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Is the sustainability information useful?

- A qualitative study of the Swedish institutional investors

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Abstract

Title: Is the sustainability information useful? A qualitative study of the Swedish institutional investors.

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Five key words: Sustainability information, Institutional investors, Usefulness, Integrated Reporting, GRI Guidelines

Purpose: The intention with this thesis is to provide the reader with a better knowledge about how the Swedish institutional investors perceive the usefulness of sustainability information. The thesis will also attempt to illustrate the institutional investors' opinions regarding the development towards integrated reporting.

Methodology: The thesis has an interpretive research approach and has applied a qualitative research with both an inductive and deductive approach. The conducted interview has been followed a semi-structured form and the secondary data has been gathered from trustworthy sources.

Theoretical perspectives: The theoretical framework and literature review consist of established theories from the company perspective and previous research from the investor perspective. Since there are no applicable theories able to explain the empirical result an analytical framework has been developed by the researchers. The analytical framework is drawn from the decision usefulness approach and has resulted in five analytical criteria.

Empirical foundation: The empirical data is gathered from telephone interviews with seven Swedish institutional investors. The empirical data was thereafter assembled and analysed with the developed analytical criteria.

Conclusions: The institutional investors generally have a good perception of the disclosed sustainability information. However, there are number of indications which contradict with the initial impression. This can be argued to descend already from the ambiguities in the initial terminology of sustainability. Further, the respondents were positive to the development towards integrated reporting and they could see possible future benefits.

We would like to give our humble gratitude to our supervisor Amanda, who has given us constructive criticisms and supported us to the completion of this thesis. Further, our greatest appreciation to our respondents for participating and making the research possible. Lastly, to all the people in our nearest surrounding- thank you!

Gustav Rybrink

Lisa Törnblom

Abbreviation

COP	Communication on Progress
FASB	Financial Accounting Standards Board
GRI	Global Reporting Initiative
IAASB	International Auditing and Assurance Standards Board
IASB	International Accounting Standards Board
ICAEW	Institute of Chartered Accountants in England and Wales
IFAC	International Federation of Accountants
IIGCC	The Institutional Investors Group on Climate Change
IIRC	International Integrated Reporting Council
SFF	Sveriges Finansanalytikers Förening
UNPRI	United Nations Principles for Responsible Investment

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1. Introduction

This chapter will provide the reader with an initial understanding of the subject matter of the thesis and its frequent debate within the accounting profession. This will engender the problem formulation and the purpose will be established, which will constitute as a basis for the research question. At last, the chapter will include relevant definitions and the continuing disposition of the thesis.

1.1 Introduction

The awareness of sustainability is growing bigger in today's society which is apparent in the increased extent of reporting on sustainability issues by companies. It has been reported that 95% of the 250 largest companies in the world disclose information on their sustainability activities, which is a large increase since 1999 where the corresponding number was 35% (KPMG, 1999, 2011). Further, there is a general assumption that information about a company's environmental performance is required by the different stakeholders of the company (Hassel, Nilsson & Nyquist, 2004). At the same time there is a widespread concern that investors do not use the sustainability information disclosed by companies (IFAC, 2012). Although the disclosures of sustainability information by companies are increasing, there are still studies which show a remaining demand for more information by the investors (Deegan & Rankin (1997, 1999); Azzone, Brophy, Noci, Welford & Young (1997); Solomon & Solomon (2006); (IFAC (2010); PwC (2012))). The following quote emphasises a gap between the practitioners disclosing and the investors using the information:

"We hear frequently from preparers who say that the expanded disclosures are not used by investors. Yet when we go to roundtables or in other forums, investors frequently ask for more quantitative and qualitative disclosures." (Mr. Waldron, IFAC, 2010, p. 4)

The debate regarding sustainability reporting and its usefulness for the investors is growing both internationally and nationally in Sweden. By taking the perspective of the investors, the normative assumption that the users are using the disclosed information by the companies can be questioned. The normative assumption is originally based on the IASB's Conceptual Framework, where it is stated that the general purpose of the financial reporting is to provide financial information that is useful to a wide range of users. Further the investor, with the capacity of capital provider, is identified as a user with higher importance because the needs of the other users will be satisfied if the investors' needs are met (IASB Conceptual Framework, 2008). Hence, the financial information has a decision making role and to achieve this role, the information has to be decision useful (Hooks & van Staden, 2004).

This can in turn be transposed into the context of sustainability information, implying that the intention for the companies to disclose sustainability information ought to be for the needs of the investors. This derivation can be supported by the fact that the purpose of sustainability reports

has changed. The initial purpose with sustainability reports was to demonstrate the company's commitment to the environment. However, the purpose has arguably changed to a focus of communicating the company's environmental performances (Azzone et al, 1997). Thus, the provided information is intended to be used by the company's various stakeholders where one of the main target users is the investors.

There are dissenting opinions of how the investors perceive the usefulness of sustainability information. Some reports indicate the investors to use sustainability information as an indicator of future performance and others state that it is of no value to the investors (IFAC, 2010). However, the importance of the investors is clearly stressed in the Discussion Paper of Integrated Reporting (2011) where it is stated that the development of the framework is initially focusing on the needs' of the investors (IIRC, 2011). Hence, there is an assumption of usage of sustainability information by the investors.

Further, at the Swedish level, the Swedish Institute for the Accountancy Profession (FAR) has stated one future challenge to be to meet the financial analysts' requirements on sustainability information. This implies that in Sweden there is an observed deficiency between the reporting of sustainability information and the investors' use of it. The manifested importance of the investors is also apparent at roundtables, where the Swedish Society of Financial Analysts and various financial analysts are participating to discuss issues related to sustainability reporting. At the same time the Swedish Society of Financial Analysts (Sveriges Finansanalytikers Förening, SFF) is issuing recommendations where issues related to the environment, social responsibility and sustainable development are included (FAR, 2010).

With regard to both the international and national debates about the investor relation to the disclosed sustainability information, this has generated an interest of examining the field and subject matter further.

1.2 Development of the research question

The literature provides many reasons to why companies are disclosing sustainability information inter alia to obtain legitimacy and retain licence to operate, pressure from powerful stakeholders and peer groups or to serve as a tool for reputation risk management (Deegan & Unerman, 2011). Further, many studies have been conducted examining the corporate disclosures of sustainability information (Deegan & Rankin (1996); Gray et al (1996); Adams (2002); Deegan (2002, 2007); O'Dwyer (2003); Buhr (2007); Larrinaga-Gonzalez (2007); Roca & Searcy (2011)). Hedberg and von Malmborg (2002) have conducted a research of Swedish companies to analyse how the use of Global Reporting Initiative (GRI) standards have influenced their corporate sustainability reporting.

However, there is on the other side a relatively limited amount of researches taking the user perspective, which would be the views and needs of various stakeholders and important in the context of this thesis, the institutional investors. Deegan and Rankin (1997) showed that the majority of various annual report users consider environmental information to be material in the

different decisions they make, but the stockbrokers and analysts moderated the materiality. However, Ljungdahl (1999) stated the financial stakeholders to use the environmental disclosures in the greatest extent of the company's various stakeholders. Further, a study by the Boston College Center for Corporate Citizenship (2008) indicated that there is a lack of use of non-financial information by professional investors but there is still a desire of increasing the usage of the information in the future. Hence, conducted researches have presented different outcomes and the questions whether investors are using the disclosed sustainability information and to what extent, are not consistently answered.

Berthelot, Coulmont and Serret (2012) stated that the increasing importance of environmental issues in the economic decision-making has led to a growing demand of environmental information. The provision of environmental reporting can, in turn, improve the decision-making by investors because the environmental performances can have a financial impact on the invested company (Richardson & Welker, 2001). That is, the use of sustainability information should benefit the investors in their investment decisions, but do they take this stated advantage and actually use the information in their investment decision?

Moneva and Cuellar (2009) report the difference of the value relevance of environmental information in disclosures which is voluntary or mandatory. The result indicate that standards will generate sustainability information which is value relevant, but the mandatory reporting will however have a higher impact on the investors' decisions. Hence, the accounting regulation process can influence the investors' decisions and an increase of mandatory requirements might increase the relevance of environmental information. The interest of regulating in the area of both sustainability reporting and assurance has increased in the last years since the financial crisis. This is particularly apparent in Sweden, where sustainability reporting is a mandatory requirement for state-owned companies (KPMG, Unit for corporate governance in Africa, GRI, & UNEP, 2010). Relating the findings by Moneva and Cuellar (2009) to the Swedish context, it can be questioned if Swedish investors consider environmental information to be of higher relevance.

This section, with the inclusion of some previous interesting studies, has emphasised the width of the various issues regarding the institutional investors' use of sustainability information. At the same time it has been demonstrated that the outcomes of the various researches have sometimes been contradictory. With this in mind the purpose was established and further the research question formed.

1.3 Purpose

The intention of this thesis is to provide the reader with better knowledge about how the Swedish institutional investors perceive the usefulness of sustainability information. This will be of great interest for the companies disclosing the sustainability information, to obtain a better understanding about the various demands from one of their main stakeholder. Further, it will be a relevant contribution to the investment community by increasing the insight of other institutional investors' usage and perception of usefulness of sustainability information. Thus, the study can be

used as a type of benchmark. In addition, the thesis can contribute with important aspects for the standard-setters in their development of standards on sustainability reporting.

The thesis will also attempt to illustrate the institutional investors' opinions regarding the development towards integrated reporting. This will be relevant for the various actors involved in the development, that is, the different organisations developing the framework and guidelines. By providing a discussion of the Swedish institutional investors this can contribute to the debate regarding the current state of sustainability reporting and its future development.

1.4 Research question

How do the Swedish institutional investors perceive the usefulness of sustainability information disclosed by companies and the development towards integrated reporting?

1.5 Definitions

1.5.1 Sustainability reporting

Many concepts of sustainability reporting are circulating in the profession, "sustainability-", "sustainable development-", "CSR-" and "triple bottom line-" reports (Roca & Searcy, 2011). Hence, it is hard to find an established common term with a uniformed connotation and interpretation. To start defining the meaning of sustainability reporting a frequently used definition is the one stated by the Brundtland report:

"Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs." (Our Common Future, the World Commission of Environment and Development, 1987)

To achieve sustainable development, sustainability reporting is a practice of measuring and disclosing organisational performance, and being accountable to the company's stakeholders (GRI, 2011). For the proceeding of this thesis the companies' sustainability reporting is referred to and interpreted as disclosures of social and environmental information. Hence, the terms sustainability, environmental and social report will be used interchangeably. Additionally it is important to stress that the information does not only have to be disclosed in a separate report, the thesis will consider all information on the subject matter disclosed in various forms. Hence, the term sustainability reporting will refer to sustainability information received from different sources.

1.5.2 Institutional investor

According to Hedlund, Hägg, Hörnell and Rydén (1985) institutional owners can be referred to as legal persons. The institutions can have different characteristics; private, cooperative or public. This implies that institutional owners are a non-homogeneous group of owners, and can be for example investment companies, foundations, insurance companies and funds (equity or pension). Further, a distinction can be made between private and institutional investors, where the latter is

not managing its own money which the former does. It is also a difference of organisational related goals, which the latter has and the former has not. In this thesis there will not be focus on the private investors. The empirical study embraces institutional investors such as investment companies and pension funds (Hedlund et al, 1985).

It is further important to emphasise and put the institutional investor in a context of a stakeholder. Freeman and Reed (1983, p. 91) defines stakeholders as:

“any identifiable group or individual who can affect the achievements of an organisation’s objectives, or is affected by the achievements of an organisation’s objectives.”

A further classification of the stakeholder can be made, which is the one between primary and secondary stakeholders. The former is the stakeholder which the company cannot survive without, thus it is crucial for the company's going concern, and includes inter alia shareholders and investors. The latter is, on the other hand, not essential for the company’s survival and this is for example media and special interest groups (Clarkson, 1995). Hence, the institutional investors are seen as a primary stakeholder who the company cannot proceed without.

