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A STUDY OF HOW CSR RANKINGS ARE AFFECTED IN A GLOBALIZED ECONOMY

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ABSTRACT

We are in a time of globalization, and as a result there is a “rapid growth in trade, financial transactions, and cross country ownership” of assets (Tengblad & Ohlsson, 2010, p. 653). As globalization has increased, the number of companies in different industries using corporate social responsibility (CSR) activities has grown. Increasingly, companies are communicating their activities through CSR reports that outline corporate initiatives to access and take responsibility for the company’s effect on the global environment and its impact on social welfare. In this paper, we examined how a globalized economy affects Environmental, Social, Governance, and Total CSR rankings in six regions: (1) North America, (2) South America, (3) Latin America, (4) Asia-Pacific, (5) Africa, and (6) Europe. We collected CSR scores using Sustainalytics Global Platform (SGP) data for each region. Then we compared differences in Environmental, Social, Governance, and Total CSR scores between the regions. The results of the statistical analysis show that Africa and Europe consistently had the highest CSR scores, while Latin America and Asia-Pacific had the lowest.

Keywords: [Corporate social responsibility, globalization]

INTRODUCTION

The increasing globalization movement in recent decades has meant rapid growth in trade, financial institutions, and cross-country ownership of economic assets (Tengblad & Ohlsson, 2010). Globalization of business during the last three decades has led to escalating stakeholder pressures and expectations that corporations will participate in corporate social responsibility (CSR) activities (Mohan, 2006). CSR, also referred to as “corporate citizenship” or “corporate social performance,” can be defined as “the economic, legal, ethical, and discretionary expectations that stakeholders have for firms at any given time” (Carroll et al., 2012; Carroll, 1979). By 2009, most stakeholders perceived that firms have “ethical and philanthropic obligations toward society” (Jamali & Keshishian, 2009; Carroll & Shabanna, 2010).

As stakeholders increasingly pressure firms to act as socially responsible corporate citizens, firms must evaluate how to best communicate their commitment to CSR. Due to the inevitable information asymmetry between firms and stakeholders regarding companies’ CSR activities, firms may provide signals to stakeholders to demonstrate their commitment to CSR (Clarkson et al., 2011). As of 2015, 92% of the largest 250 companies worldwide had some method of reporting CSR information, which is a 5% increase over the levels of CSR reporting in 2008 (KPMG, 2015). Additionally, according to KPMG 2015 *International Survey of Corporate Responsibility*, in 2011, just 68% of the 100 largest firms included CSR information in their annual reports, but in 2015 the rate grew to 75%. However, due to the lack of regulatory requirements, and the varied and sometimes self-serving nature of CSR reporting, (Gugerty, 2009), other methods, such as company’s web sites and CSR reports, may also be used to supplement voluntary disclosures of social and environmental information to formulate a comprehensive picture of a firm’s CSR commitment.

Before Sustainalytics Global Platform (SGP) data was made available, there was no single reliable database of CSR information that consistently calculated CSR scores for all the companies across the world, making it difficult to compare CSR

performance between companies across international regions and countries. The database evaluates CSR scores for firms in over 46 countries, employing the same evaluation criteria for each firm, including using a consistent statistical approach and methodology. The SGP performs an identical calculation of CSR for firms in many countries throughout the world. This is one of the first known research papers that makes a comparison of CSR scores between international geographical regions and countries.

Our study specifically compares CSR scores between firms located in the regions of (1) Africa, (2) Asia-Pacific, (3) Europe, (4) Latin America, (5) North America, and (6) South America. By comparing CSR scores across international companies in different geographical regions, we gain further understanding of how social and environmental activities are influenced across different national institutional contexts. An examination of cross-national differences in CSR may lead to further understanding of CSR in various countries, and identify the best way to promote the adoption of additional CSR activities in corporate practices.

