td>0.436</td>
<td>0.492</td>
<td>0.250</td>
<td>0.002</td>
<td>1.016</td>
</tr>
<tr>
<td>ROA</td>
<td>0.046</td>
<td>0.046</td>
<td>0.073</td>
<td>-0.099</td>
<td>0.259</td>
</tr>
<tr>
<td>LIQ</td>
<td>1.178</td>
<td>1.040</td>
<td>0.702</td>
<td>0.240</td>
<td>4.050</td>
</tr>
</tbody>
</table>

Notes: RATING: CSRHub company's overall score; AGE: Average age of board members; WOM: % of female board members; INDEP: % of independent board members; ME: Media exposure; SIZE: Company’s size; INDU: Industry sensitivity; OWN: Institutional ownership; LEV: Long-term debt / common equity; ROA: Return on assets; LIQ: Quick ratio. See variables’ measures in the text.

Descriptive statistics are presented in Table 2. As it can be seen, sample companies’ average is a bit higher than a standard of 50, but the ratings are spread very much around it. No significantly poor or excellent ratings were present in the sample.
Companies are also very homogenous when comparing average age of board members. Sample companies all support gender diversity at least moderately and mostly excel in independence. There are big differences in media exposure and quite large in size. The next two variables: industry sensitivity and institutional ownership are dummy variables and identical due to same division of values. Financial variables: profitability, leverage and liquidity all share quite extensive differences amongst sample companies.

Table 3. Correlation coefficients among independent variables.

<table>
<thead>
<tr>
<th></th>
<th>WOM</th>
<th>INDEP</th>
<th>ME</th>
<th>SIZE</th>
<th>INDU</th>
<th>OWN</th>
<th>LEV</th>
<th>ROA</th>
<th>LIQ</th>
</tr>
</thead>
<tbody>
<tr>
<td>AGE</td>
<td>0.061</td>
<td>0.012</td>
<td>-0.010</td>
<td>0.062</td>
<td>0.258</td>
<td>0.164</td>
<td>0.140</td>
<td>0.014</td>
<td>-0.052</td>
</tr>
<tr>
<td>WOM</td>
<td>0.173</td>
<td>0.405*</td>
<td>0.260</td>
<td>0.350</td>
<td>0.101</td>
<td>0.482**</td>
<td>-0.335</td>
<td>-0.456**</td>
<td></td>
</tr>
<tr>
<td>INDEP</td>
<td>0.008</td>
<td>0.199</td>
<td>0.394*</td>
<td>-0.112</td>
<td>0.409*</td>
<td>-0.037</td>
<td>-0.104</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ME</td>
<td></td>
<td></td>
<td>0.562**</td>
<td>0.157</td>
<td>0.123</td>
<td>0.500**</td>
<td>-0.454*</td>
<td>-0.109</td>
<td></td>
</tr>
<tr>
<td>SIZE</td>
<td></td>
<td></td>
<td>0.175</td>
<td>0.281</td>
<td>0.156</td>
<td>0.085</td>
<td>0.067</td>
<td></td>
<td></td>
</tr>
<tr>
<td>INDU</td>
<td></td>
<td></td>
<td>0.048</td>
<td>0.420*</td>
<td>-0.371*</td>
<td>-0.149</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>OWN</td>
<td></td>
<td></td>
<td>0.035</td>
<td></td>
<td>0.105</td>
<td>0.084</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LEV</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>-0.485**</td>
<td>-0.404*</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ROA</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.482**</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Notes: AGE: Average age of board members; WOM: % of female board members; INDEP: % of independent board members; ME: Media exposure; SIZE: Company’s size; INDU: Industry sensitivity; OWN: Institutional ownership; LEV: Long-term debt / common equity; ROA: Return on assets; LIQ: Quick ratio. See variables’ measures in the text. * Significant at a 5 % level, ** Significant at a 1 % level.

Multicollinearity occurs in situations where two or more independent variables correlate with each other moderately or strongly. If this issue is unnoticed it leads to wrong predictions. One way to avoid the problem is to select such variables that are not in any case correlated. As this is usually not possible, the issue needs to be addressed before any predictions are made. Whether too much multicollinearity exists between variables is testable with a help of variance inflation factor (VIF), which qualifies how much variance is inflated. (Simon 2004.) The variables covered in the thesis did not exceed the critical value of ten, so there are no multicollinearity related problems.
Table 3 shows the correlation coefficient of the set of independent variables. The r-values in the table indicate how strong the relationship between two variables is. The bigger the correlation r is, the stronger the linkage between variables is. The other important aspect is the significance level, which tells if there is any statistical significance in the results regardless of the strength of the relationship. (Rodgers & Nicewander 1988.)