1.6 Disposition

The thesis will start off with a thoroughly described method chapter since this has constituted as a basis for the entire thesis. In the next chapter a reporting framework of sustainability reporting will be provided. This includes the legal requirements, the voluntary standards by the GRI and the integrated reporting framework. Thereby this chapter will have the reporting company’s perspective and a departure from the investors’ perspective will be made. Further, the theoretical framework and literature review will comprise several contributions in the subject matter from both the literature and previous researches. This chapter will present the perspectives of both the companies and the investors. The following chapter will describe the development of the analytical framework and explain the meaning of the analytical criteria. These are later used in the analysis. Chapter six will present the results of the empirical study and thus this chapter will have an entire focus on the investors and their perspective. This chapter will be followed by the analysis and discussion, where the research findings are analysed with the analytical criteria and further discussed in relation to the contributions provided in chapter four. At last, some concluding remarks will be emphasised and future research areas will be proposed.

2. Method

The method chapter is intended to enhance the understanding of the approach for the research of the thesis. Advantages and disadvantages with the collection of data will be emphasised as well as limitations and criticism. Further, the chapter will describe the development of the analytical framework.

2.1 Methodology

The thesis intends to explore the personal and subjective opinions from the institutional investors regarding their view of the usefulness of sustainability information and the development of integrated reporting. To be able to obtain knowledge of the institutional investors' opinions, interpretations of reality have been made. Further, to enable the gathering of the personal and subjective opinions the interpretive research method has been used, which the hermeneutic research method has been influential on. In the interpretive research method there is an emphasis regarding the social actions that are of importance to the actors and such actions need to be interpreted from the actors' point of view (Bryman & Bell, 2005).

This implies that the researchers ought to interpret the observed phenomena and thereafter attempt to create a meaning of it and explain the case (Scapens, 2007). The previous aspects of interpretive research method have been considered when assembling the subjective opinions. Interviews have been conducted to be able to gather information from the institutional investors' point of view. The interpretations of the observed phenomena have thereafter been made with the use of an analytical framework to be able to create an understanding.

Lundahl and Skärvad (1999) state that it is difficult for the researchers to remain independent when conducting this kind of research. This is an argument for not using the positivism research method, which states that the researchers should and are able to conduct an objective research (Bryman & Bell, 2005). Further, in an interpretive research the type of the study is exploratory, which can be put in the context of this thesis since it attempts to explain the situation from the collected data and in the conclusion it will provide suggestions for future statistical testing. The theories in the thesis have been used as explanatory to create a better understanding of reporting on sustainability, which is in line with the interpretive research method. However, there is no applicable theory to explain the result of the thesis which means that it is not possible to give a theory based explanation. Therefore the explanations have to reside within the thesis itself, which also is stated in the interpretive research method (Scapens, 2007).

2.2 Research design

The initial phase of the thesis was founded on previous research and thus it can be stated that the thesis has a deductive research approach. The deductive approach means that theory is the foundation of an empirical study (Bryman & Bell, 2005). The thesis will attempt to create its own view of the institutional investors' use of sustainability information with support from previous research. However, the thesis will contribute with further research in the area of sustainability

information and this approach will on the other hand lead to an inductive research method (Bryman & Bell, 2005).

Jacobsen (2002) states that the researchers have to determine whether to use a qualitative and quantitative research method, which has to be based on the purpose and the research question of the thesis. In the context of this thesis the former method is most applicable and has therefore been used. Further, Bryman & Bell (2005) argue that the qualitative method facilitates the understanding of how humans interpret and behaves in different situations. Then conducting a qualitative research there will be more focus on words and not numbers. This serves the thesis well due to the research question and the purpose. The decision of deselected the quantitative research is due that fact that it would not generate the same profound knowledge of the subject as the qualitative research (Jacobsen, 2002).

2.3 Selection of respondents

2.3.1 Approach of the empirical study

In the initial phase of this research an overview of the subject was conducted to be able to find an interesting aspect to study, which is seen as step one in the selection process according to Jacobsen (2002). The aspects to be studied are the perceived usefulness of sustainability information by institutional investors and their perception of the development towards integrated reporting. This is due to the increased attention of sustainability information during the past years (KPMG, 2010) and that there are researches showing contradictive results of both perceived and not perceived usefulness of sustainability information by the stakeholders. Since the institutional investors are seen as an important (primary) stakeholder, they were chosen to be focused on. Further the development of integrated reporting is also highly debated, which made it an interesting aspect to include.

When trying to get in contact with suitable respondents for the interviews, the contact was established by telephone and by email. Swedish companies that were contacted were banks (Avanza, Carnegie, Handelsbanken, Nordea, SEB and Swedbank) and pension insurance companies (Alecta, Company A, Company B, Folksam, Länsförsäkringar, SPP and Söderberg & Partner). All the emails were initially sent to public information address of each company and later directions to suitable respondents were done by the company. The same process was conducted when trying to establish contact by telephone. The phone call was firstly made to a local information number of the company and thereafter the call was directed by the company to a person how was appropriate.

When contacting the companies, despite if it were by telephone or email, contact was made with several persons in the different companies, before a suitable respondent was reached. Thereafter the purpose of the thesis and the intention of the interview were presented to the respondents. Thus, the respondents had the possibility to see if they were the appropriate persons for the interview and if not decline their participation. A risk with presenting the purpose of the thesis can

be that an incitement for the respondent not be honest in the given answers might arise (Jacobsen, 2002). This this was however not something that was perceived to be the case during the conducted interviews. In the end, seven investors accepted to conduct an interview. Before conducting the interviews the interview guide with the questions was sent to the respondents in order for them to be able to prepare themselves.

The last phase of the selection process, according to Jacobsen (2002), is to establish the criteria the respondents has to fulfil. In this thesis they firstly had to fall under the definition of institutional investors. Secondly, the respondents should not work in a sustainability department, which was due to an underlying assumption that investors in the sustainability department certainly use the sustainability information in a great extent. Thirdly, the investors that were working at banks should be working with capital investments and not lending.

2.3.2 Interview respondents

Anders Magnusson – Söderberg & Partner (Interview duration 30.36 min)

Anders Magnusson is business manager for the institutional investment-consulting department and has been working at Söderberg & Partner since it started in 2004. Söderberg & Partner is an investment company providing insurance and financial products.

Bo Selling – Alecta (Interview duration 30.19 min)

Bo Selling is the head of equities and has been working at Alecta since 2007, but he has been working with equities since 1987. Alecta is a Swedish life insurance company established in 1917 and has since then been managing occupational funds.

Helena Lindahl – Storebrand (Interview duration 32.30 min)

Helena Lindahl is working as a bond trustee at Storebrand and has been working in the financial market for 15 years. Storebrand is a company with an enriched history and in year 2007 Storebrand acquired SPP, which made them the largest pension group in Scandinavia.

Martin Nilsson – Nordea (Interview duration 27.32 min)

Martin Nilsson is managing seven funds in Nordea's "Scandinavian funds" (Nordenfond). He has been working at Nordea for ten years in total, with a break at the fifth year working at Alecta for four years. Nordea is one of northern Europe's largest financial group and the biggest asset managers in the region.

Per Andersson – Handelsbanken (Interview duration 24. 34 min)

Per Andersson is working in the trustee section of Handelsbanken and more specifically as an analyst with focus of raw materials and energy. He has been working at Handelsbanken for seven years and has additionally nine years of experience of fund management. Handelsbanken is a full-service bank that dates back to 1871 and has today operations in 24 different countries.

Anonymous X (Interview duration 32.50 min)

Person X has been working for several years within the financial sector. In recent years person X started working at company A and X has an influential position. Company A is a pensions company in Sweden.

Anonymous Y (Interview duration 33.22 min)

Person Y has been within the financial sector for several years. Company B where person Y is working, are managing funds owned by one of the major pension company in Sweden.

The name of the respondents will further not be used in the presentation of the empirical result because it is argued that it would not contribute with any added value. That is, all the respondents will be referred to as respondent, investor or interview person.

2.4 Data collection method

In the thesis both primary and secondary sources have been used, which is stated by Jacobsen (2002) states to provide a solid foundation to build a conclusion upon.

2.4.1 Primary data

Primary data is information which the researcher gathers for the first time. This can be gathered by inter alia interviewing a person or a group (Jacobsen, 2002). In this thesis the primary data consists of the interviews which were conducted with the seven institutional investors. Below a description of how the interviews were conducted and an explanation of the asked questions will be presented.

2.4.1.1 Conducting the interviews

All of the interviews were conducted via telephone, which was preferred when the respondents were at a major geographical distance. All of the respondents were stationed in Stockholm and telephone interviews therefore will be more time and cost effective (Bryman & Bell 2005), due to that the respondents is studying at Lund University. Further, in a face-to-face interview the respondent might be affected by the interviewer's body language, which can lead to adjustments in the interviewees' answers so the answer is perceived to better suit the interviewers' expectation. However, this is prevented when conducting a telephone interview (Bryman & Bell, 2005).

One disadvantage with telephone interviews is that the interviewer cannot see the expressions of the respondent, which might decrease the interviewers' ability to interpret if the respondent does not understand the question (Bryman & Bell, 2005). If there were any indications during the conducted interview that the respondent did not understand the question, the question was then rephrased. However, no major rephrasing was done because the context of the question should still be the same.

During the interviews one interviewer was taking notes and the other asked the questions and was responsible for the continuation of the interview, which implies inter alia to ask prompting questions. The structure of the interview was equal in all interview and both of the interviewers

had the same tasks for each of the interviews. Hence, this entailed that the conditions were as equal as possible for all the interviews. In order to reduce the risk for missing important aspects from the interviews all interviews were recorded with the permission of the respondents. When conducting all of the seven interviews the interviewers were in a quiet area with minimal interference, which minimised the environments impacts on the questions asked or perception of the answers by the respondents.

The interviews were conducted during a period of four days with between one and three interviews per day. When the interviews were conducted they were transcribed which was done by listening to the recordings from the interview. During the transcribing phase, the transcriptions were read through at least three times and additionally read through at the same time as listening to the recording. This was done to be able to ensure that nothing from the interviews was left out in the transcribing phase. The length of the interviews was on average 30 minutes.

2.4.1.2 Interview guide

As mentioned earlier a qualitative method has been used and a researcher who is conducting a qualitative interview can choose to have a standard structured, semi-structured or unstandardized interview. In this study semi-structured interviews were carried out and thereby the respondent was able to form the answer in a way the respondent felt comfortable with. Bryman and Bell (2005) states this to contribute with a richer and more comprehensive answer from the respondents. This was an important factor in this research because sustainability information is a wide subject with absence of a generally accepted definition. A standard structured interview might not give the same room for interpretation by the respondents. Thus with a semi-structured interview a richer response could be given. A semi-structured interview implies that the researcher has a number of specific themes constituting as a basis for the interview guide, with additional sub questions. Hence, a semi-structured interview further facilitates the control concerning that the proper aspects has been discussed during the interview (Bryman & Bell, 2005). The interview guide which has been used is attached in the appendix.

According to Bryman and Bell (2005) the questions in the interview guide do not have to be asked in the same order in all the interviews, but it should be something to strive for, in order to create as similar situations as possible between the interviews. In the conducted interviews the interview questions were all asked in the same order, with one exception where question five and six were answered reversed. Further, the subjects of the questions have its foundation in the purpose of the thesis. The assembled answers from the respondents are recognised as empirical material (Backman, 2008).

2.4.1.3 Structure of empirical data

To increase the ability to overview the answers from the interviews, the questions from the interview guide have been integrated into the headings below. These will be used in the chapter five when presenting the empirical results.

- The institutional investors' definition of sustainability (Question 1)
- The use of sustainability information by the institutional investors (Question 2, 3 & 9)
- Investors' perception of mandatory and voluntary disclosures and the assurance (Question 4 & 7)
- The comparability of the information and the investors' different requirements (Question 5 & 6)
- The perceived representativeness of the information (Question 8)
- The investors' perception of integrated reporting (Question 10 & 11)

The headings in the empirical chapter are based on the investors' answers from the interviews. The above structure started to take shape, when it was apparent that answers from different questions were related to each other and thus were possible to be presented together. Due to that there are several questions within one heading new labels of the headings had to be established. This means that the label of the above headings is based upon the content of the heading. In other words, the heading will reflect the assembled questions and the answers.