LITERATURE REVIEW

Corporate Social Responsibility

CSR is a corporate initiative to access and take responsibility for a company's effect on the environment and its impact on social welfare. CSR implies that firms voluntarily integrate social, governance, and environmental concerns in their operations and interactions with stakeholders (Branco & Rodrigues, 2006). Companies that are committed to practicing CSR are committed to sustainable economic development through working with employees, their families, local communities and society at large to improve the general quality of life (Holme & Watts, 2000, p.10). CSR encompasses every possible obligation, concern, effect, or responsibility that an organization might encounter, including externalities resulting from corporate behavior or neglect (Werhane, 2008). CSR practices vary between countries; factors such as industrial and cultural practices can affect how important socially responsible activity is in a country. CSR should be strongly influenced by relevant cultural, social, political, and economic

factors specific to a particular nation, and thus are also subject to cultural adaptation (Robertson, 2009).

According to Porter and Kramer (2006), CSR is usually separated into four dimensions: (1) *moral obligations*, (2) *sustainability*, (3) *license to operate*, and (4) *reputation*. *Moral obligations* are based on a corporation's willingness to act as a good citizen and make ethical decisions. Companies often are faced with moral dilemmas, but companies that practice CSR are expected to achieve success by implementing moral and ethical business practices. Thus, an issue may arise when determining whether a business venture is seen as "moral," and the "moral compass" of a company may be different, depending on the values and practices of the country in which it conducts business. The definition of what is "moral" depends on the culture and customs of the country where the business is located. For example, in some countries, bribery is a normal part of conducting business, but in the United States it is seen as immoral and unethical.

Sustainability draws on the concept of citizenship. This definition was developed in the 1980s by Norwegian Prime Minister Gro Harlem Brundtland, and is used by the World Business Council for Sustainable Development: "Meeting the needs of the present without compromising the ability of future generations to meet their own needs" (Brundtland, 1987). A "sustainable" company aims to carry out value chain activities in ways that protect and preserve economic, social, and natural environments. Companies that are considered "sustainable" pay fair wages, ensure worker safety, and avoid emitting toxic waste (Porter & Kramer, 2006). Companies that improve their environmental performance may also have savings associated with a reduction in the energy and materials used and lower pollution costs in the form of charges for waste handling and disposal and the fees, licenses, and fines for breaking environmental regulations (Branco & Rodrigues, 2006). A *license to operate* is based on the need for every company to have the "tacit or explicit permission from the governments, communities, and numerous other shareholders to do business" (Porter & Kramer, 2006).

Reputation is viewed as very important. CSR may improve a company's image and brand, invigorate morale, and even improve

its share price (Porter & Kramer, 2006). Companies with a good social responsibility reputation may improve relations with external factors, including customers, investors, bankers, suppliers, and competitors (Branco & Rodrigues, 2006). A company's reputation is a crucial and intangible resource that can be created or depleted as a consequence of the decision to participate in social responsibility activities and disclosure. According to Orlitzky, Schmidt, and Rynes (2003), CSR provides internal or external benefits, or both, and social responsibility disclosure may have different values if the analyses focus on one benefit or the other. Developing a good reputation takes time, and companies have to be patient and persistent. There is a positive relationship between a firm's reputation and its financial performance; this is why developing a good reputation is crucial, and companies must build a reputation over time (Fombrun & Shanley, 1990; Roberts & Dowling, 2002). Because consumers are attracted to companies that present a good reputation in socially responsible issues, companies also face consumer pressures (Branco & Rodrigues, 2006). Disclosure of information about a company's behaviors and outcomes regarding social responsibility may help build a positive image with stakeholders (Orlitzky et al., 2003). However, companies can only benefit from building a reputation for social responsibility if the community also considers social responsibilities important (Branco & Rodrigues, 2006).