This significance is expressed in probability level p (for instance at p = 0.05 or p = 0.01). The level of significance explains how unlikely any given correlation coefficient, r, will have no relationship in the population. In other words it tells whether the observations seem to follow a path rather than simple chance. The smaller the p-level, the more significant the results are. (Rodgers & Nicewander 1988.) As the freedom of degrees is 29 (n–2), 1 % significance PPCM critical value for two-tailed test to reject the null hypothesis is 0.456 and at 5 % significance critical value is 0.355 (PPMC 2013). In the case of 1 % significance, if the r-value is: −0.456 < r < 0.456, null hypothesis is not rejected and the results are not significant enough. Likewise if at 5 % significance the r-value is between -0.355 and 0.355, the null hypothesis is confirmed.

The output in Table 3 indicates that there are some significant results at both 5 % and 1 % levels. Significance at a level of 1 % seems to be found between % of female board members and leverage (p = 0.482), media exposure and leverage (p = 0.500), media exposure and company size (p = 0.562), return on assets and leverage (p = −0.485), % of female board members and liquidity (p = −0.456) and finally between return on assets and liquidity (p = 0.482). Significance at a level of 5 % is found between % of female board members and media exposure (p = 0.405), % of independent board members and industry sensitivity (p = 0.394), % of independent board members and leverage (p = 0.409), industry sensitivity and leverage (p = 0.420), media exposure and return on assets (p = −0.454), industry sensitivity and return on investment (p = −0.371) and finally between leverage and liquidity (p = −0.404).
4.6 Factors Effecting CSR Disclosure Ratings

This section presents the actual regression results. The following Tables 4 and 5 show the coefficients, intercepts, $p$-values and $R^2$-values related to both the individual factors and the model combining all of the factors. The 10 variables applied are divided into these two tables and the model coefficients are calculated in the last column. The first five columns in each table depict the individual coefficients of the variables. It is evident from the results that only little significance is found amongst the selected variables. In Table 4 only AGE ($p = 0.008$) seems to be significant at a 1% level. AGE is also significant at a 5% level as a part of the model. The table’s third best $p$-value can be found from ME ($p = 0.210$), but it still falls largely on the side of random result.

\textit{Table 4. Regression results of CSR ratings on the independent variables, part I.}

<table>
<thead>
<tr>
<th></th>
<th>AGE</th>
<th>WOM</th>
<th>INDEP</th>
<th>ME</th>
<th>SIZE</th>
<th>Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>103.796</td>
<td>55.194</td>
<td>53.324</td>
<td>47.583</td>
<td>54.664</td>
<td>97.593</td>
</tr>
<tr>
<td></td>
<td>(0.000)</td>
<td>(0.000)</td>
<td>(0.000)</td>
<td>(0.000)</td>
<td>(0.002)</td>
<td>(0.000)</td>
</tr>
<tr>
<td>AGE</td>
<td>-0.834**</td>
<td>-0.824</td>
<td>-0.824</td>
<td>-0.824</td>
<td>-0.824</td>
<td>-0.824</td>
</tr>
<tr>
<td></td>
<td>(0.008)</td>
<td>(0.014)</td>
<td>(0.014)</td>
<td>(0.014)</td>
<td>(0.014)</td>
<td>(0.014)</td>
</tr>
<tr>
<td>WOM</td>
<td>2.707</td>
<td>-0.621</td>
<td>-0.621</td>
<td>-0.621</td>
<td>-0.621</td>
<td>-0.621</td>
</tr>
<tr>
<td></td>
<td>(0.749)</td>
<td>(0.949)</td>
<td>(0.949)</td>
<td>(0.949)</td>
<td>(0.949)</td>
<td>(0.949)</td>
</tr>
<tr>
<td>INDEP</td>
<td>3.213</td>
<td>1.748</td>
<td>1.748</td>
<td>1.748</td>
<td>1.748</td>
<td>1.748</td>
</tr>
<tr>
<td></td>
<td>(0.618)</td>
<td>(0.618)</td>
<td>(0.618)</td>
<td>(0.618)</td>
<td>(0.618)</td>
<td>(0.618)</td>
</tr>
<tr>
<td>ME</td>
<td>1.374</td>
<td>1.194</td>
<td>1.194</td>
<td>1.194</td>
<td>1.194</td>
<td>1.194</td>
</tr>
<tr>
<td></td>
<td>(0.210)</td>
<td>(0.509)</td>
<td>(0.509)</td>
<td>(0.509)</td>
<td>(0.509)</td>
<td>(0.509)</td>
</tr>
<tr>
<td>SIZE</td>
<td>0.061</td>
<td>0.090</td>
<td>0.090</td>
<td>0.090</td>
<td>0.090</td>
<td>0.090</td>
</tr>
<tr>
<td></td>
<td>(0.934)</td>
<td>(0.929)</td>
<td>(0.929)</td>
<td>(0.929)</td>
<td>(0.929)</td>
<td>(0.929)</td>
</tr>
<tr>
<td>$R^2$</td>
<td>0.220</td>
<td>0.004</td>
<td>0.009</td>
<td>0.056</td>
<td>0.000</td>
<td>0.483</td>
</tr>
</tbody>
</table>