In the presentation of the empirical result no names will be used, as previously mentioned, and the answers will frequently be presented together if the respondent had the same answers. Further, in a few occasions some of the respondent did not want to answer the question or the given response was not related to the question. All of this will therefore lead to that sometimes seven responses will not be presented in the empirical result.

2.4.2 Secondary data

Secondary data means that the researcher does not gathered the information directly from the source. Hence, other researchers gather the information and a second researcher thereafter uses the assembled material (Bryman & Bell, 2005). The secondary data that has been used in this thesis is gathered from trustworthy journals, which has been found with the help of Lund University's search engine "LUB search", Scopus search engine and by using Ebscohost search engine.

When searching for information regarding companies' reporting on sustainability and the institutional investors' usage of it as recent publications as possible have been used. This, due to the changing environment in the area. During the thesis there has been a professional scepticism towards the articles. The content has always been attempted to be ensured by comparing the information with other articles. However, the research on the institutional investors' usage of sustainability information is relatively scarce which sometimes has made it difficult to ensure the content from all of the used articles.

2.5 Analytical criteria

When all the empirical data were gathered and divided up into the above headings the next phase was to analyse the data. Thorough search has been conducted but no applicable theories to explain the empirical result have been found. To be able to evaluate and conduct an analysis of

the empirical data analytical criteria have been developed. A more detailed explanation of the developed criteria will be given in chapter five of the thesis.

2.6 Criticism

The reliability and validity are important aspects when conducting a quantitative research, but its relevance has been discussed for qualitative researches. Some researchers have reformulated the meaning of the aspects to include fewer factors concerning measurement. Other researchers have proposed a development of completely different aspects. (Bryman & Bell, 2005) Lincoln and Guba (1985) and Guba and Lincoln (1994) have developed another set of aspects to evaluate the qualitative research which consist of two main criteria; *trustworthy* and *authenticity*. The authenticity has not been able to prove its impact on research as whole, which entails that it will not be included in this thesis. Bryman & Bell (2005) state the trustworthy criterion to contain four underlying aspects; *dependability*, *credibility*, *transferability* and *confirmability* which will be explained below.

Dependability represents a situation when another researcher is adopting an investigating approach against the thesis. The dependability is high if proper description of the all the different phases of the thesis is presented and how the theoretical conclusion is justified (Bryman & Bell, 2005.) To increase the dependability of the thesis its different phases is thoroughly described in the method chapter. Even though there is a thorough description over the different phases it might not be possible to conduct an identical thesis because the respondents will presumably not give equal answer. Yet it is possible to conduct a similar thesis if using the same theories and criteria as in this thesis.

Credibility refers to the possibility that there could be different descriptions of the social reality. How trustworthy the description is in the view of others depends on the researchers' description of the specific reality (Bryman & Bell, 2005). In order to enhance the credibility of the thesis, the interviews were recorded and transcribed. The recordings were listened through several times in order to assure that nothing was left out when the respondent described their view of the reality.

Transferability in a qualitative research indicates in what scale the research can be generalised in other societies and environments (Bryman & Bell, 2005). The thesis is focused on institutional investors which are a rather distinct group and this might be a factor that reduces the thesis' ability to be generalised in other situations. Further, the relatively few numbers of respondents might restrain the generalisation of the results in the thesis.

Confirmability implies that the researcher, with the insight that it is not possible to get an absolute objectivity when conducting a social research, tries to ensure that the research has been conducted with good faith. The researchers' personal values should not affect the collected theory, the conducted research or the defined conclusions (Bryman & Bell, 2005). To increase the confirmability of this thesis an interview guide has been used to reduce the researchers' personal influences on the questions during the interview. The interviews were also recorded and

transcribed, which means that no summaries of the interviews were done and this will in turn reduce the researcher personal values in the empirical result. Although great effort is exercised to reduce the personal influence it is according to Lundahl and Skärvad (1999) difficult for the researcher to remain independent and not influence the work. In the thesis there are various processes conducted to reduce the influence of the researcher, but as stated it is hard to completely secure that there has been no influence from the researcher.

2.7 Limitations

As mentioned before and which will be discussed further in the thesis, there are no applicable theories which can explain the empirical result. Thus the researchers have developed their own analytical criteria to be able to analyse the findings. This might induce more subjective aspects in the analysis in comparison to when applying established and accepted theories. The thesis is focusing on the primary stakeholder and thus no consideration is given to the secondary stakeholders. Future, the number of respondents might not be adequate enough to reflect the perception of the disclosed sustainability information by all the Swedish institutional investors. Additionally, the thesis has a Swedish perspective, and the theories and previous literature have mainly had a global perspective or a focus at a national level which not always be fairly representable.

3. Reporting framework of sustainability information

This chapter will highlight the regulatory framework of reporting on sustainability issues, which will include both legal requirements and standards. The presentation will be at an international- and EU level, further the legal requirements of sustainability reporting will be describe at a national level.

3.1 Mandatory requirements of sustainability reporting

The mandatory requirements of sustainability reporting are relatively scarce and to date not as fully developed as the regulation of financial reporting (Perego & Kolk, 2012). At the EU-level, the Accounts Modernization Directive (2003/51EC) article 1(14b) requires the following:

“To the extent necessary for an understanding of the company's development, performance or position, the analysis shall include both financial and, where appropriate, non-financial key performance indicators relevant to the particular business, including information relating to environmental and employee matters.”

This implies that the requirement of non-financial information such as environmental matters is, since 2003, binding for all member states in the EU. The requirement in the directive is transposed into each member state's national law, with the allowance to use discretion, and this might entail that the requirement is adopted differently in the EU member states (TFEU, Article 288). In Sweden this requirement is transposed to the Annual Accounts Act (1995:1554). Chapter 6 section 1 states that non-financial information which is of relevance for the understanding of the company's development, position and performance should be included in the Board of Directors report. In addition, the section exemplifies the required non-financial information to be of environmental matters. However, this requirement was already included in Swedish law in 1999 by the proposition (1996/97:167) *Miljödovisning och miljöinformation i näringslivet*, but since 2003 it also descends from the EU Directive.

In the proposition (1996/97:167) it is emphasised that one effect of this requirement is to cater the public's entitled requirement of information which should be transparent, easily accessible and with guaranteed high quality. The investors are stated to be one stakeholder who uses this information in their assessment of how environmental issues might impact on the company's long-term profitability. A further underlying reason for this requirement is the governmental inquiry SOU (1997:4) which investigated the needs of environmental information by creditor- and assurance providers and capital investors. The outcome showed that environmental issues have an important and increasing role in their decision-making. In addition, it was hard to define what specific information was requested. Hence, the governmental inquiry provided an argument for issuing a legal requirement which could facilitate meeting the need of valuable information for these actors.

It is further discussed in the proposition that the extended requirement of environmental information within the financial reports should be aiming at providing better information for the stakeholders' decision-making. Furthermore, it is argued that information about the environmental issues which have direct or indirect impact on the financial development of the company should certainly be provided to the company's stakeholders. This due to the primary purpose of the annual reports to provide the stakeholders with a possibility to create an understanding about the company and its development, and environmental issues are argued to be relevant for this assessment.

In the Fourth Directive (78/660/EEC) Article 51(1) and the Seventh Directive (83/349/EEC) Article 37(1), requirements are stated regarding auditing. According to the articles the company's annual report must be audited by at least one authorised person. These requirements are transposed into Swedish law in the Companies Act chapter 9 section 13. Further in this section requirements are stated of when the company has to audit its annual accounts, which is when the company complies with more than one of the following three conditions: (1) the average number of employees during each of the two last years has been at least 50, (2) in each of the two last years the balance sheet total has exceeded 40 million SEK or (3) the net income has been greater than 80 million SEK in each of the two last years. Hence, to appoint an auditor is not mandatory for all Swedish companies.

In Sweden the privately- and state-owned companies are subject to the same legal requirements. However, in the state ownership policy it is stated that the board of the state-owned companies has a responsibility for issues related to a sustainable development. In 2007 the Ministry of Enterprise, Energy and Communications (Regeringskansliet) issued *Guidelines for external reporting by state-owned companies* with the intention to complement the current accounting legislation and the generally accepted accounting principles (god redovisningssed). In the guidelines it is emphasised that to strive for sustainable development sustainability reporting is a tool for achievement. Thereby, the state-owned companies are obligated to report on sustainability according to the guidelines issued by GRI. The state-owned companies are obliged to report non-financial information on a "comply or explain" basis, which implies that the companies can deviate from the GRI guidelines if they have an appropriate explanation (Guidelines for external reporting by state-owned companies, the Ministry of Enterprise, Energy and Communications, 2007). In the next section the GRI Guidelines will be further explained.

3.2 GRI Guidelines

The GRI has gained acceptance in the last years and is to date the world's most widely used sustainability framework (KPMG et al, 2010). The GRI is a non-profit organisation which by providing sustainability reporting guidelines is working towards a sustainable global economy. Since, the guidelines are widely used globally the GRI has a highly important role for a sustainable development (KPMG et al, 2010). In 2011 the *International Survey of Corporate Responsibility Reporting* issued by KPMG reported that 80 per cent of the G250 companies of the Fortune Global 500 list, disclosed sustainability reports in accordance with the GRI guidelines. In addition various

other organisations acknowledge the GRI Guidelines; the United Nations Principles for Responsible Investment (UNPRI) refer to the use of the GRI, the UN Global compact's Communication on Progress (COP) encourages the use of the GRI and the AccountAbility states its standards to be a complement to the GRI (Tan-Sonnerfeldt, 2011). Further, the GRI is working on the development of Integrated Reporting, which will be explained in the next section (IIRC, 2011).

In the GRI guidelines (2011, p.2) on sustainability reporting the following is stated:

“The urgency and magnitude of the risks and threats, to our collective sustainability, alongside increasing choice and opportunities, will make transparency about economic, environmental, and social impacts a fundamental component in effective stakeholder relations, investment decisions, and other market relations.”

This clearly highlights the concerns which the GRI has on the stakeholders and also the importance of sustainability reporting for the stakeholders, and thus the investors. Further, it expressed that the intention of the GRI is to support this expectation and fulfil the need of clear and open communication about sustainability issues. In the development of the Framework the GRI apply a multi-stakeholder approach, which implies that several experts from various stakeholder groups are included as consultants in the development process. According to the GRI the multi-stakeholder approach has improved the reporting framework as well as obtained a widespread credibility (GRI, 2011).

A distinction can be made between the GRI Reporting Framework and the GRI Reporting Guidelines. The framework *“is intended to serve as a generally accepted framework for reporting on an organisation's economic, environmental, and social performance”* (GRI, 2011, p.3). In addition, the framework can be used by organisations of various sizes, operating in different sectors or placed on dispersed locations. The guidelines, on the other hand, will provide more specific guidance and principles on the content of the report and announce the standard disclosures (GRI, 2011).

The focus in this thesis will be on the GRI Guidelines and therefore no further explanation of the Framework will be given. Reporting Principles, Reporting Guidance and Standard Disclosures together constitute the GRI Guidelines. The two first mentioned creates the first part of the Guidelines. This part will in turn contain three sections, which firstly will define the reporting content, secondly ensure appropriate quality and thirdly set boundaries of the reporting. The subsequent part of the Guidelines will provide three standard disclosures which are relevant and material information for the majority of companies and of stakeholder interest. These are Strategy and Profile, Management Approach and Performance Indicators (GRI, 2011).