Practicing socially responsible employment practices such as offering fair wages, health and education benefits for employees, a clean and safe working environment, training opportunities, flexible work hours, and job sharing can bring direct benefits to the company while increasing morale and productivity, as well as reducing staff turnover. Companies that are seen as having a strong commitment to social responsibility attract better job applicants and maintain higher employee morale (Branco & Rodrigues, 2006).

KPMG conducted a survey examining the rate of corporate responsibility (CR) reporting across the top 100 firms in 41 countries between 2013 and 2015. They found that CSR reporting has seen marked growth within emerging markets, and that CSR rates between countries differ. KPMG also discovered that the Asia-Pacific region has risen to become one of the leading regions for CR reporting

within the last four years. In the Asia-Pacific region, 79% of firms report on CSR, which puts them ahead of the Americas, followed by Europe and the Middle East Africa regions. The growth of the Asia-Pacific region has been driven by a surge in reporting in countries where mandatory and voluntary reporting requirements have been introduced. The Americas have the second highest CSR reporting region, with 77% of the countries reporting in 2015. Europe ranked third, with 74% of firms reporting CSR. KPMG found that Europe had a lower reporting rate because of the significant differences between Eastern and Western European countries. Middle East Africa reports decreased 8% between 2013 and 2015, with a CSR reporting percentage of 53%.

The KPMG survey demonstrated that CSR reporting rates have been steadily increasing in numerous regions, and that the reporting varies between those regions. The survey does not address why the level of reporting is higher or lower in different regions. There may be many reasons why the level of reporting is different, including the stability of a country's government, business customs, national culture, and the wealth of the country. All serve as factors in the increase or decrease of CSR reporting.

Perego and Kolk (2012) found that country level factors are significant drivers of sustainability assurance. By using a panel of the Fortune Global 250, Perego and Kolk (2012) showed that the publication of more stringent legislation on social and environmental reporting increased regulatory pressure and acted as a powerful coercive mechanism, which in turn lent support to the adoption of international reporting and assurance standards. DiMaggio and Powell (1983) and Boiral and Gendron (2011) described CSR reporting and assurance as "a process of normative isomorphism," since it is largely characterized by adapting professional practices in both financial and non-financial forms of auditing. The pressures are evident in the early stages of diffusion, when the institutionalization process is prompted by the powerful role of professional auditing entities (Simnett, Vanstraelen, & Chua, 2009; Kolk & Perego, 2010).

Institutional forces seem to affect firms' initiatives in CSR reporting and assurance. Perego and Kolk (2012) indicated that organizational and firm level factors play a potential role in indicating why firms adopt heterogeneous management practices when facing

isomorphic pressures. Based on the biased view of the firm, the adoption of advanced CSR management practices is also related to the availability of sufficient organizational resources capabilities (Delmas & Toffell, 2011). Therefore, corporations with more environmental resources and capabilities seem more likely to demand higher levels of accountability standards and assurance quality, while the lack of firm capabilities can be an obstacle to the diffusion of CSR reporting and assurance (Thorne, Mahoney, & Manetti, 2014).

The literature indicates that the country in which the organization is reporting and the country of the ultimate ownership have a significant effect on CSR reporting and assurance practices (Thorne et al., 2014). Thorne and colleagues (2014) also showed that the data reveal a number of characteristics related to a company's predisposition to make social disclosures, which include capital intensity and availability (Belkaoui & Karpick, 1989), the age of the corporation (Roberts, 1992), planned strategies, the attitudes of senior executives, and the presence of a CSR committee (Cowen, Ferreri, & Parker, 1987; Roberts, 1992; Trotman & Bradley, 1981).

Since CSR is influenced by relevant cultural, social, political, and economic factors specific to a particular country, and as firms face increasing pressure to be more socially responsible, we propose the following research question: *Is there a difference in CSR scores across international geographic regions?*

METHODOLOGY

Sample Selection

The sample size consisted of 4,643 firms from the 2014 SGP dataset. The 4,643 firms consisted of 97 African firms, 1,724 Asia-Pacific, 1,359 European, 63 Latin American, 1,262 North American, and 138 South American firms.

