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All That Glitters is Not Gold

An exploratory study into converging and diverging stakeholder perceptions of sustainability reporting

by

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Abstract

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Key words: Sustainability reporting, EU Dir 2014/95, Global Reporting Initiative, Stakeholder theory, Stakeholder salience, Institutional theory, Isomorphic pressures, Normativity

Purpose: The purpose of this thesis is to critically explore how a regulatory, community and organizational stakeholder perceive their role in the context of sustainability reporting as well as identify convergence and divergence between these different stakeholder perceptions.

Methodology: We chose a qualitative-abductive approach to our case study of sustainability reporting by interviewing three stakeholders representing three different stakeholder perspectives. The stakeholders were a business law professor and former EU lawyer representing the EU Dir 2014/95, an employee at the Global Reporting Initiative and a co-founder and CEO of a sustainability reporting software company. The data was transcribed and analyzed thematically, as per Braun and Clarke (2006).

Conceptual Framework: The conceptual framework of this thesis is based on stakeholder theory, specifically Henriques and Sadorsky's (1999) stakeholder groups and Mitchell, Wood and Agle's (1997) stakeholder salience model combined with institutional theory, specifically DiMaggio and Powell's (1983) isomorphic pressures.

Thematic analysis: In terms of the divergence and convergence of perceptions amongst the interviewed stakeholders four themes were identified from the data: (1) the stakeholders' role in sustainability reporting, (2) the EU Dir 2014/95, (3) one unified system and (4) quality of sustainability reporting.

Conclusions: This thesis found that there is significant divergence in stakeholder perceptions of sustainability reporting, which leads to sustainability reporting remaining an unsolved puzzle. Sustainability reporting is still a highly criticized phenomenon, despite rapid developments in legislation and worldwide adoption of the practice. The major findings demonstrate that a reason for sustainability reporting remaining a highly controversial phenomenon, and an unsolved puzzle, might be the contradictory perspectives of regulatory, community and organizational stakeholders.

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Abbreviations

CDP: Carbon Disclosure Project

CEO: Chief Executive Officer

CSR: Corporate Social Responsibility

ESG: Environmental, Social and Governance

EU: European Union

GRI: Global Reporting Initiative

IIRC: International Integrated Reporting Council

NGO: Non-governmental organization

SASB: Sustainability Accounting Standards Board

TCFD: Task Force on Climate-related Financial Disclosures

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1 Introduction

1.1 Background

People across the world are increasingly demanding governments to take climate change seriously, many of them inspired by Swedish climate activist and Time Person of the Year 2019 Greta Thunberg (Alter, Haynes & Worland, 2019). The Special Report on Global Warming (IPCC, 2018), does not leave much time for governments to wait. The European Union presented the European Green Deal in December 2019, striving to become the first climate-neutral continent in 2050 by transitioning nearly every aspect of the European economy to a low-carbon one (European Commission, 2020). Sustainability is now also a priority for many businesses in the world and across industries, with an increasing number of companies integrating sustainability principles into their value chains and having formal governance of sustainability in place (McKinsey & Company, 2011; Spiliakos, 2018).

Disclosures on environmental, social and governance (hereafter ESG) topics by businesses have been steadily increasing since the late 1980s, mainly due to companies responding to stakeholder pressure (Kolk, 2010). The significant amount of corporate scandals and the 2008 financial crisis reiterated the need for businesses to be transparent not only regarding their economic impact but also the environmental and social impacts of their business activities (ed. Arvidsson, 2019; Krzus, 2011). With the evolution of non-financial disclosure came an increase in sustainability reporting frameworks and indexes, the most famous and widely used being the Global Reporting Initiative (hereafter GRI) (KPMG, 2017). The GRI launched the most recent version of their framework, the GRI Standards, in 2016 (GRI, n.d.a). Furthermore, governments, stock exchanges and other financial regulators have increasingly mandated disclosure of sustainability information (Bebbington & Larrinaga, 2014). In the European Union, sustainability reporting is mandated by the EU Directive 2014/95. The EU Dir 2014/95 came into full force in 2017 across all member states, mandating large public-interest companies with over 500 employees to report on environmental, social and employee-related, human rights, anti-corruption and bribery matters.