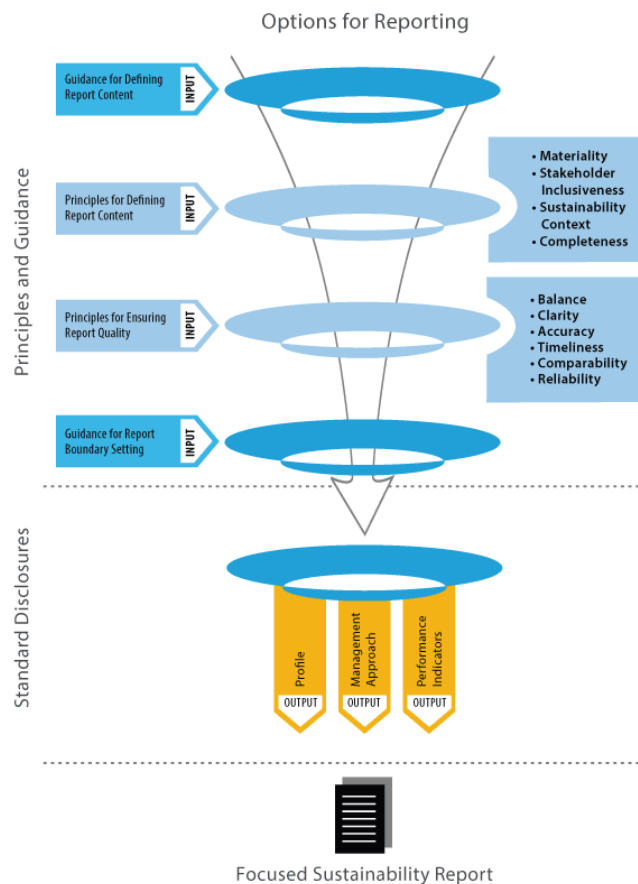


Figure 1. Illustration of the GRI Guidelines compiled by the authors.

When determining the report content both the organisation’s purpose and experience, and the stakeholders’ expectations and interest should be considered. To identify relevant topics and related indicators for the reporting the principles of materiality, stakeholder inclusiveness and sustainability context should be applied. Thereafter the reported information should be tested with the principle of completeness to confirm an appropriate report boundary. Ensuring the quality of the report will contribute the stakeholder to make better assessment of the company’s performance which would assist their investment decisions. The principles which should be applied to ensure the quality are all essential for attaining transparency. These are the principles of: balance, comparability, accuracy, timeliness, clarity and reliability. The report boundaries are being used in two ways, firstly when defining the report content and secondly when determining which entities’ performance should be included in the report. The entities represented by the report should be those on which the organisation can exercise control or have significant influence over (GRI, 2011).

The paragraph above was related to the first part of the GRI Guidelines including reporting principles and guidance. This paragraph will describe the second part (Standard Disclosures) constituting of three types of disclosures, which are subject to the guidance of the reporting

content. To understand the performances of the organisation the strategy and profile disclosures will provide an overall context. The management approach disclosures will, on the other hand, describe the organisation's approach of addressing certain topics. The disclosures which induce comparable information on economic, environmental and social performances are referred to as performance indicators (GRI, 2011).

After the GRI guidelines have been applied the company can indicate and declare the level of application. There are three application levels (A, B and C) and additionally the company can self-declare a plus to each level if the report has been assured by a third party (GRI, 2011).

3.3 Current development of integrated reporting

Many things have changed in the extent and form of sustainability disclosures since the first emphasised issuance of a sustainability report. However, due to the globalisation and the increased interdependencies in the world it is argued that the reporting environment has to transform. The development from traditional reporting in an industrial world to a more complex business environment has created reporting gaps which has been filled by the companies providing more information. However, the increased issuance of information has not achieved its purpose because much of the provided information is, as expressed in IIRC's Discussion Paper, *"disconnected and the key disclosure gaps remains"* (IIRC, 2011, p.4). In addition, studies have shown that investors find non-financial information material but the provided information is not sufficient in their decision-making process (Boston College Carroll School of Management, 2008). Integrated reporting is thereby an important development merging the most material information into one report. It is expressed to be a concise communication of information about an organisation's strategy, governance, performance and prospects, and how these aspects can lead to the creation of value over the short, medium and long term (IIRC, 2011).

The integrated report has five underpinning guiding principles which should be used when preparing the integrated report and determining its content and presentation.

- Strategic focus
- Connectivity of information
- Future orientation
- Responsiveness and stakeholder inclusiveness
- Conciseness, reliability and materiality

The meaning of these are firstly that the integrated report should from a strategic perspective communicate important objectives and how these are related to the ability of creating and sustaining value over time. Secondly, the integrated report emphasises the important link between financial performances and the organisation's use and impact on substantial resources and relationships which the organisation depends upon. The future orientation implies that the integrated report should include the future expectations of the management and information which facilitates the reader's understanding and assessment of future outlooks and uncertainties

which the organisation will experience. Further, the integrated report should highlight the importance of the organisation's relationships with its key stakeholders, and emphasise how the organisation manages the needs of these stakeholders. Lastly, the provided information should be concise and reliable, and material in the assessment of the organisation's ability to create and sustain value in the short, medium and long term. However, it is expressed that the last principle is difficult to achieve and thus the objective is to endeavour the highest extent of these qualities (IIRC, 2011).

As mentioned in the introduction of this thesis, the main stakeholder whom the integrated reporting should focus on is the investors and their needs. In the Discussion Paper some benefits for the investor are highlighted, which are (1) Fiduciary duty, (2) Future orientation and outlook, (3) Risks and opportunities, (4) Comparability, (5) Connected information and (6) Improved analysis. The fiduciary duty implies that the investor can conduct a more comprehensive analysis, when e.g. investing in pension funds, which presumably will lead to higher investment returns and this will contribute to the investors' possibility to discharge its fiduciary duty for its clients. The following benefit emphasises that the integrated report will embrace more information about the future providing a greater opportunity for the investor to assess the organisation's possible future cash flows. The integrated report should include the managements' view of risks and opportunities and thus the investor can evaluate if and how this will have an impact in the short, medium and long term. Another emphasised benefit is the enhanced comparability both in the sectoral and geographical analysis. As mentioned earlier in this section, one of the issues in today's reporting is the disconnection of the disclosed information. The integrated reporting will contribute to connected information and this will benefit the investor to better analyse the combined impact of the reported issues. Integrated reporting will also lead to a more effective analytical process which will improve the investors' analysis. Together, it is said in the Discussion Paper, that these benefits will contribute to more effective decisions, better investment returns and more effective capital allocation (IIRC, 2011).

Furthermore, some challenges are also emphasised in the Discussion Paper. The first challenge is that the investors' analytical techniques have to be updated due to the changed content and form of the report. The second is the investment supply chain, meaning that since compensation and incentive programmes are often focused on short term and the integrated report has a long term focus this might cause contradictions (IIRC, 2011).

4. Theoretical framework and literature review

The intention with this chapter is to enhance the understanding of why companies are reporting on sustainability, why they apply standards and why they use assurance. This will be explained with both theories and previous research. The company perspective on sustainability report will be emphasised, which will further be contrasted with the investors' perspective provided by previous research.

4.1 Political economy theory

Political economy theory is defined as “*the social, political and economic framework within human life takes place*” (Gray et al, 1996 p.47). The definition implies that the three factors society, economics and politics are inseparable and this means that for example an economic question cannot properly be attended if there is no consideration of the social and political aspects (Deegan & Unerman, 2011). The political economy theory is divided up into two branches; the classical branch and the bourgeois branch. The classical branch is related to the thoughts of Karl Marx, which indicates that the main concerns of the branch are the different classes in society and the role of the state (Gray et al, 1996).

The bourgeois branch on the other hand, do not question the inequities in society but rather accept the class structure in society and the prevailing differences and conflicts (Gray et al, 1996). The legitimacy theory and the stakeholder theory derive from the bourgeois branch and further the institutional theory can be derived from both the classical and the bourgeois branch (Deegan & Unerman, 2011). Since the legitimacy theory is viewing the society as one major actor it goes against the purpose of the thesis, which is to study one certain group in the society. In the light of the presented aspects the legitimacy theory will not be described any further. The following two sections will in greater detail explain the stakeholder theory and institutional theory.

4.1.1 Stakeholder theory

Stakeholder theory emphasises that since the organisation has several stakeholders with different expectations and interpretations of the organisation, there will exist various social contracts with the company's stakeholders. Stakeholder theory holds two different branches which are the managerial and ethical branch. The ethical branch will not be further explained because of its normative perspective, which explains how the organisation is ought to act. Hence, the normative perspective cannot be confirmed by empirical observation and it makes the theory unsuitable for this thesis. On the other hand, the managerial branch focuses on the powerful stakeholders, which are those who have the greatest influence on the company's ability to produce as high financial return as possible. Additionally, the greater the power of the stakeholder the more effort the company exerts on the relationship (Deegan & Unerman, 2011).

4.1.2 Institutional theory

Institutional theory is trying to explain the form organisations take and why organisations within in a certain field have the tendency to take similar structures and characteristics (Larrinaga-Gonzalez, 2007). The institutional theory is contributing with a complementary view to both

legitimacy and stakeholder theory, which is useful when explaining how organisations understand and respond to changes by social or institutional pressure and expectations. Institutional theory is divided up in two main dimensions; isomorphism and decoupling (Deegan & Unerman, 2011).

In the isomorphism there are three subgroups and one of the three, mimetic isomorphism, will not be presented any further due to its inapplicability in the context of this thesis. The coercive isomorphism will arise when an organisation is changing their organisational structure due to pressure from stakeholders who the organisation is dependent on for their going concern (DiMaggo & Powell, 1983). This isomorphism is derived from the managerial branch of the stakeholder theory, which means that they will change if valuable for the most powerful stakeholders (Deegan & Unerman, 2011). The third isomorphism is the normative isomorphism, which occurs when there is arising pressure from group norms to implement particular institutional practice (DiMaggo & Powell, 1983).

The other dimension of institutional theory is decoupling, which can be explained as the manager's perception that there is a need for the company to be seen as it is adopting certain institutional practices. Hence, the company formally state that they are conducting a specific process, but the formal process is not consistent with the actual process of the company. In this situation it can be said that the company is decoupling its processes (Meyer & Rowan, 1977).

4.2 Reporting on sustainability information- why companies disclose and why investors use?

When seeking an answer to why companies disclose sustainability information, there are different accounting theories which can be used to explain the disclosure. The managerial branch of stakeholder theory states that companies disclose information due to pressure from powerful stakeholders, which might be one explanation to the increased supply of information. If powerful stakeholders do not demonstrate an interest of sustainability information and exercise their influence at the company, the reporting company would not have to disclose the information. As stated above the more power a stakeholder holds, the more willingly the company is to please the stakeholders (Deegan & Unerman, 2011).

Another accounting theory that could be able to explain why companies disclose sustainability information is the normative isomorphism of the institutional theory. This perspective assumes that the company will adopt new processes due to various group norms and social pressures. If a company perceives that other companies are implementing new organisational processes the company might be concerned about disapproval from the powerful stakeholders of the company if they do not follow the practice (Deegan & Unerman, 2011). Furthermore, Deegan and Unerman (2011) state that the coercive isomorphism of the institutional theory might explain the disclosures of sustainability information by companies. The coercive isomorphism states that disclosure of sustainability information is to address the value and concerns of the most powerful stakeholders. Hence, the company is coerced by powerful stakeholders to adopt the institutional practice of sustainability disclosure.

Another reason for the company to disclose sustainability information although it is not legally required is the free market perspective “market for lemons”. This aspect considers the failure to disclose information where the capital market will look at the company as a lemon, which is a used term in the US meaning bad cars and thus something that initially was seen as something of good quality but resulted in being inferior (Akerlof, 1970). In other words no information by the companies will be interpreted by the capital market as bad information. The market for lemons perspective gives the company’s managers incentives to disclose information, even though it is classified as bad, and without any regulation requiring the information to be disclosed (Deegan & Unerman, 2011).

As it has been shown there are several accounting theories which are able to contribute with an explanation to why companies are reporting on sustainability issues. However, research indicates that sustainability information only at best has a minor role in the decision-making process of the investors (Starks, 2009; Holm & Rikhardsson, 2008; Jansson & Biel, 2011). Further, research has shown that the institutional investors perceive the publicly disclosed sustainability information to be a market failure (Solomon & Solomon, 2006). However, Solomon and Solomon (2006) state that the interest of privately disclosed sustainability information has rapidly been evolving the past years. Further, the increased interest from the institutional investors could especially be found within the work of insurance firms and pension funds (PwC, 2012). Hence, there are researches showing both a minor use of sustainability information and an increased interest of sustainability information by the institutional investors.