CSR Performance

Building on the work of (Thorne, Mahoney, Gregory, & Convery, 2015), we analyzed CSR performance through a firm's CSR scores obtained from the Sustainalytics Global Platform (SGP) database. The SGP database measures the CSR performance

of over 4,700 firms worldwide. To calculate the CSR scores, the database collects both internal and external data from many sources, including annual reports, environmental and safety policies, internal codes of ethics from the firms themselves, as well as from various industry and government publications, and interviews with key stakeholders. As shown in **Figure 1**, below, Total CSR scores are based on a weighted average of scores of three dimensions of CSR: *Environmental*, *Social*, and *Governance*. Sustainalytics assigns each firm a score from 0 to 100 on a Likert-type scale, weighted according to its significance, as determined by Sustainalytics analysts.

Environmental factors include the areas of operation supply chain, products, and services. Sustainalytics scoring for

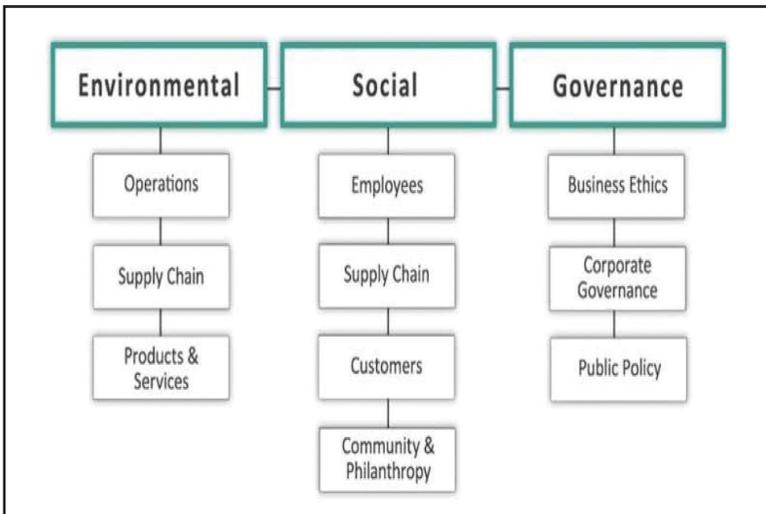


Figure 1. Dimensions of Total CSR Scores (Thorne et al., 2015).

operations takes into account formal environmental policies, environmental and social impact assessments, and programs to reduce waste, emissions, and water usage. Supply chain scores are based on external environmental certification for suppliers and on various programs to stimulate sustainability (Thorne et al., 2015). Finally, to calculate products and services scores, Sustainalytics consider sustainability-related products and services, revenue from clean technology, organic products, and controversial

practices, such as the use of genetically modified organisms in products (Thorne et al., 2015).

The second measure of CSR performance is the *Social* dimension, which includes the areas of employees, supply chain, customers, community, and philanthropy. For the employees' area, Sustainalytics considers employment policies on bargaining and discrimination, employee work conditions, turnover, training, fatalities, and other employee-related controversies. Supply chain scores contain standards for supply chain fair trade, external social certification of suppliers, and any supply chain controversies (Thorne et al., 2015). The customers' score represents the existence of and content within statements of public policies in areas such as advertising ethics and data privacy. Community and philanthropy areas include human rights policies, community engagement, development programs, and internal guidelines for philanthropic activities, such as whether cash donations equal 1% of net earnings before taxes and whether the firm has a corporate foundation (Thorne et al., 2015).

The *Governance* score is determined by a firm's business ethics, corporate governance, and public policy. A firm's business ethics score reflects its policies and incidents concerning bribery, whistleblower programs, policies on animal welfare and clinical trials, and any other ethical controversies (Thorne et al., 2015). The corporate governance section evaluates CSR reporting issues, board diversity and independence, audit-related issues, and other cases involving corporate governance. The public policy sub-category scores reflect political involvement and contributions, transparency of government payments, and any public policy related issues (Thorne et al., 2015).