Content analysis of documents remains a dominant and widely used method in research of sustainability reporting, and there is a lack of exploratory and confirmatory research into the phenomenon (Hahn & Kühnen, 2013). There is some literature that addresses the perceptions of different stakeholders groups when it comes to sustainability reporting (de Villiers & van Staden, 2012; Joensuu, Mäkelä & Onkila, 2018; O'Dwyer, Unerman & Hession, 2005), but the literature mainly focuses on the information needs and expectations of stakeholder groups. Furthermore, apart from Joensuu, Mäkelä and Onkila (2018), the literature most often examines one stakeholder group only. Since there is a lack of research investigating stakeholder perceptions, this thesis wants to establish an understanding of multiple stakeholder groups and their perceptions of sustainability reporting.

The inspiration behind this thesis emanated from an interview one of the authors conducted during an internship. A multinational enterprise was asked about their opinion towards existing systems on the Danish market used for calculation of emissions in sustainability reports. They answered the following:

> The idea in itself is good enough, but there is a need for consolidation in the market as it is flooded with too many different frameworks and each organization tries to distinguish itself and make money. While the questions they should be asking are the same, they sometimes adjust so that they don't make sense. Transparency on methodology and scoring is lacking/poor and different for each organization. Meaning a good rating in one, does not mean you will score high in another. It also seems too easy to manipulate the answers so that even with a poor performance companies may receive a top score, either because they are not truthful in their answers or they use consultants who know how to spin the answers to get a high rating. At the same time, companies who are honest in their answers and disclose their shortcomings may not receive a high score, despite their performance being better than some of their peers who spin their answers. (Personal Communication, 17-09-2019)

1.2 Aim, Objectives and Purpose

This thesis aims to investigate the sustainability reporting phenomenon from a multi-stakeholder perspective. There has been little research on stakeholder perceptions of sustainability reporting, and the research most often accounts for one stakeholder group only. Furthermore, there is little attention in the literature towards the perceptions of powerful stakeholders in the sustainability reporting landscape, such as regulators and standard setters. To our knowledge, there is no research that investigates the perspective of multiple stakeholder groups and tries to make sense of the common ground and differences in perceptions between these stakeholder groups. This thesis sets out to understand how different stakeholders perceive their role in the context of sustainability reporting as well as identify convergence and divergence between these different stakeholder perceptions.

In order to capture different perspectives on sustainability reporting, we will conduct semi-structured interviews with different stakeholders: a business law professor and former EU lawyer, an employee at the GRI and a co-founder and CEO of a sustainability reporting software company. The interviews will give us insights into different experiences and opinions of sustainability reporting and how they perceive their role in the sustainability reporting landscape.

By focusing on different perspectives on sustainability reporting as well as prominent theories within sustainability reporting, we have identified two research questions:

RQ1: How do different stakeholders perceive themselves in the context of sustainability reporting?

> *RQ1a: How does a regulatory stakeholder perceive their role in sustainability reporting?*
>
> *RQ1b: How does an organizational stakeholder perceive their role in sustainability reporting?*
>
> *RQ1c: How does a community stakeholder perceive their role in sustainability reporting?*

RQ2: How do the perceptions of different stakeholders converge and diverge on sustainability reporting?