\textit{Notes:} The Table reports the results from regressing the CSRHub overall rating on the various independent variables. The first five (5) columns report the results from regressing the CSRHub rating on the independent variables one by one, while the last column of each panel reports the results from the following empirical model:

$$
CSR\text{ rating}_i = \beta_0 + \beta_1\text{AGE}_i + \beta_2\text{WOM}_i + \beta_3\text{INDEP}_i + \beta_4\text{ME}_i + \beta_5\text{SIZE}_i + \beta_6\text{INDU}_i + \beta_7\text{OWN}_i + \beta_8\text{LEV}_i + \beta_9\text{ROA}_i + \beta_{10}\text{LIQ}_i + \varepsilon_i
$$

where, AGE: Average age of board members; WOM: % of female board members; INDEP: % of independent board members; ME: Media exposure; SIZE: Company’s size; INDU: Industry sensitivity; OWN: Institutional ownership; LEV: Long-term debt / common equity; ROA: Return on assets; LIQ: Quick ratio. See variables’ measures in the text. Figures in parentheses represent the $p$-values. * Significant at a 5% level, ** Significant at a 1% level.
Table 4 also contains information about the $R^2$-values. Interestingly the AGE ($R^2 = 0.220$) again shows good results as it fits the curve quite well. The value is not perfect but as the relationship is not straightforward, it can be considered good. Continuing to Table 5, it can be said that there is no significance at a 1 % level found amongst the variables. The best result is at a 5 % significance level and it can be found from the ROA ($p = 0.050$). The significance is lost in the model. The second best result can be found from OWN ($p = 0.115$) but the significance is still not very good due to the fact that is gives so much room for random chance. All $R^2$-values are quite low but ROA ($R^2 = 0.126$) can be considered moderate in comparison.

Table 5. Regression results of CSR ratings on the independent variables, part II.

<table>
<thead>
<tr>
<th></th>
<th>INDU</th>
<th>OWN</th>
<th>LEV</th>
<th>ROA</th>
<th>LIQ</th>
<th>Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>55.158</td>
<td>57.158</td>
<td>55.437</td>
<td>57.147</td>
<td>55.727</td>
<td>97.593</td>
</tr>
<tr>
<td>INDU</td>
<td>2.092</td>
<td>2.890</td>
<td>2.890</td>
<td>2.890</td>
<td></td>
<td></td>
</tr>
<tr>
<td>OWN</td>
<td>-3.075</td>
<td>-2.276</td>
<td>-2.276</td>
<td>-2.276</td>
<td></td>
<td></td>
</tr>
<tr>
<td>LEV</td>
<td>1.216</td>
<td>-3.728</td>
<td>-3.728</td>
<td>-3.728</td>
<td></td>
<td></td>
</tr>
<tr>
<td>LIQ</td>
<td>0.205</td>
<td>0.483</td>
<td>0.483</td>
<td>0.483</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$R^2$</td>
<td>0.039</td>
<td>0.084</td>
<td>0.003</td>
<td>0.126</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Notes: The Table reports the results from regressing the CSRHub overall rating on the various independent variables. The first five (5) columns report the results from regressing the CSRHub rating on the independent variables one by one, while the last column of each panel reports the results from the following empirical model: CSR rating$_i = \beta_0 + \beta_1$AGE$_i + \beta_2$WOM$_i + \beta_3$INDEP$_i + \beta_4$ME$_i + \beta_5$SIZE$_i + \beta_6$INDU$_i + \beta_7$OWN$_i + \beta_8$LEV$_i + \beta_9$ROA$_i + \beta_{10}$LIQ$_i + \epsilon_i$, where, AGE: Average age of board members; WOM: % of female board members; INDEP: % of independent board members; ME: Media exposure; SIZE: Company’s size; INDU: Industry sensitivity; OWN: Institutional ownership; LEV: Long-term debt / common equity; ROA: Return on assets; LIQ: Quick ratio. See variables’ measures in the text. Figures in parentheses represent the $p$-values. * Significant at a 5 % level, ** Significant at a 1 % level.