RESULTS

Total CSR

To test our research question of whether there would be differences in CSR across international geographical regions, we compared various CSR scores in six regions. First, we examined Total CSR scores for all regions. **Table 1a.** and **Figure 2.** show the mean Total CSR scores by region. Africa has the highest mean Total CSR score of 61.8, followed by Europe, with 61.4; South America,

with 60.3; North America, with 57.3; Asia-Pacific, with 54.9; and Latin America, with 54.7. **Table 1b.** illustrates the one-way analysis of variance (ANOVA) table, showing that there are significant differences in Total CSR scores by region ($F = 79.0, p = .000$). Using a 95% family-wide confidence level, the Tukey Pairwise Comparisons test was then used to determine significant differences among regions for Total CSR scores. The results showed that there were no significant differences in Total CSR scores between Africa, Europe, and South America, but all three regions had significantly higher Total CSR scores than the other regions. Further, North America has a significantly higher CSR score than the Asia-Pacific regions, but there was no significant difference found between North America and Latin America. Latin America has significantly lower Total CSR scores than all the other regions, except the Asia-Pacific, whose scores were not significantly different.

Variable	Region	n	Mean	Std. Dev	Minimum	Maximum
Total CSR Score	Africa	97	61.8	11.6	38.1	88.8
	Asia-Pacific	1,724	54.9	9.0	30.1	89.1
	Europe	1,359	61.4	10.5	36.8	91.0
	Latin America	63	54.7	9.1	41.9	78.3
	North America	1,262	57.3	8.6	39.1	86.7
	South America	138	60.3	10	35.4	81.4

Table 1a. Total CSR Score by Region.

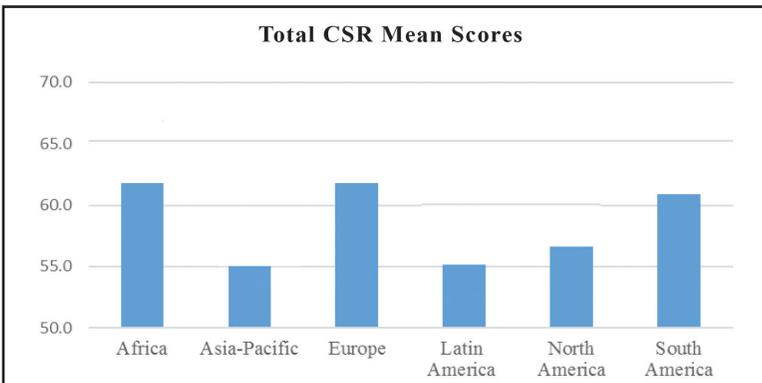


Figure 2. Total CSR Mean Scores by Region.

Source	DF	Adj. SS	Adj. MS	F-value	P-value
Region	5	35,316	7,063.22	79.0	0.000
Error	4,637	414,520	89.39		
Total	4,642				

Table 1b. One-way ANOVA Table Total Scores by Region.

Environmental CSR

Table 2a. and **Figure 3.** illustrate the mean Environmental CSR scores by region. Europe has the highest mean score of 58.4, followed by Africa, with 57.3; and South America, with 54.3. Furthermore, North America and the Asia-Pacific regions share the mean score of 52.2, while Latin America has the lowest, at 49.7. Overall, the rankings of the Environmental CSR scores are lower than the Social, Governance, and Total CSR scores for all regions. **Table 2b.** shows the ANOVA results, indicating significant differences in Environmental CSR scores by region ($F = 40.2$, $p = .000$). Using a 95% family-wide confidence level, the Tukey Pairwise Comparisons test was then used to determine the significant differences in regions for Environmental CSR scores. These results show no significant differences in Environmental CSR scores between Europe and Africa, and both regions had significantly higher Environmental CSR scores than North America, Asia-Pacific, and Latin America. South America's Environmental CSR scores were significantly lower than those of Europe, but not Africa. We found no significant difference in the Environmental CSR scores of South America, North America, Asia-Pacific and Latin America.