1.3 Delimitations

There are many aspects to sustainability reporting that we unfortunately cannot address in this thesis. Given the limited time frame and the occurrence of the Covid-19 pandemic at the time of writing this thesis we are aiming to give a broad overview of different opinions and experiences of sustainability reporting as told by different stakeholders. This means we had to make several choices regarding the scope of the research. First of all, this thesis interviews only one individual in each stakeholder group, meaning that the sample size is small. However, due to the expertise of the interviewees their perceptions are very insightful and relevant. Secondly, sustainability reporting is a worldwide phenomenon, with many regional variations that cannot be addressed in this thesis. We aim to provide a general overview, but due to the background and field of expertise of the interviewees our focus is on sustainability reporting in Northern Europe. Thirdly, our thesis is exploratory in nature, meaning we are primarily interested in the opinions and experiences of the interviewees. In addition, there is a potential bias in the answers of the interviewees meaning that the views they expressed might not be representative for the company or organization they are affiliated with.

1.4 Outline of the Thesis

This thesis is divided into seven chapters. Chapter Two and Three reviews existing literature in the field of sustainability reporting, where chapter Two focuses on sustainability reporting in general and Chapter Three examines the EU Dir 2014/95 and the GRI and the literature on both. At the end of Chapter Three, the conceptual framework is presented. The fourth chapter is concerned with the methodology used for this thesis. Chapter Five presents the results of the interviews undertaken with the different stakeholders. Chapter Six analyses and discusses the data. Conclusions, implications and future research are presented in the seventh chapter.

2 Literature Review

Research into sustainability reporting has increased with the trend of organizations disclosing non-financial information. Initial research into the phenomenon mainly focused on understanding the practice from a theoretical point of view (Gray, 1996) which then evolved into critiquing sustainability reporting itself (ed. Arvidsson, 2019). The criticism ranges from sustainability reporting as a greenwashing activity (Deegan, 2002; Laufer, 2003), to scholars criticizing the entire notion of sustainability in business, and arguing that currently, business is far away from being somewhat sustainable (Gray, 2010; Gray & Milne, 2002; Milne & Gray, 2013).

Academic research on sustainability reporting has primarily focused on the motivation behind sustainability reporting. Stakeholder theory, institutional theory and legitimacy theory have emerged as the most popular explanation (Bini & Bellucci, 2020). These theories will help to strengthen the understanding of how stakeholders' perceptions differ, thus helping the authors of this thesis to identify convergence and divergence amongst the stakeholders. Furthermore, the conceptual framework of this thesis is based on stakeholder theory and institutional theory. The literature review is divided into two chapters. This chapter provides a general overview of the research on sustainability reporting and the theoretical underpinnings. Chapter Three explains the EU Dir 2014/95 and the GRI in detail and examines the literature specific to these topics and introduces the conceptual framework for this thesis.

2.1 What is sustainability reporting?

Sustainability reporting has been defined by many scholars and organizations, however there does not seem to be a universal definition. The GRI defines a sustainability report as a report provided by an organization in which the impact of its economic, environmental and social activities is disclosed. The term is used synonymously with triple bottom line reporting, CSR reporting and is an intrinsic element of an integrated report (GRI, n.d.a). Sustainability reporting is part of the corporate social responsibility (hereafter CSR) of businesses. CSR “encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time” (Caroll, 1979, p. 500).

Non-financial disclosures provide organizations with the opportunity or enforcement of measuring, monitoring and communicating their overall performance within the spectrum of economic, environmental, governmental and social aspects (GRI, n.d.a). While most sustainability reports today include both social and environmental aspects, in the beginning of the practice only environmental impacts were disclosed (ed. Arvidsson, 2019). Sustainability reports have often been published as standalone reports, which has been criticized for "failing to connect environmental, social and governance issues to business strategy and financial performance" (Krzus, 2011, p. 274). The latest trend in sustainability reporting is the increasing amount of integrated reports being published. Integrated reports aim to provide a more holistic picture of an organization, combining material information about the strategy, governance, performance and prospects reflecting the commercial, social and environmental context in which it operates into one single report (IIRC, n.d.).