The $R^2$-value of the model can be found from both tables and it is 0.484, which is quite high. This is a somewhat strange result as the individual significance’s are so low. This particular result is inconclusive and some type of measurement error can
be argued to have occurred. The regression calculations were done again resulting no chance. The previously discussed results are in some parts following the hypotheses, but mostly they are not. AGE and ROA were successful in that way. There are many reasons why it is so. It can be argued that even though the age differences are not very huge, the older board generations are more reluctant to begin CSR actions than the younger ones. It might also be that more conservative companies appoint older board members. This claim involves an assumption that conservative attitudes do not involve pro-environmentalism. It should also be questioned why ROA seems to go down when RATING goes up. It could be that companies with high ROA do not share the same kind of incentives to disclose as companies with low ROA, as they need to woo the market to gain more sales.

Figure 9 illustrates scatter plot diagrams of the two significant independent variables AGE and ROA, the first one measuring average age of board members and the second profitability of a company. Each of the 31 observations is plotted on the xy-plane and paired with the dependent variable RATING. The illustration gives a chance to interpret the results using different medium. If we first take a look at the AGE variable, we are able to visually confirm the previous results shown in the Table 1 that the average ages span from approximately 52 to 64. Correlation confirmed in Table 4 is also evident as there seems to be moderate negative linkage between the two variables. As the AGE grows higher the RATING goes down. We are also able to confirm that there is some heteroscedasticity present in the sample, which means that variance is not constant. Nevertheless the result seems to be good quality.

The ROA variable is not as significant, but it also represents some correlation. Compared to AGE it has much more heteroscedasticity and the downward negative relationship is not as clear as in AGE. The regression line also seems so be guided by the extreme observation, which is somewhat disconnected from the other group of other observations. Without this observation the scatter would be much more sphere-like, which would further affect the regression line’s direction. This would translate into lower correlation.
As an ancillary research question, I wanted to examine the relationship between the FCGC deviations and CSR rating. During the process of collecting the needed data it was clear that Finnish listed companies in the sample comply with the FCGC very
well. Due to this fact the independent variable was eliminated, but as it still wielded some interest, I wanted to include this issue as a secondary question. Table 6 presents the findings regarding these deviations amongst the sample companies. Only 7 out of 31 companies reported any deviations from the total of 54 recommendations stated in the FCGC. Between these companies the average quantity of total deviations was as small as 1.43, so even companies that deviated some, did not deviate much. In total over 77 % of all sample companies complied with the code with 100 % accuracy.

Table 6. Deviations from Finnish CG code.

<table>
<thead>
<tr>
<th>Company</th>
<th>Industry</th>
<th># of deviations</th>
<th>Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nokia</td>
<td>Technology</td>
<td>2</td>
<td>39, 4</td>
</tr>
<tr>
<td>Kesko</td>
<td>Services</td>
<td>1</td>
<td>10</td>
</tr>
<tr>
<td>Kone</td>
<td>Manufacturing and services</td>
<td>3</td>
<td>26, 29, 32</td>
</tr>
<tr>
<td>Vaisala</td>
<td>Manufacturing and services</td>
<td>1</td>
<td>10</td>
</tr>
<tr>
<td>Sanoma</td>
<td>Services</td>
<td>1</td>
<td>10</td>
</tr>
<tr>
<td>Orion</td>
<td>Health care</td>
<td>1</td>
<td>22</td>
</tr>
<tr>
<td>Talvivaara</td>
<td>Basic industry</td>
<td>1</td>
<td>43</td>
</tr>
</tbody>
</table>

Notes: Sample companies with deviations from Finnish Corporate Governance Code recommendations issued in 2010. The Table shows how many times a company has deviated and the connected recommendations.