Variable	Region	n	Mean	Std. Dev	Minimum	Maximum
Environmental Score	Africa	97	57.3	14.9	31.7	90.2
	Asia-Pacific	1,724	52.2	13.8	19.9	95.9
	Europe	1,359	58.4	14.4	27.5	93.7
	Latin America	63	49.7	12.6	31.7	84.6
	North America	1,262	52.2	13	28	96
	South America	138	54.3	13.4	22.9	91.4

Table 2a. Environmental Score by Region.

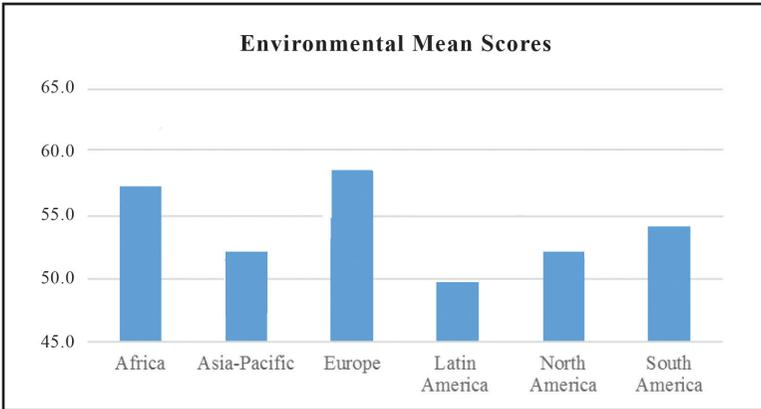


Figure 3. Environmental Mean Scores by Region.

Source	DF	Adj. SS	Adj. MS	F-value	P-value
Region	5	37,970	7,594	40.2	0.000
Error	4,637	876,730	189.1		
Total	4,642				

Table 2b. One-way ANOVA Environmental Scores by Region.

Social CSR

Table 3a. and **Figure 4.** illustrate the mean Social CSR score by region. Again, Africa has the highest mean score of 63.0. Europe and South America both have the second highest mean score of 62.6; followed by North America, with 57.2; Asia-Pacific, with 56.1; and Latin America, with 55.7. Overall, the Social CSR mean scores are lower than the scores for Governance CSR and higher than the Total CSR scores, except for North America, where the scores are approximately the same. **Table 3b.** is a one-way (ANOVA) table showing that there are significant differences in Social CSR scores by region at ($F = 75.4, p = .000$). Using a 95% family-wide confidence level, the Tukey Pairwise Comparisons test was used to examine the differences in regions in Social CSR scores. These results show no significant difference among scores in Africa, Europe, and South America; these regions had significantly higher Social CSR scores than all other regions.

Again, North America had the next highest Social CSR score, while Asia-Pacific and Latin America had the lowest. We found no statistical difference between the Social CSR scores for Asia-Pacific and Latin America and found none between North America and Latin America. North America had a significantly higher Social CSR score than Asia-Pacific.

Variable	Region	n	Mean	Std. Dev	Minimum	Maximum
Social Score	Africa	97	63.0	11.7	32.2	88.9
	Asia-Pacific	1,724	56.1	9.6	20.2	90.6
	Europe	1,359	62.6	11.3	35.0	94.4
	Latin America	63	55.7	8.9	40.0	72.9
	North America	1,262	57.2	10.1	31.7	94.6
	South America	138	62.6	10.1	35.8	89.6

Table 3a. Social Score by Region.