2.1.1 The history of sustainability reporting and sustainability reporting today

"Our Common Future", also known as the Brundtland report, published in 1987 by the World Commission on Environment and Development (UNWCED) introduced the concept of sustainable development for the first time. The report, written in cooperation with international experts, politicians and civil servants, proposed long-term solutions for sustainable development into the 21st century (ed. Arvidsson, 2019). The report established one of the most common definitions of sustainable development: "Development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (UNCWED, 1987, n.p.).

This does not mean that sustainability reporting only commenced after the publication of the Brundtland report. According to Kolk (2010) Western European and American multinational corporations started publishing "social reports" during the 1970s. The reporting was never institutionalized and lost momentum. She states that in the late 1980s, however, more companies started publishing non-financial reports, mainly disclosing environmental impacts. Over the past decade, this has been extended to incorporate social and economic aspects as well (Kolk, 2010).

Towards the end of the 1990's an increasing number of countries, primarily in Western Europe, North America and Oceania, introduced legislation and requirements for companies to report

on their environmental performance (KPMG, 1999). The title and scope of such reports differed vastly, ranging from "social reports" to "environmental reports" (Junior, Best & Cotter, 2014). To provide guidance and standards for this practice, several voluntary guidelines were developed such as the GRI, which was founded in 1997 (Brown, de Jong & Levy, 2009). Sustainability reporting has been growing worldwide ever since. In 1999, 35% of the Fortune 250 largest companies world-wide published some sort of CSR report, mainly in the form of an environmental or a HSE (health, safety and environment) report (KPMG, 1999). This increased to 45% in 2002, and further to 52% in 2005 (KPMG, 2005). Between 1999 and 2005 most reports changed from only disclosing environmental information to sustainability reports that encompass social, environmental and economic information (KPMG, 2005).

Today, 95% of the world's 250 largest companies (G250) by revenue and 75% of the top 100 companies by revenue in 49 countries (N100) publish some sort of sustainability report (KPMG, 2017). The countries with the highest reporting rates are the UK, Japan, India, Malaysia, France, Denmark, South Africa, the US and Mexico (KPMG, 2017). Interestingly, companies in sectors with high environmental impact publish sustainability reports most often. Ever since the 1990s, companies in the oil and gas, chemicals, mining, automotive and forestry and paper sectors have the highest reporting rates (KPMG, 1999, 2005, 2017). This is because firms from more polluting industries see sustainability reporting as reputation insurance, and therefore take more drastic measures to ensure they are perceived as legitimate by stakeholders (Perez-Batres et al., 2012).

2.1.2 Critics of the concept of sustainability in business

Prominent critics of sustainability reporting and organizations attempting to be sustainable are Milne and Gray. They question the entire notion of "sustainability" and what it means for business. Gray (2010, p. 58) goes so far as to say that capitalism is inherently flawed: "The increasingly seductive claims of the corporation to a state of sustainability are the natural deployment of simple discourse mechanisms to permit the organization to pursue its psychopathic drives within capitalism". Bini and Bellucci (2020) identify the inherent vagueness of the notion of sustainability as a major concern for sustainability reporting.

The Brundtland definition of sustainability is the most widely accepted definition of the concept (Moneva, Archel & Correa, 2006). However, there does not seem to be a consensus-based

definition on sustainability in the literature. Gray (2010) argues that it is impossible to define sustainability for businesses due to three reasons. First, he states that sustainability is an ecological, societal and planetary concept, not one that coincides with business and its boundaries. Second, he argues that sustainability is a way of being, and society will never arrive at a single sustainable position, and third, sustainability is based on multi-stakeholder interactions and perceptions. He concludes that a company can be based on unsustainable business (for example, extraction of oil) but with a sustainable system around it, compensating for their extractions and hence be sustainable.

2.1.3 The Triple Bottom Line

Sustainability reporting as we know it today has been heavily influenced by a concept coined by Elkington in 1994, the Triple Bottom Line (hereafter TBL). TBL is a sustainability framework which examines not only the economic value that companies add, but also the environmental and social value that they add or destroy (Elkington, 2018). TBL aimed to achieve systems-change by pushing towards the reformation of capitalism (Elkington, 2018). The TBL has become an institutionalized concept within investigating and managing corporate sustainability (Bini & Bellucci, 2020). The GRI is also built on this notion (GRI, n.d.b).

