Effect of Hofstede’s Cultural Differences in Corporate Social Responsibility Disclosure

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ABSTRACT
This paper looks at culture differences in sustainability reporting among countries. The authors use data from the survey conducted by KPMG in 2008 within 22 countries, applying Hofstede’s framework. The authors find an effect of culture on the interest in highlighting the credibility of sustainability reports in different countries. Level of corporate social responsibility disclosure, on the other hand, does not change with cultural differences, but with the levels of enforcement of the regulations. The results are revealing, given that assurance statements are not mandatory. Companies in countries with collectivistic characteristics and low power distance do not need to increase their credibility in terms of the disclosure levels of corporate social responsibility; they are democratic and careful of their inner group. On the contrary, companies in countries with individualistic characteristics and high power distance need to run the extra mile to show their commitment and guarantee that their reporting on social responsibility is transparent.

Keywords: Corporate Social Responsibility, Cultural Differences, Hofstede, KPMG Survey, Sustainability

INTRODUCTION
Reporting on Corporate Social Responsibility (CSR) is increasing worldwide, as evidenced by the KPMG international survey conducted every three years. The purpose of the survey is “to gain insight into CSR reporting and to contribute to the evolving global dialog on transparency and accountability” (p. 2). In the 2008 survey (KPMG, 2008) they find an increase from 50% to 80% of reporting in the companies interviewed, which they define as a “shift with CSR becoming the norm instead of the exception” (KPMG, 2008). The level of disclosure changes along countries and industries. Some of the differences are produced because the countries in which the companies operate have rules asking for mandatory disclosure (e.g., UK, Japan and Australia), while in others, companies are just starting to involve themselves in CSR and report on a voluntary basis. Even in countries with regulation, the
degree of disclosure is affected by the role of enforcement in the society. The comparison among their practices is difficult, since CSR has different meanings. While for some companies it refers to “sending employees off to volunteer at a local not-for-profit organization or committing a certain percentage of profits to a good cause” (Fenn, 2011), to other companies it means making conscious usage of natural resources, or taking care of their immediate environment. In this line, Gallego (2006, p.95) posit “some of the objectives that companies hope to obtain with sustainable development are social progress, protection of the environment, prudent use of natural resources and the maintenance of stable levels of economic growth.” Similarly, Adam and Shavit (2009, p. 298) consider “disclosure and transparency” as incentives for boards to invest in CSR to insure better governance. Kemp (2010, p. 553) affirms that organizations “must base decisions on a combination of intellect (brains), emotionality (heart), and a sense of purpose (courage).”

In terms of credibility of sustainability reports, the inclusion of assurance statement with the sustainability report is not mandatory, which limits the value of the assurance statement. For example, we did not find assurance statements indicating a low quality of corporate sustainability reporting in the Global Reporting Initiative (GRI) website for Spain during 2009. We cannot assure, however, that there were none; this fact simply indicates that they were not released. The lack of mandatory assurance can therefore make the assurance statement a tool to convey reported credibility to the report, rather than actually increasing its credibility.

Cultural factors in each country affect the behaviour of their constituents, including their understanding of CSR (Orij, 2010; Vachon, 2010; Steurer, Langer, Konrad, & Martinuzzi, 2005; Scholtens & Dam, 2007). Hofstede (1997) presents a discussion about cultural differences among companies based on the results of the analysis of the responses of employees of IBM in different countries. Those differences relate to five dimensions, namely, power distance (PD), individualism/collectivism, masculinity/femininity, uncertainty avoidance (UA), and long or short-term orientation. Finally, previous research found industry as determinant of disclosure level, with industries considered more “dangerous” to the environment like oil or chemicals found to disclose more than companies in other industries (Fernandez-Fejjoo, Romero & Ruiz, 2012; Monteiro & Aibar-Guzman, 2010; Perrini, Russo, & Tencati, 2007; Lattemann, Fetscherin, Alon, Li, & Schneider, 2009; Broberg, 2010).

The purpose of this study is to determine how cultural differences affect the levels and credibility of disclosure on CSR. We extend the existing literature on CSR by looking at differences in reporting among countries using the Hofstede’s model as well as other variables found in literature. We choose Hofstede’s model because it has been used extensively in research (e.g., Scholtens & Dam, 2007; Vachon, 2010; Orij, 2010; Swaidan & Hayes, 2005) and it provides a framework with general characteristics of culture for the countries included in the sample. The following section discusses the KPMG survey, continued by a description of Hofstede’s model and the literature review focused on culture, CSR and ethics. We then present the hypotheses development followed by the methodology and concluding with the results and analysis.

**THE KPMG SURVEY**

The survey conducted in 2008, examines CSR reporting practices of the global fortune 250 plus the 100 largest companies by revenue in 22 countries (around 2400 companies). It includes only information available in the public domain, which includes data about reporting practices as well as demographic data at the country and industry levels. Given that our purpose is to evaluate the effect of country culture in the levels of CSR reporting, we only consider in this study those variables for which country data is included. These variables are:
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