Research has shown that the importance of sustainability information differs between the various kinds of investors (Eccles, Serafiem & Kruz, 2011). Kasemir, Süess and Schaub (2006) report that there is an increasing believe that sustainability matters are providing significant proxies when deciding on investment in pension funds. First of all when working with pension funds there is a need to invest with a long term perspective. This has contributed to the integration of sustainability information in the decision-making process since pensions fund investors need to have a long term view because it might be several years until the pension is to be paid out.

Boston College Carroll School of Management (2008) has indicated that companies need to improve the connection between the non-financial information and the company’s operation. In other words, if the information is to be pertinent and useful to the investors the companies need to highlight how the non-financial information is affecting the company’s operation and the significance this might have. Further, Solomon & Solomon (2006) state that companies are spending more effort to communicate with the most important investors to be able to disclose the right kind of sustainability information. In the disclosure of sustainability information the institutional investors therefore have the strongest “voice” among the various stakeholders. This implies that they have a greater influence over the content of the disclosed information. It can be seen as the institutional investors have captured the sustainability information process of the companies and thereby they are able to set the agenda for reporting on sustainability.

Reporting on sustainability can be disclosed in different ways. The sustainability information can be included in the annual report or disclosed in attachment with it. Additionally it can be disclosed in a stand-alone report without connection to the annual report (Tan-Sonnerfeldt, 2011). Further, the information can also be provided at the company's website (Isenmann, Bey & Welter, 2007).

Rowbottom (2009) showed that institutional investors make significantly more use of sustainability information disclosed in the annual report in comparison with information provided in sustainability reports or disclosures on the company website. Further, the investors' assembling information has indicated that they prefer to receive it from third-party sources or from the company itself. Azzone et al (1997) reported that the financial community, which included institutional investors, required the environmental information to be included in the annual report with highlights in the operating financial review. Further, it is stated that the environmental information in the annual report should not exceed one or two pages. Despite the investors' attitude to website based information, there has been research which has shown indications regarding beneficial aspects of the cross-medium reporting approach, which mean a use of both the traditional printed media and internet based (Isenmann et al, 2007).

4.3 The critical perspective of sustainability reporting

The perspective several critical accounting researchers undertake when conducting their research is grounded in the classical branch of political economy theory. The critical researchers perceive today's accounting methods to strengthen the powerful actors and protect them from the threats by the structural instability of capitalism. They will further argue that the disclosed information only acts to legitimise the behaviour of the companies and not to challenge the companies who are providing the information. From a critical theory perspective, the term sustainability and sustainable development can be perceived to be used inappropriately and inaccurately by the reporting companies. It has been emphasised that the reporting companies have captured the terms *sustainability* and *sustainable development*, and thereby "unsustainable companies" can report on sustainability and still appear safe and harmless (Deegan & Unerman, 2011).

Laufer (2003) express that the capture of the term sustainability can additionally be interpreted as a "green wash" of the company, which implies that the reporting company is misleading the public to believe that they are actually working with sustainability while they are not. The self-regulation in the area of sustainability information can be a contributing aspect to the companies' usage of the voluntary disclosure standards to "green wash" their company. Further, the usage of the standards will give the user credibility and legitimacy in the view of others. This in turn leads to that the company can continue as they always have without interference (Laufer, 2003). The branch decoupling of the institutional theory, which states that a company can have a formal and an informal process, can explain the previously described behaviour of "green washing". The company has a formal process, which they demonstrated externally, and thus they gain legitimacy. Yet they might conduct different informal processes with the actual intentions of maximising the profitability of the company, which in turn are not in line with their communicated behaviour (Deegan & Unerman 2011).

4.4 Why do companies use voluntary standards and do the investors require it?

Why companies use voluntary standards when disclosing sustainability information is, according to the GRI Guidelines, depending on the need for transparency regarding the economic, environmental and social impacts of the company. The intention of the development of the GRI standards was to be able to globally communicate sustainability factors with a common set of concept, metrics and language. The use of GRI standards will facilitate the communication of the above aspects and will create a common language for companies and stakeholders to interact with each other (GRI, 2011).

In the view of the institutional investors, there is a need for consistency and comparability of the disclosed information by the companies. The use of widely accepted standards will lead to an enhanced transparency of the companies and will likewise provide a greater comparability between companies (IIGCC, Investors network on climate risk, Investor group on climate change, UNEP & PRI, 2011). Azzone et al (1997) state that institutional investors want environmental reports to be able to position the company in relation with current and pending legislations, and the standards in the area.

Further arguments for the usage of voluntary standards is that in the last decade a major increase in the public consciousness concerning sustainability information is apparent. This has in turn created pressure from the company's stakeholders to disclose sustainability information. The decision of using voluntary standards when reporting sustainability information can be explained by normative isomorphism of the institutional theory. Since disclosures of sustainability information have increased the past years this might have created group norms and pressures towards the companies to conduct their sustainability disclosure by the voluntary standards. These different group norms and pressure to use the GRI will force the companies to do what they can to meet the new "moral" sustainability disclosure standards and by that implement the GRI (Perez-Batres, Doh, Miller & Pisani, 2012).

It has also been stated that the use of GRI Guidelines increases the perceived legitimacy of the disclosed sustainability information and it facilitates to manage the societies expectations of the operations. Furthermore, the usage of the GRI Guidelines will create template for the companies regarding how to structure the sustainability information. In the beginning of implementing the guidelines they generate more knowledge internally than externally. This, since the companies are in the beginning of learning how they are dealing with aspects that might never have been given any attention before (GRI, 2011).

4.5 The companies' and the investors' perspectives of assurance of sustainability information?

Assurance can be defined as when a practitioner states an opinion regarding the outcome of the examined information. The stated opinion is to enhance the level of confidence with the intended users of the assured information (IAASB, 2005). As it has been stated several times, there is a growing demand of sustainability information. Along with that growing demand important

stakeholders want credible and reliable information which external assurance can contribute to achieve. The external assurance can possess a valuable role to ensure that the provided non-financial information is reliable and credible (ICAEW, 2008).

When companies have issued their reports in accordance with the GRI there are no existing requirements to audit the information. The GRI states that the use of external assurance is recommended to increase the credibility and integrity (GRI, 2011). Since the GRI is only recommending external assurance stakeholders have started questioning the integrity of the disclosed information from the companies. This has led to a use of voluntary assurance of the disclosed sustainability information in order to improve their credibility and reliability (Junior, Bets & Cotter, 2013).

Few countries have legal requirements of assuring the sustainability information, which has in turn led to that some companies have their information audited while others not (KPMG et al, 2010). As mentioned in section 3.1 non-financial information is required to be disclosed in the Board of Directors report if it is needed for an understanding of the company. The annual report is further required to be audited if the company fulfils certain criteria stated in the Annual Accounts Act (1995:1554). This implies that non-financial information included in the annual report will be audited. However, there are no legal requirements in Sweden that voluntary disclosure of non-financial information should be audited.

As previously stated, the usage of external assurance can enhance the credibility of the disclosed information by the companies. This since the external assurance is complying with rigorous ethical standards and defined which are including the auditor independence. Additionally they have relevant knowledge to carry out the assurance engagement. It is recognised that the stakeholders want information that is credible and trustable. To achieve these demands external assurance can be used since the auditors are independent and have expertise knowledge, which increases the reliability of the information and reinforce the trust in the information (ICAEW, 2008). Further, Boston College Carroll School of Management (2008) has indicated that if the non-financial information is assured by a third party the investors perceive it to be more reliable. However, the level of assurance did not have an impact on the valuation of a specific company.

Simnett, Vanstraelen and Chua (2009) indicated that the institutional investors have different demands regarding the assurance. The different demands are depending on which sector the company is operating in, sectors such as mining, utilities and financial are the most likely to have their sustainability information assured. The use of voluntary assurance can further be explained by the normative isomorphism of the institutional theory. The extensive regulation and standards of auditing financial information have been transposed as normative practices of assuring non-financial information (Perego & Kolk, 2012).

5. Analytical framework

Due to the fact that there are no directly applicable theories to explain the empirical result of this thesis an analytical framework has been developed which will be described in this chapter. This descends from the decision usefulness approach and will result in analytical criteria applicable for explaining the empirical result.

5.1 Development of an analytical framework

To evaluate the empirical result of this thesis and explain it with established theories is not possible with today's available and developed theories. No direct applicable theories which can be used in the context of this thesis have been found, although there has been a thoroughly searching process by the researchers. To be able to conduct the analysis and explain the empirical result the researchers have developed an analytical framework with specific analytical criteria to suit the purpose and research question of the thesis. The analytical framework can in turn be questioned with its validity and acceptance. However, since the development process is drawn from the decision usefulness approach, which will be explained below, the analytical framework is grounded in theory and thus it will receive an increased support.

In the decision usefulness approach the intention with financial accounting information is to satisfy the needs and wants of the users of the information, which are defined by the users' decision-making. Due to the changing surroundings the needs and wants cannot be assumed and the decision usefulness approach will therefore firstly examine the recipient decision-making and thereafter it is possible to declare the needs and wants (Bebbington, Gray & Laughlin, 2001).

The decision usefulness approach can be divided into two branches; decision-makers emphasis and decision-model emphasis. The former initiates from the users' statement of what information they want, which is collected with the use of for example questionnaires and interviews. Thereafter these findings will form the basis for a prescription of what information the companies should provide in a subsequent period (Bebbington et al, 2001). This can be related to what the empirical study of this thesis is intended to do, which is to interview institutional investors and examine what sustainability information they use. However, the empirical study will not proceed to the development of a prescription of what information should be provided. Hence, the empirical study will draw from the branch of decision-maker.

The latter branch (decision-model emphasis) takes another perspective, namely the perspective of the researchers and how they perceive an efficient decision-making process to be and what information is required. In this branch the users' wants are of subordinate importance, the focus is rather on the users' information needs. The concerns lie in the assessment of the characteristics of effective and efficient decision-making processes, and to elucidate the information needs in these processes (Bebbington et al, 2001). Hence, the perception of what researchers believe is useful, necessary and efficient will further be developed into models which can be used in future decision-making processes (Deegan & Unerman, 2011). Further, the decision usefulness approach

is also adopted by both the standard-setters International Accounting Standards Board (IASB) and Financial Accounting Standards Board (FASB). In their standards the decision usefulness approach is the basis for the objective of financial reporting to provide useful information in making economic decisions (Kusano, 2012).

With the above stated the analytical criteria of this thesis mainly draw from the decision-model emphasis in its developed. Since the GRI is a standard-setter in the area of sustainability reporting providing guidelines which are globally accepted and the IIRC's development of a new framework which has receive a lot of attention in the last years, these two have constituted as a basis for the analytical criteria. Due to the fact that they are standard-setters, a parallel can be drawn to the IASB's and FASB's use of the decision usefulness approach. Hence, this starting point can be argued to be eligible and legitimate. Further, the GRI has a stated multi-stakeholder approach which implies that in the development of the standards investors are participating, and their perspective is thereby incorporated in the standards and thus the disclosure in accordance with the GRI should be useable for the investors. Thus, the application of GRI Guidelines should be even more supported.