The TBL has not faced much criticism, neither by managers nor academic researchers (Bini & Bellucci, 2020). An exception to this is Milne and Gray (2013), who argue that the concept of TBL is seen as equal to sustainability, portraying sustainability as a tangible three-part notion. They argue that the concept is flawed, leading to companies confusing their "insufficient" sustainability reports with "reporting on being sustainable and moving towards sustainability" (Milne & Gray, 2013, p. 19). Even the original brain behind the TBL has recently recalled the concept, calling for a "new wave of TBL innovation and deployment" (Elkington, 2018, p. 5). According to him, the concept transformed into just an accounting tool, which was never his intention.

2.1.4 Accounting for sustainability

Environmental accounting, green accounting, sustainable accounting and TBL accounting are all used interchangeably when referring to accounting that considers social or environmental factors (Bini & Bellucci, 2020). Environmental accounting has been defined as "… a branch of accounting that deals with activities, methods and systems; recording, analysis and reporting;

and environmentally induced financial impacts and ecological impacts of a defined economic system" (Schaltegger & Buritt, 2000, p. 30 cited in Bini & Bellucci, 2020). The literature has developed several approaches to accounting for sustainability, which fall under the umbrella term of Environmental Management Accounting, EMA (Jasinski, Meredith & Kirwan, 2015).

Full-cost accounting appears to be the most prominent sustainability accounting method (Bebbington & Larrinaga, 2014). Full-cost accounting attempts to monetize and account for the environmental and social direct and indirect costs, hence also externalities of a company's business activities (Atkinson, 2000; Bebbington & Larrinaga, 2014; Bini & Bellucci, 2020; Jasinski, Meredith & Kirwan, 2015; Russell, 2011). Full-cost accounting also monetizes costs that are not paid for by customers or companies, meaning that currently, society pays for these costs. Hence, advocates of full-cost accounting call for these costs to be internalized by companies and be included in corporate reports, suggesting that the costs should go beyond solely being reported on and enter the supply chain of a business (Russell, 2011). It is at this point that a business can attempt to be somewhat socially and environmentally sustainable (Jasinski, Meredith & Kirwan, 2015; Russell, 2011). However, full-cost accounting has yet to become a widespread practice due to the difficulty of valuing irreplaceable resources at a certain cost (Bini & Bellucci, 2020; Gray, 2010). In addition, the research field of full-cost accounting is still novel, and more research is needed (Bebbington & Larrinaga, 2014).

2.2 Theories in sustainability reporting research

Research on social and environmental reporting has been around as long as sustainability reporting itself, however since the 1990s there has been a substantial increase in academic researchers entering the sphere. This occurred next to an increasing number of governments, industry and accounting bodies paying close attention to the subject (Deegan, 2002). Early studies on the subject have focused on explaining the motivation behind sustainability reporting through a variety of different, but still interlinked, theories (ed. Arvidsson, 2019). As sustainability reporting was, and to a certain extent remains, a primarily voluntary action much of the research has attempted to answer why companies voluntarily produce sustainability reports, knowing that the information can be used to criticize the company (Hess, 2014).

Research on sustainability reporting appears to lack a theoretical reference point, contributing to inconsistent and varied findings (Hooghiemstra, 2000 cited in Hahn & Kühnen, 2013). Legitimacy-, stakeholder-, institutional- and voluntary disclosure theory are the most prominent theories in the sustainability reporting literature (Bini & Bellucci, 2020), where stakeholder-, legitimacy- and institutional theory have the same roots in social and political theory (Gray, 1996). Several papers have attempted to synthesize the theories (Chen & Roberts, 2010; Cho, Laine, Roberts & Rodrigue 2015; Herold, 2018; Hummel & Schlick, 2016) but there is no consensus in the literature on how the theories are interrelated and what implications this has on sustainability reporting. It is beyond the scope of this thesis to explain all theories in detail, but Table 1 attempts to give a comprehensive overview.