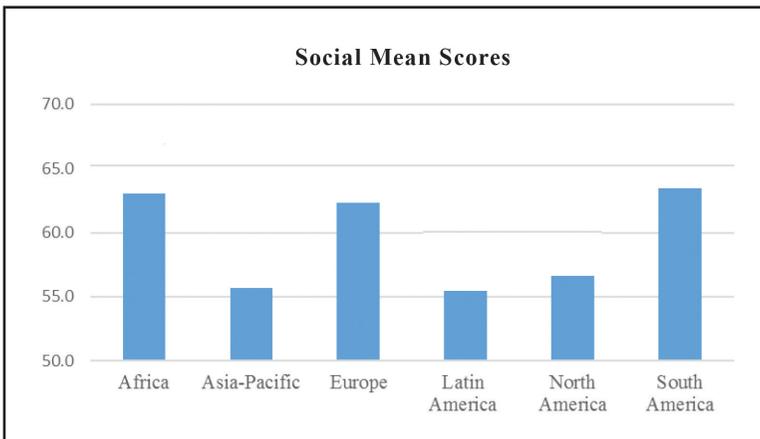


Figure 4. Social Mean Scores by Region.

Source	DF	Adj. SS	Adj. MS	F-value	P-value
Region	5	39,984	7,996.8	75.4	0.000
Error	4,637	491,516	106		
Total	4,642				

Table 2c. One-way ANOVA Social Score by Region.

Governance CSR

Table 4a. and **Figure 5.** illustrate the mean Governance CSR scores by region. Africa has the highest Governance CSR score of 67.0, followed by South America, with 66.3; North America, with 64.9; Europe, with 64.3; Latin America, with 60.5; and Asia-Pacific, with 57.5. The Governance CSR scores for all regions are higher than the Total CSR scores, and the rankings by regions are similar. **Table 4b.**, the one-way ANOVA table, shows that there are significant differences in CSR Governance scores by region ($F = 99.8, p = .000$). Using a 95% family-wide confidence level, the Tukey Pairwise Comparisons test showed no significant difference between Governance CSR scores in Africa, South America, North America, and Europe, and all four regions had significantly higher Governance CSR scores than Latin America and the Asia-Pacific regions. We found no significant difference in the Governance CSR scores between Europe and Latin America or between Latin America and the Asia-Pacific regions.

The results of the statistical analysis of the CSR scores showed that Africa and Europe had consistently higher CSR scores than other regions. Latin America and Asia-Pacific regions had lower CSR scores

Variable	Region	n	Mean	Std. Dev	Minimum	Maximum
Governance Score	Africa	97	67.0	14.0	37.3	97.3
	Asia-Pacific	1,724	57.5	10.3	30.7	100.0
	Europe	1,359	64.3	12.0	31.6	98.0
	Latin America	63	60.5	12.8	37.9	90.1
	North America	1,262	64.9	9.4	38.1	92.5
	South America	138	66.3	12.9	37.9	93.8

Table 4a. Governance Score by Region.

Source	DF	Adj. SS	Adj. MS	F-value	P-value
Region	5	58,301	11,660.1	99.8	0.000
Error	4,637	541,756	116.8		
Total	4,642				

Table 4b. One-way ANOVA Governance Score by Region.

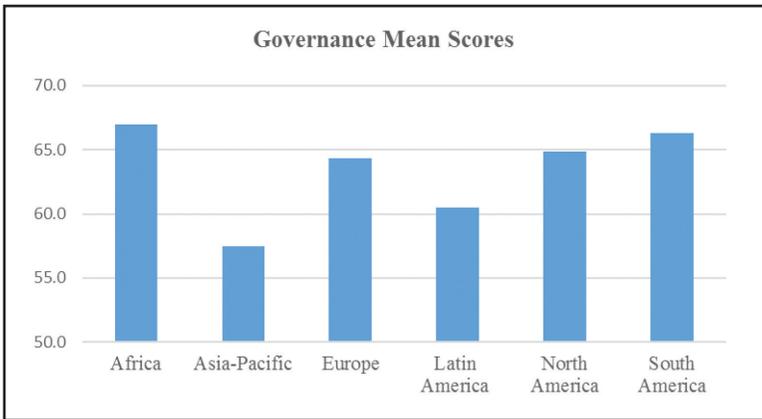


Figure 5. Governance Mean Scores by Region

than those for other regions in all categories. North and South America were usually between the highest and lowest regions, depending on the type of CSR score. The statistical results support our research question, which stated that there are significant differences in CSR scores across international geographic regions.