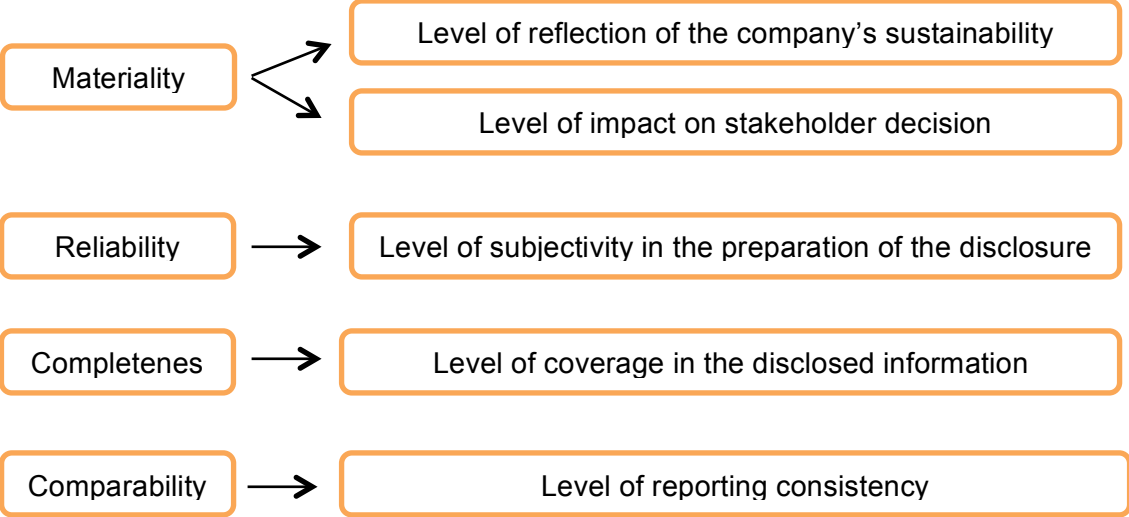
The analytical criteria are thus drawn from both branches of the decision usefulness approach, and together with the normative framework and guidelines by the GRI and IIRC and the multi-stakeholder approach they embrace, the analytical criteria have been established.

From the GRI Guidelines and the IIRC Framework many dimensions can be disguised. There has however been a selection of the most relevant and essential dimensions to make the criteria suitable for the context of this thesis. The four dimensions which were chosen were: *Materiality*, *Reliability*, *Comparability* and *Completeness*. Materiality was chosen for its frequent attention in today's environment and it is included as a guiding principle in both the GRI Guidelines and the Framework of Integrated Reporting. Reliability is also included as a guiding principle in both of the standards, which argued for its inclusion. Further, it is widely discussed in the accounting profession about the reliability of voluntary disclosures, which the provision of sustainability information mostly is. Comparability, as the third dimension to be selected, is a reporting principle for defining quality of the GRI Guidelines and it is further stated as a benefit of integrated reporting for the investor. Comparability is additionally a common topic in both national and international discussions in the accounting profession. Lastly, completeness was initially chosen due to it being a guiding principle in the GRI Guidelines. Further, all of the GRI guiding principles should contribute to the achievement of transparency, which is partly defined as the complete disclosure of information and this was the additional argument for the inclusion of completeness.

After selecting the four dimensions the analytical criteria were developed. This was carried through by using the definition of each respective dimension in the GRI Guidelines and thereafter converting the definition into criteria which can be used with an investor perspective rather than a reporting company perspective. The analytical criteria are thereby more narrowly defined and adjusted to the context of this thesis, thus more applicable in the analysis of the empirical result.

In the next section the analytical criteria will be depicted followed by a further explanation of their meaning.

5.2 The analytical criteria



Level of reflection of the company's sustainability impacts: The criterion will grade whether the disclosed information of the company represents its significant impacts of sustainability matters.

Level of impact on stakeholder decision: The criterion will define to what degree the disclosed information fundamentally affects the stakeholder's decision-making process.

Level of subjectivity in the preparation of the disclosure: The criterion will be used to assess the extent in which the company might have influenced the disclosed information.

Level of coverage in the disclosed information: The criterion will grade the aspect of scope in the disclosed information and whether it is sufficient for reflecting the company's sustainability impacts.

Level of reporting consistency: The criterion will evaluate to what degree the company has disclosed equal presentations of sustainability information to enable the stakeholders' analysis.

6. The empirical study

This chapter will present the results of the qualitative study. The presentation is structured with the interview guide as a basis. Since the respondents answers were feasible to be linked together this formed the five heading.

6.1 The institutional investors' definition of sustainability

The respondents' thoughts regarding the definition of the term sustainability were relatively diverse. Two of the respondents stated that they thought it was a vague subject not easy to define and they stated that the term sustainability could have various meanings for different actors. Factors which the respondents argued to be included in the term sustainability were: ethics, environment, social responsibility, ecology, good citizenship, human rights and long term perspective. Another indication was that the company should embrace the whole world and not only the companies nearest surroundings. That is creating a sustainable society for future generations.

"You shall consider and satisfy the demands of today without compromising the needs of resources for future generations."

A further indication from the respondents regarding the term sustainability was that a company should operate with a long term perspective and the investment should create benefits in the future years. Apart from the environmental aspects of the term sustainability, some respondents also included the well-being of the employees as an important factor.

6.2 The use of sustainability information by the institutional investors

Three of the seven respondents stated, when questioned about the usefulness of the sustainability information, that financial information was the most important information in the decision-making process. Hence, sustainability information was subordinated. Another respondent stated that he/she thought that the use of sustainability information in his/her decision-making process was not essential when investing in Swedish companies. This, due to the fact that he/she believed Swedish companies to be very good at reporting on sustainability. However, when glancing at emerging markets and companies outside of Sweden he/she included a greater part of sustainability information in the investment decision. Additionally he/she expressed that companies outside of Sweden needed an improvement of their sustainability reporting. Further, another investor stated that the sustainability information was not used on a daily basis but it was an essential factor when creating a feeling of the company. Another investor emphasised that sustainability information is an important and highly used source when trying to avoid bad investments. The investor said that when only looking at financial information the analysis will consist of one dimension. If sustainability information is added to the analysis a multiple dimension analysis will be reached, which increases the possibilities of conducting better investments and achieving higher returns. The last respondent stated that he/she used

sustainability information in the decision-making process, yet it should not be forgotten that it is only a part of the investment decision. Thus other aspects are also included.

The empirical result indicated that the investors had an underlying assumption that companies today have an own self-interest of being sustainable and it was stated that this, in turn, made the usage of sustainability information redundant. If the companies are operating with a going concern basis they have to be sustainable and this will induce the self-interest. Overall it has been apparent that the use of sustainability information is also dependent on the different sectors.

“I assume that the company do take care of themselves and sufficiently manages sustainability issue in an appropriate way.”

At the question “which sustainability information is most important”, the responses given were mainly related to environmental and social aspects. One respondent stated that the importance of sustainability information is again depending on the sector. In the energy sector the physical environment will be important and in the financial sector the employee turnover would be more essential. The major part of the investors believed the amount of sustainability information today to be adequate, yet it is often perceived to be an excessive amount of information. There were additionally various suggestions about how the information quality could be enhanced. One investor said that there was a lack of an industry standard regarding the information. Another respondent required the information to have a longer timeframe for him/her to be able to better assess future aspects. Further, one respondent would like to see an increased supply of information by third parties since disclosures by the company themselves will engender the risk of subjectivity.

The majority stated the information in the annual reports to be their main sources regarding sustainability information. However, one investor said that he/she never sought sustainability information by himself/herself because the separate ethical department conducted this research. Further, many of the investors said that they received the sustainability information from an in-house ethical department or external screening companies. These parties compiled the most essential information of all available sustainability information at the market.

A majority of the respondents said that there were no internal guidelines stated from their employer concerning the usage of sustainability information in the investment decisions. One of the investors claimed that his/her firm did not have such guidelines on a daily basis, but they could implement this if a client required it. Thus, their guidelines were driven by the demands of the clients. Further, another respondent stated that his/her firm did not have any guidelines but he/she is restricted to invest in a company who is on a list of approved companies, which he/she received from the ethical department of the company. This department is assigned to investigate and decided if companies are approved to be on the list. Another respondent explained that there were no such guidelines today but his/her firm is in the starting blocks to introduce new guidelines. These shall require inclusion of sustainability information in the decision-making

process. There were also indications that some firms did not have clearly stated guidelines for the usage of sustainability information, but they had policies which stated that the investments should be ethical and responsible. In turn the different policies included sustainability factors and thus guidelines regarding sustainability information were indirectly incorporated in the work of the investors.

6.3 Investors' perception of mandatory and voluntary disclosures and the assurance

The majority of the investors stated that they did not put much consideration on where the sustainability information was originated from, that is if it were produced on a voluntary basis or due to legal requirements. The responses indicated that the most essential factor was that the information did exist. However, it was comforting that the legal requirement did exist, yet not crucial in the evaluation of the disclosed information. The knowledge regarding what information was mandatory to be disclosed by law was confined by some of the respondents. This in turn led to that these respondents could not give an answer about how they evaluated mandatory and non-mandatory information differently.

“Most important is that I receive the information regardless whether it is disclosed due to legal requirements or not.”

Regarding the impact that different guidelines such as the GRI can have on the usage of the disclosed information, the answers were again scattered. Respondents claimed that the guidelines contribute with a better and larger picture of the company as well as improving the standardisation of the disclosure of sustainability information. This will in turn contribute to a better overall analysis of the company. The guidelines were additionally seen as providing an enhanced comparison between different company disclosures of sustainability information. However, some of the respondents did not have enough knowledge about the guidelines to comment on the matter. Other investors indicated that the guidelines were perceived not to be enough structured. Additionally one respondent stated that the guidelines focused too much on ratios and on complicated facts. He/she would like to see guidelines on basic ratios of for example emissions.

The overall opinion by the investors was that the assurance of the sustainability information was an essential factor and that the third-party assurance provided the information with greater value and trust. However, it was emphasised that the assurance is not a crucial factor in the investment decision. Regarding whom the third party was the majority of the respondents expressed that it was not critical to have a qualified auditor conducting the audit. It was important that the third party was independent and inherent sufficient knowledge to audit the sustainability information. One respondent emphasised his/her scepticism towards the audit profession as follow:

“I am extremely sceptical towards the entire audit profession and in my opinion they do not contribute with any added value.”

6.4 The comparability of the information and the investors' different requirements

The main perception of the interview respondents regarding the comparability was that the sustainability information is comparable within the same sector but it is difficult to use the information between various sectors. It is expressed by one respondent that the information is acceptable, yet he/she does not want to say that the information is good and much can be improved. Further, one respondent claimed that the information is generally hard to compare (regardless of comparison between sectors or not) and this is the reason for his/her company to have external screening consultants who will help them to reach a level of comparable information. Another respondent perceived the sustainability information to be highly comparable in his/her work and hence he/she is not experiencing the problem with comparability between the companies' sustainability information. This was however due to the fact that he/she received a sustainability analysis from the separate ethics department. Lastly, one respondent did not consider the comparability to be of high relevance since they examined a company on an individual case-by-case basis.

The majority of the respondents argued the demand of sustainability information between different sectors to be different. Two respondents emphasised that in heavier industries and industries known as having a bad influence on the environment they focus on the environmental issues to a greater extent. Further, one of these two investors stressed the importance of the feeling of the company. If the investor has a good feeling of the company and interprets the company as a well-working company with a fair business he/she do not investigate these issues further. Another respondent explained that the different demands originate already from the classification of sectors and different requirements of these in the ethics department. However, two respondents clearly stated that the demand of sustainability information is equal in all sectors. One of the two investors argued this to be due that sustainability is highly important in all industries and the second investor stated that it is better if the company is doing more but the fundamental demand is equal no matter which industry.

Further, one respondent emphasised that regardless of the company's profile of being sustainable he/she has the same level of requirement. Two other respondents originally have the same demand even if one company have profiled itself as being sustainable. However, one investor stressed that these companies are more critically observed and the other stressed that the expectations are higher as well as the trust for the company. There are on the other side three respondents that have higher requirements at the sustainability information disclosed by profiled sustainable companies. They argued that the company has to support its statement and be able to maintain the statement otherwise they will lose trust from its external stakeholders including the investors themselves.