As it can be seen from Table 6, many of these rare deviations related to recommendation 10, which states that the term of the directors must be one year long. In many of these cases the term was set to three years instead, which is not a factor that in my opinion should affect the CSR rating. Perhaps more study would be needed in this perspective. Kone was the leader in deviations due to its unusual ownership structure, where the Herlin family owns a majority of the shares. Other deviations are highly arbitrary and carry no significance to determine CSR rating. The question regarding the deviations’ affect towards CSR rating remains undefined. It must also be mentioned that when looking at Table 6, industry representation is quite well in line with the overall sample’s industry representation shown in Table 1. So this result of no result is well based by the sample.
### 4.8 Limitations and Further Study

Thesis follows a quantitative research method and so it is subject to certain limitations on how the results are generalizable. Simple numeric dataset may give a superficial impression of complex phenomenon. To gain a better understanding of the subject some detailed narratives of human perception should be added to back numeric data. One must also look at the dataset used in the study. As some of the data is provided by outside sources such as CSRHub and Thomson ONE Banker, validity of this kind of data cannot be completely ensured.

The geographical constrains are also a factor in determining the generalizability of the results. The Finnish results may only be applicable to Scandinavia due to cultural similarities. It can be argued that only one overall score as a dependent variable is enough to illustrate the quality of CSR disclosure. The size of the sample is also a concern. Although a sample of 31 companies is statistically good, it is not excellent. This concern is partially alleviated by perceived homogeneity of many aspects related to Finnish listed companies. The companies are highly similar for instance when it comes to board characteristics. Use of companies only utilizing GRI standards is not a limitation, as practically the whole population is doing so, although constraining the sample to listed companies is creating a limitation. This decision was made to ensure easy access to a vast set of quality raw data. The perceived homogeneity of the sample might be due to this decision though, since this group of companies is subject to more rigorous public scrutiny.

To further delve into the issue, I suggest that cultural aspects are taken into account. Comparison between Finnish results and other culturally different countries would also be highly interesting. Perhaps some comparison would be fruitful to conduct even between companies with perceivably similar cultural background to determine if these cultural aspects play a significant role. Assuming that the results demonstrated in this thesis are not plagued by any significant errors, it would be interesting to
know why most of the factors pointed out by prior studies seem to be irrelevant in Finland’s case.

Most mentioned limitations are applicable to the secondary question. To further study the relationship of recommendation deviations and ratings, the sample should be much larger. Perhaps including more Scandinavian countries would broaden the view. The similarities in Scandinavian Corporate Governance practices are high, which makes this comparison plausible.
5 CONCLUSIONS

It seems that the green movement will get larger in coming decades due to growth in environmental awareness. Many endogenous and exogenous forces are encouraging companies to be more transparent in their actions involving social and environmental aspects. As disclosing becomes more common, standards are being formed to give guidelines. Standardized reporting means that the results are more comparable. Organizations such as CSRHub and GRI have made it possible to use these standardized rating results to identify factors affecting them. The purpose of this thesis was to uncover some of these factors in the Finnish corporate environment. It also endeavored to examine if Corporate Governance issues play a role in this setting.

The research was conducted by gathering significant factors from previous studies and then examining their significance in a Finnish setting. A linear regression model was then composed and the variables were tested. The findings concluded that most of the factors did not show any significance, however two of them did. Average age of board members was significant at a 1 % level and the coefficient was good. If the average age of board members increased by one, the overall rating decreased almost by one (-0.834). Profitability in the form of ROA also showed some significance at a 5 % level, although the scatter plot analysis demonstrated some inconclusive aspects.

In a way, many prior studies were challenged when testing results in a new setting and although many selected variables did not show significance, this result carries some significance on its own. It can be asked if there would be better factors to explain the ratings, and if so, what would they be. Personally I would like to give credit to Finnish and Scandinavian culture in general. Perhaps individual company related characteristics are not the way to approach the ratings. Answers to them should be looked for from vast cultural atmosphere and country related characteristics. To answer what would be the exact contribution of this thesis, I would say that in Finnish listed companies’ cases, the rating is not determined by single company details, but something more profound. The cultural environment has also driven Corporate Gov-
ernance practices to such a place, that differences in company practices are practically indistinctive. This does not give any space for examining the relationship between these variances and the variances in CSR disclosure ratings. In other words, Finnish regulations have such high standards in CG issues that no heterogeneity amongst companies is left.

To conclude this thesis I would like to say that CSR has an important place in the modern corporate world. It is an indispensable force in guiding corporations to a more ethical and humane direction without destruction of its value. Whether the motivation to promote transparency is nowadays mainly an outcome of outside encouragement, the push is needed to ensure a better tomorrow for us, mankind.
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