DISCUSSION AND CONCLUSION

The purpose of our research is to provide insight on the differences in CSR rankings between regions. Globalization has heightened foreign trade, and firms are more likely to conduct business in multiple countries or regions. For this reason, it is important to evaluate and understand all firms' CSR practices. To better investigate the association between corporate CSR scores across geographical regions, we examined 2014 CSR scores as reported by the SGP database.

We compared Environmental, Social, and Governance, and Total CSR scores for 4,643 firms, across six international regions, using one-way ANOVA analyses. The purpose of the study was to determine if any difference exists in mean CSR scores among firms located in different international regions. Consistent with our research question, our findings show that CSR scores differ between six regions.

The results for the Total CSR scores showed that overall, Africa had the highest mean Total CSR scores, followed by Europe, South and North America, whose scores were between the highest and lowest. The Asia-Pacific region and Latin America had the lowest CSR score, which was consistent with the results of Environmental, Social, and Governance CSR scores.

The results for the mean Environmental CSR scores showed that Europe and Africa had the highest CSR scores, followed by South and North America, Asia-Pacific and Latin America, with no significant differences among the latter four regions. Overall, the Environmental CSR scores are lower than the Social, Governance, and Total CSR scores for all regions.

We found for the Social CSR scores, Africa, again, had the highest mean score. Africa was followed by Europe and South America, which had the same mean Social CSR score, and North America, again, had both the highest and lowest mean scores. Latin America and the Asia-Pacific region had the lowest Social CSR scores. Overall, the Social CSR mean scores are lower than the Governance mean CSR scores, and higher than the Total CSR scores, except in North America, whose score was consistent across all categories.

The results for the Governance CSR scores showed that Africa had the highest Governance score. South America and North America were between the highest and lowest, followed by Europe. Latin America and Asia-Pacific had the lowest Governance CSR scores, as well as the lowest Total, Environmental, and Social CSR scores.

Overall, we found that Africa and Europe had consistently higher CSR scores than other regions, with Latin America and Asia-Pacific having the lowest CSR scores. North and South America were usually between the highest and lowest regions, depending on the type of CSR score. These results contradict the KPMG (2015) assertion that the Asia-Pacific region has the highest reporting rate, followed by the Americas; our data suggest that there is no relationship between CSR reporting and actual CSR scores. Furthermore, our results do not provide explanations for the differences between the six regions.

The results of our paper can be further expanded to explore possible explanations for the differences between regions. An

expansion of our research could examine national cultures and perform a statistical regression analysis to find similarities or differences. The data on national cultures can be collected from sources such as Geert Hofstede's book, *Culture's Consequence: Comparing Values, Behaviors, Institutions and Organizations across Nations* (Hofstede, Hofstede, & Minkov, 2010). Hofstede et al. (2010) divide national cultures into five dimensions: Power Distance, Individualism vs. Collectivism, Masculinity vs. Femininity, Uncertainty Avoidance, and Long-Term Orientation.

LIMITATIONS

This paper is a brief analysis of the current state of CSR reporting within Africa, Asia-Pacific, Europe, Latin America, North America, and South America. The data collected in this study is a broad overview of each region, and this paper does not explore the reasons why these differences arise between these six regions. We also acknowledge that our research has limitations associated with both the research method and measurement. Metrics for Total, Environmental, Social, and Governance CSR performance score measurements were developed by Sustainabilitytics, and therefore, the validity of CSR scores, depend on the definitions and judgment of the database researchers.

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