6.5 The perceived representativeness of the information

The empirical study has shown a generally good perception of the sustainability reporting as it is today, with the majority of the respondents stating that it was good. Two of the respondents

clearly highlighted the improved quality of the provided sustainability information and the increased attention it has received in the last years. One investor is experiencing the increased attention through the companies' focus of bringing sustainability issues up at private meetings, which he/she says that they have never done before. At the same time the respondents can see some improvements which are needed. Two respondents emphasised that they are not sure if the purpose of reporting on sustainability has been reached, meaning that companies should have a sustainable operation and development. One respondent argued about sustainability reporting as follows:

“It is a symbol which is not permeated in the entire organisation. The company has a good intention, but it does not go all the way.”

Further he/she argued that one reason for this might be that initially the organisation and its members think sustainability is a good thing, but when it will affect the operation and some restrictions might have to be implemented the interest tends to decrease. Hence, sustainability reporting will be something that the company will do but they will not incorporate it in their entire operation. This reasoning is also expressed by two other respondents by expressing that sometimes the reporting tend to be inter alia excessive and give an euphemistic picture of the company.

Further, all of the respondents agreed with the concept “market for lemons”, which implies that if a company does not report about sustainability issue this will be interpreted as bad information. Two of the investors stated that sustainability information has become a hygiene factor and the market expects the company to provide sustainability information. However, one respondent said that, on the one hand if, a company have extensive reports but they do not conduct what is said in the report, this is certainly negative. On the other hand, it is more positive to disclose information than not to.

6.6 The investors' perception of integrated reporting

The knowledge about integrated reporting was rather spread between the respondents. To answer the question three out of seven needed a further explanation about integrated reporting than the brief information given in the questionnaire. After receiving additional information two of them expressed themselves to be positive about the development, saying that this hopefully will lead to increased attention for sustainability. By integrating the information into one report, one investor believes that it will improve the usefulness of the information and thereby the attention will increase. The third respondent without direct knowledge about integrated reporting emphasised that if integrated reporting will lead to an increase of investors using a “sustainability analysis” they will be interpreted as more serious and socially responsible in a wider extent. Hence, he/she was indirectly positive to the development of integrated reporting and believes that it should lead to a more sound capital market. However, he/she is not convinced if this will directly change the way he/she works today. There is additionally one other respondent, who also did not have knowledge about integrated reporting, and did not believe integrated reporting will

change his/her work. He/she says it might lead to more focus on sustainability information but it will not affect his/her analysis and decision-making process. On the question if this development will affect his/her work the last respondent who was provided with additional information about integrated reporting, said that this will accelerate the way which they are working with sustainability information today. However, he/she had doubts about the accomplishment of providing more easily accessible and abbreviated sustainability information without affecting its quality.

The other four of the seven respondents were explicitly positive to integrated reporting. One respondent explained his/her positivity since sustainability information is already included in the investment decision. Further, he/she expects integrated reporting to contribute with an increased completeness in the companies' reporting which will result in a higher comparability between disclosures by different companies. With more companies disclosing integrated reports, he/she hopes this will in turn simplify and improve his/her work. The same investor also emphasised that integrated report will put more focus on sustainability issues and he/she believe that the sustainability information could be presented in the first section of the integrated report. Another respondent also expressed that sustainability information is already included in his/her analysis today and with integrated reporting he/she believes that the information will be more useful in terms of comparability. Thus, he/she states that the use of the sustainability information will increase.

The third investor which is positive to the development of integrated reporting states that this will probably increase the focus on using sustainability information. However, he/she stressed that an investor's interest of sustainability information will be an important factor determining the usage. On the one side investors who are interested will have more accessible information, and on the other side other investors who are not interested will not change their usage of sustainability information. Hence, he/she stressed the interest to be more important than the usefulness. Since he/she has an interest of sustainability this will most likely impact on his/her work. Further he/she believes that they will implement new guidelines in his/her firm which will develop a more standardised and transparent analysis process, which in turn will facilitate his/her work. The last respondent stated that if the sustainability information is going to be useful and incorporated in his/her firm, a model has to be developed. A model originating from the classical financial analysis and thereafter includes soft variables, which he/she believes not to be an easy task to accomplish. Still he/she is positive to the development of integrated reporting.

7. Analysis & Discussion

The analysis will be conducted with the use of the developed analytical criteria and this will be discussed in relation to previous research of the subject matter. Further, the discussion will assess if the investors perspective corresponds with theories from a company perspective of disclosing sustainability information. This will contribute to the ability to draw a conclusion in the next chapter whether the sustainability information perceived as usefulness by the institutional investors.

7.1 The significance of the disclosed sustainability information

As the empirical result has shown the sustainability information is generally of subordinated significance. With the use of the analytical criteria this can be explained with the level of stakeholder impact, which in this case would be low. In other words, the limited use of sustainability information by the institutional investors would be due to the fact that the sustainability information does not significantly affect the investors' decision-making process. The empirical result further showed that the firms of the respondents did not have clearly stated or established guidelines on how to use sustainability information. This might explain the limited usage of sustainability information since there are no obligations within the firm to use the information in the investment decision. Hence, the limited usage might derive from the investment firms' policies and procedures, and induce the minor significance of sustainability information in the investment decision. The indicated limited usage is in line with the findings by Starks (2009), Holm and Rikhardsson (2008) and Jansson and Biel (2011), which have reported that sustainability information at best has a minor role in the investors' decision-making. However, PwC (2012) has reported an increased interest of institutional investors' usage of sustainability information. Hence, there are previous researches showing both a minor and major role, and the finding of this thesis is thus supporting the former.

The low level of stakeholder impact, due to the information's subordinated significance by the institutional investors, can be conflicting with certain theories' explanation to why companies are disclosing sustainability information. The managerial branch of stakeholder theory states that companies are disclosing information as a response from pressure of their powerful stakeholders and this includes the institutional investors since they are referred to as primary stakeholders. This generates a conflict, on the one side the stakeholder theory is arguing that the sustainability disclosures are due to stakeholder pressure, and on the other side the finding of this research shows that the information is of minor significance and thus no vast pressure arguably exist. Hence, with the finding of sustainability information's subordinated significance for the institutional investors the explanation of companies' disclosure by the managerial branch might be questioned. Further, the coercive isomorphism of institutional theory states that sustainability information is disclosed to address the concerns of the most powerful stakeholders. However if, as shown in this research, the sustainability information is of lower priority in the investment decision, the stated concerns in the coercive isomorphism might not be as strong regarding sustainability information.

The empirical result further showed that the institutional investors generally perceived the sustainability information to be good, which would be due to a high level of reflection in the reporting company's disclosed information. In other words, the disclosed information represents the company's sustainability impacts in an adequate way. Relating this finding to the above mentioned, that sustainability information is of subordinated significance for the institutional investors, it can be discussed whether the information is disclosed due to the reflection of the sustainability impacts or the impacts on the investors' decision-making. Both of these aspects are related to defining the materiality in the disclosures of sustainability information. However, it can be interesting to see which aspect has the major focus. Since subordinated significance of the information implies a low level of impact on stakeholder decision and the generally good perception is explained by a high level of reflection, it can be indicated that the companies might define materiality and disclose sustainability information due to its reflection of sustainability impacts rather than issuing the information due to its influences on the investors' decision-making.

With this in mind, it is interesting to consider the development of integrated reporting, where the framework explicitly states that the focus of the report should be to meet the needs of the investors. The materiality would thus be defined with a higher focus on the impact on the stakeholder's decision. However, as it is shown in the empirical study the investors' needs are not that extensive when they stated the sustainability information to be of subordinated significance. Yet it is argued by some investors in the study that if the information will be more useful in the integrated report their attention will increase and thus the level of stakeholder impact would simultaneously increase.

7.2 The institutional investors' impression of the provided sustainability information

The investors' generally good perception of the companies' disclosures of sustainability information might be explained by the empirical finding that investors perceive an increased attention of sustainability by the companies in the last years. Increased attention would presumably lead to more considerations about the sustainability information which is disclosed, thus the information would obtain a higher level of reflection than before. That is, the increased attention has contributed to today's good perception and thus the high level of reflection.

The increased company attention about sustainability issues has been exemplified in the empirical study by an enhanced openness at the private meeting where the reporting company is actually bringing up sustainability matters. This is in line with the finding by Solomon and Solomon (2006), where they have indicated an increased effort by the companies in communicating with their investors and this would in turn lead to the ability for the investors to influence the company disclosure. It is possible to assume that if the investors have the ability to indirectly decide what should be disclosed they would at the same time get a better perception of the disclosed information, since their own influences is included in the disclosures. Hence, the company's increase effort of communicating with the investors might lead to a better investor perception of the disclosed information.

Furthermore, the investors' generally good perception with the indication of a high level of reflection can be contrasted with the investors' statement that the disclosed sustainability information is sometimes interpreted as a symbol. In the perspective of the investors information that does not fairly depict the actual behaviour of the company would indicate a low level of reflection. Hence, the two empirical results are rather contradictory. Critical researchers are sometimes referring the company's sustainability disclosures as "green washing" which is in line with empirical result that the disclosures are interpreted as a symbol. "Green washing" can be explained by the decoupling branch of institutional theory, which emphasises that the company is communicating a behaviour which is not the actual conducted behaviour in the company. Hence, a link between the empirical result and decoupling can be distinguished.

Further, the investors perceived a low comparability of the provided information between sectors, which with the analytical criteria this will induce a low level of consistency. The empirical result additionally showed that the majority of the investors had different demands of sustainability information between different sectors. This would imply that they are not requiring the information to be comparable and thus the consistency would remain low. In others words it can be assumed that with unequal demand of information between sector the companies do not have the incentive to strive for comparability between sectors.

In the empirical study it is indicated that the institutional investors perceived the GRI to provide higher comparability between the disclosed sustainability reports. This would be related to a high level of consistency when applying the analytical criteria. As previously mentioned the investors perceived the comparability to be low between sectors, which were explained with a low level of consistency. In the GRI Guidelines one reporting principles for defining quality is comparability and therefore if the company apply the GRI Guidelines then it can be argued that the perceived low level of consistency will be improved since the GRI Guidelines will contribute with a high level of consistency. In other words the use of GRI in the company disclosure will facilitate the investors work in terms of consistency.

According to IIGCC et al (2011) the use of widely accepted standards will lead to a higher comparability between global actors and the disclosures of the reporting companies, which is in line will what the empirical result of this thesis showed. Further, the framework of integrated reporting highlights one of the future benefits for the investors to enhance comparability. This is additionally expected by some respondents. In terms of the analytical criteria this increases the level of consistency.

7.3 The emphasised problem with over-supply of sustainability information

The empirical study revealed the problem of defining sustainability and its meaning in the investors' decision-making. Several different aspects were given by the respondents which can indicate the wide scope which sustainability represents and the high level of coverage which the investors indicate to be included in the company's sustainability disclosures. However, this is not in alignment with the investors' usage of the sustainability information in their investment

decision. The empirical result showed that investors mainly use the environmental and social information. Hence, their usage is much more limited than their statement of what sustainability implies and which sustainability information the company should disclose. Hence, this is a conflicting situation where the investors call for a high level of scope coverage but they are only using some parts of the information, which would be a minor level of scope coverage.

In the empirical study it is further observed that the investors believe that the amount of sustainability information is adequate. However, it is emphasised that the disclosed information is often excessive and an over-supply is experienced. In the context of the analytical criteria, this would be due to a too high scope in the level of reporting coverage. In other words, the disclosed information covers too much and the investors do not have the possibility to ingest all the provided information and incorporate it into their decision-making process. This finding might explain the investors' usage of certain information as mentioned in the above paragraph and together these two findings will, in terms of the criteria level of coverage, indicate that the scope of the companies' sustainability report is too high. Azzone et al (1997) reported that institutional investors did not want the extent of the environmental report to exceed one or two pages. This is consistent with the concluded indication of a too high level of scope coverage. In the framework of integrated reporting one of the underpinning guiding principles is conciseness, and this can be argued to lower the level of scope coverage to a level more suitable for the investors. However, the empirical result indicated concerns about how the quality might be affected due to the objective of reducing the extent of the integrated reports at the time as integrating sustainability information.

The empirical result showed that many of the institutional investors received the sustainability information from an internal ethical department or an external screening company. The use of another party might be to overcome the problem with the over-supply of sustainability information. As stated above the over-supply of information indicates a high level of scope coverage, or better stated a too high level. The use of another party to select the most essential information might therefore lead to a lower level of scope coverage, and with that meant, a high but more comprehensive scope in comparison to the too high scope reached with an over-supply. This reasoning can be supported by Rowbottom (2009), who reported that investors prefer to receive the information from a third party source, which in this case would be the screening company.

7.4 Investors' perception of mandatory disclosed information and the importance of assurance

It is shown in the empirical result that the institutional investors did not put much consideration whether the information was disclosed due to legal requirements or on a voluntary basis. In relation to this it was stated that the most important was that the sustainability information did exist. The absence of information is thus indicated as a bad signal, which additionally can be referred to the "market for lemons" perspective. This is a theoretical argument to why the companies will disclose information even though there are no regulations. All the respondents

agreed with the “market for lemons” perspective, and thus this theory has received acceptance from the institutional investors in the context of this thesis.

Further, it is stated in the empirical result that the investors to the greatest extent use the annual report as a source for the sustainability information. This is in accordance with the research results by Rowbottom (2009) and Azzone et al (1997), which both showed a higher acceptance of using the sustainability information in the annual report. The more frequent use of the annual report might be the proposition’s (1996:97/167) underlying reasoning for extending the legal requirements of the annual report to include information on environmental issues. It is emphasised in the proposition that the environmental information in the annual report should serve and benefit the stakeholders’ decision-making, and thus the investment decisions by the investors. With this in mind, it can be presumed that this might be a reason for the investors to use the sustainability information in the annual report since the disclosed information should be suited for the stakeholders.

This can be contrasted with the absence of regulation for voluntary disclosures. Voluntary disclosed can be conducted by applying the GRI Guidelines. However, the reporting company can apply different levels of application, which in turn implies that the company can report in an extent which is adequate according to them. Hence, the company can choose, with some restrictions, what to report and this can be argued to increase the level of subjectivity. Sustainability information with a high level of subjectivity will entail a lower usefulness and this might therefore explain the investors’ usage of the annual report.

The annual report is a mandatory disclosure and is required to be audited for large Swedish companies. Since the role of assurance is to provide the information with reliability and credibility it can be argued that audited sustainability information would hold a lower the level of subjectivity. This might again explain the investors’ more frequent use of the annual report. However, the empirical result showed a shared opinion that the assurance of the sustainability information was not an essential factor. This would be rather inconsistent with the previously mentioned argument that the investors are using the annual report due to its requirement of being audited.

The finding that investors do not value the assurance of the provided sustainability information is not in line with the investors’ indicated wants of credible and reliable information which the assurance can provide, reported by the ICAEW (2008). Further, the investors’ perception of the importance of assurance can be contrasted with the research by Junior et al (2013). They report that companies are more frequently assuring their sustainability disclosure, although it is voluntary, due to pressure from their stakeholders. This would be rather contradictive with the finding of this thesis because if the investors do not value the assurance they would reasonably not execute pressure on the reporting companies.

As mentioned previously the investors have stated that the provided sustainability information by the reporting companies tends to be too extensive and the investors do not have the possibility to use all the disclosed information. The legal requirement of environmental information in the annual report states that non-financial information should be included in the Board of Directors report if it is of relevance for the understanding of the company's development, position and performance. With the legal requirement in mind, it can be reasonable to assume that the sustainability information is more comprehensively presented in the annual report. Hence, the annual report might have a more suitable level of coverage, which is high but at the same time not too high, and this can be an explanation to why the institutional investors use the annual report more frequently. The integrated report can in the future also be facilitating the emphasised issue of too much information. In the integrated report framework it is stated that the information should be more concise and only the most material information should be included. This would imply a better level of coverage and it would presumably benefit the investors to receive a report which would be more useful in both its content and scope.

8. Conclusion

In the conclusion the main findings will be elevated and put in a broader context to be able to reach a higher consensus. Lastly, future researches will be proposed due to incurred weaknesses of the thesis.

This thesis has been conducted to examine the Swedish institutional investors' perception of the usefulness of sustainability information and the development towards integrated reporting. It has been apparent along the way that there are various approaches to the subject matter and many contradictions have been brought forward. This might descend already from the fact that there is no uniformed definition of sustainability. It can be argued that if there is ambiguity in the initial terminology this will probably affect the continuing practice in the context of sustainability reporting.

It has been highlighted that the investors' perception of sustainability reporting and their use of the provided information is inconsistent. They state the information to be good yet they still do not use it to a great extent. In other words, the investors' perception indicates that the sustainability information is useful, but the information's subordinated significance shows that it is less useful. Hence, a gap in the investors' opinion and action is indicated. It can further be questioned why the sustainability information is of minor importance and perceived as less useful. One aspect can be the absence of internal guidelines at the firm of the institutional investors. This might entail minor incentives for the investors to use the disclosed sustainability information. The Swedish Society of Financial Analysts (SFF) has issued recommendations, which should facilitate the use of non-financial information in the investment decision. However, this might not be sufficient since the investors still find it problematic to include the sustainability information in their decision-making process. Hence, a recommendation might not be enough for the investors to achieve the normative assumption that they should use the provided sustainability information. It can be argued that more incentives for the investors to use the information have to be established, which have to emerge from a wide range of groups, for example requirements from legal, organisation and clientele actors. The future disclosures of integrated reports are stated to include information with a higher investor focus. This can be argued to provide the investors with an incentive because the information will be more adjusted for the investors and thus perceived as more useful.

It has been recognised that the investors mostly use the sustainability information disclosed in the annual report. One possible reason for this might be that the investors perceive the information to be more reliable since the annual report has to be audited for large Swedish companies. The stated role of assurance is to enhance the reliability and credibility of the disclosed sustainability information and this can be argued to simultaneously increase the usefulness of the information. Another argument for the investors to use the annual report might be that the financial information is of higher priority for the investors' decision-making and the financial statements

are required to be disclosed in the annual report. Hence, the annual report is the main source when analysing financial information and therefore the investors might automatically use the sustainability information disclosed in the annual report. Due to the fact that the sustainability information is disclosed in the same source the information which arguably would make it more useful. The investors' preference of assembled disclosures would further advocate the development of integrated reporting. An integrated report will, at the same time as integrating financial and non-financial information, contribute with compiling the information in one report. This can be argued to enhance the usefulness of the sustainability information provided in the integrated report.

Further, it has been emphasised that the investors do not value assurance of the disclosed sustainability information. Since assurance is stated by the accounting profession to increase the reliability and the credibility of the disclosed information it can be argued that the audited sustainability information would be more useful. In the last years companies are assuring their voluntary disclosures of sustainability information more often and assurance is more frequently discussed in the accounting profession. With this in mind it can be questioned why the investors perceive the assurance to be less important. If it is expected that the assurance will contribute to more useful sustainability information the investors should be more interested of audited information. However, one aspect can be that the investors might perceive the auditors not to have the sufficient knowledge and expertise of assuring sustainability information.

A common opinion among the institutional investors was additionally that the provided information was over-supplied. This led to a reduced usage and thus only the most relevant aspects are used, such as environmental and social information. This can be interpreted as the information is less useful. However, it does not necessarily have to be the sustainability information de facto that is not useful, rather it is the over-supply which might decrease the usefulness of the information. One way to overcome the problem with over-supply the investors used the services from internal or external actors to screen the provided sustainability information. Relating this to the fact that the companies are disclosing information to the users of the information, which includes the institutional investors, a weak link can be recognised. In other words, since the investors need to use a third party the usefulness of the provided sustainability information is indicated to be low.

As a conclusion it can be emphasised that the Swedish investors generally have a good perception of the usefulness of sustainability information. However, indicators have shown contradictions to the initial perceived usefulness such as, the subordinated significance representing a minor usefulness and over-supply demonstrating the information to be less useful. Hence, it can be understood that sustainability is a subject difficult to embrace and that sustainability information is hard to implement in the investors' decision-making process. This might however be facilitated with integrated reporting since the investors are stated to be the primary user of the disclosed information and their needs should be in focus. Therefore it can be presumed that when using an integrated report the investors will perceive a higher usefulness.

As can be understood from the above paragraph no distinct conclusion can be drawn, which arguably is desirable. This can be explained with the fact that the thesis encompasses soft aspects and variables and thus it is problematic to provide an absolute answer to the research question. With the use of a quantitative study a more observable and measurable empirical result can be obtained and this might in turn lead to a more concrete conclusion. However, a quantitative study might not be appropriate in the context of sustainability and the soft variables it encompasses. The combination of both quantitative and qualitative studies might therefore be an idea for future research.

Further, the scope of this thesis does not include the perspective of the private investors due to the focus on institutional investors. Since the result of this thesis is not appropriate to apply on all investors a further research area can be distinguished. Further, it would be interesting to gain insight in the perspective of other stakeholders since there presumably are a wide range of other opinions of the usefulness of sustainability information. Another future study would be to examine whether the investors perceive the changes of sustainability reporting when the framework of integrated reporting is established and implemented in the companies' disclosures.

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Appendix

Questionnaire- Sustainability information

The main intention with this interview is to explore the use of sustainability information by institutional investors. The interview embraces non-financial information with focus on sustainability information. The below questions will provide the basis for the interview but we hope that the interview can provide a further discussion.

1. What is your understanding of the term sustainability?
2. To what extent do you believe sustainability information to be material in an investment decision and which sustainability information is of most relevance?
3. Where do you gather the sustainability information you are using?
4. How does your usage of sustainability information differ if it is, on one hand, provided due to legal requirements or, on the other hand, disclosed voluntarily by the company?
5. To what extent do you find sustainability information comparable between different companies?
6. How does your demand of sustainability information differ between various industries and the corporations' possible statements of being sustainable?
7. How important do you believe it is for the sustainability information to be audited by a third party?
8. What is your opinion of today's sustainability reporting considering the corporations' presentation of its business?
9. Describe possible guidelines within your company regarding how you are supposed to use sustainability information?

Reporting of sustainability information is under continuous change and many companies are working towards integrated reporting, where financial and non-financial information is

reported in one report. The phenomenon is relatively new and a framework is under construction, which is expected to be published in the end of 2013.

10. How do you face the development of integrated reporting?

11. How do you think this development might affect your future work?

Intervjuunderlag - Hållbarhetsinformation (Swedish version)

Syftet med intervjun är att undersöka institutionella investerares användning av hållbarhetsinformation i arbetet. Intervjun omfattar icke-finansiell information med fokus på hållbarhetsinformation. Nedanstående frågor utgör basen för intervjun, men vi ser gärna att intervjun leder till en vidare diskussion.

1. Vad är din uppfattning om begreppet hållbarhetsinformation?
2. I vilken utsträckning anser du att hållbarhetsinformation är väsentlig vid ett investeringsbeslut, samt vilken hållbarhetsinformation är av störst relevans?
3. Var hittar du den hållbarhetsinformation som du använder?
4. Hur påverkas ditt användande av hållbarhetsinformation beroende på om den utges till följd av lagstiftning eller frivilligt utges av företaget?
5. I vilken utsträckning bedömer du att hållbarhetsinformation är jämförbar mellan olika företag?
6. Hur skiljer sig din efterfråga på hållbarhetsinformation mellan olika företagsbranscher och företagens eventuella miljömässiga framtong?
7. Hur viktigt anser du det är att hållbarhetsinformationen är reviderad av en tredje part?
8. Vad är din åsikt om dagens hållbarhetsredovisning avseende dess återspeglning av företagets verksamhet?
9. Beskriv eventuella riktlinjer inom Ert företag gällande hur hållbarhetsinformation skall användas?

Rapporteringen av hållbarhetsinformation verkar under ständig förändring och många företag jobbar idag mot integrerad rapportering, där finansiell och icke-finansiell information rapporteras i en rapport. Fenomenet är relativt nytt och ett ramverk är under utveckling som väntas att bli publicerat i slutet av år 2013.

10. Hur ser du på utvecklingen av integrerad rapportering?

11. Hur tror du att denna utveckling kan komma att påverka ditt framtida arbetssätt?