Theory	**Main ideas and link to sustainability reporting**	**References and further reading**
Legitimacy theory	Organizations do not have an inherent right to exist but must instead seek legitimacy within society, a license to operate. Sustainability reporting is a way to maintain legitimacy within society, and to respond to public pressures. The theory suggests that poorly performing companies report on their sustainability performance in order to gain legitimacy.	Cho and Patten, (2007), Deegan, (2002), Dowling and Pfeffer, (1975), Hummel and Schlick (2016), Neu, Warsame and Pedwell, (1998),
Institutional theory	Organizations are influenced by surrounding institutions: regulative, normative and cognitive structures that maintain stability in society and regulate social behavior. Organizations depend on the external environment, and mimetic, coercive and normative isomorphic pressures explain the adoption of sustainability reporting. The theory further predicts that over time, organizations adopt similar practices.	DiMaggio and Powell (1983), Herold (2018), Meyer and Rowan (1977)

Stakeholder theory	Organizations must be accountable not only to their shareholders, but also to their stakeholders defined by Freeman (2001) as employees, financiers, customers and communities. These stakeholders also have a right to demand something from companies. Sustainability reports reduce information asymmetry between the organizations and their stakeholders and legitimize the conduct of an organization towards their stakeholders.	Bellucci, Simoni, Acuti and Manetti (2019), Freeman (2001), Herold (2018)
Voluntary disclosure theory	Voluntary disclosure theory argues that organizations disclose information about good performance to set themselves apart from organizations with bad performance in an attempt to increase the value of their stocks. Within sustainability reporting, this means that companies voluntarily disclose their sustainability performance in order to reduce information asymmetry and signal that they are good corporate citizens. The theory predicts that companies with superior sustainability performance disclose more sustainability information. This contrasts with legitimacy theory.	Cho and Patten (2007), Clarkson, Li, Richardson and Vasvari (2008), Deegan (2002), Hummel and Schlick (2016),

Table 1- Theories in the literature on sustainability reporting

2.2.1 Legitimacy theory

Legitimacy theory, first mentioned in the landmark study conducted by Dowling and Pfeffer (1975) is one of the most important theories explaining the motivation behind sustainability reporting (Bini & Bellucci, 2020; Chen & Roberts, 2010; Herold, 2018). Legitimacy theory argues that companies do not have an inherent right to exist, but they must be granted acceptance by society to operate (Deegan, 2002). This acceptance, or social license to operate,

depends on stakeholder perceptions of a company (ed. Arvidsson, 2019). Hahn and Kühnen (2013) further argue that the legitimacy of companies can be threatened if that company is not operating in a socially accepted manner. There has been disagreement amongst scholars regarding what the theory precisely entails and what it predicts, but two major streams of legitimacy theory have emerged (Chen & Roberts, 2010).

From a strategic legitimacy perspective, organizations publish sustainability reports as a response to pressure from external stakeholders, and it is carried out for strategic reasons to influence stakeholder perceptions (Bini & Bellucci, 2020). As a result, several scholars hypothesize that companies with a low sustainability performance use sustainability disclosure to maintain legitimacy (Hummel & Schlick, 2016). In relation to our research it is more relevant to consider the institutional view of legitimacy, which has close ties to institutional theory. Institutional legitimacy is used to understand which institutional activities, procedures and structures have gained social acceptance. These established structures, regulations and procedures and whether organizations adhere to them are the baseline for evaluating the legitimacy of organizations (Chen & Roberts, 2010).

Regulations on sustainability reporting, for example set out by the EU Dir 2014/95 and the standards of the GRI, are a type of institutional pattern related to the coercive and normative isomorphic pressures, which will be explained in the next section (Herold, 2018). Companies want to comply to these regulations in order to be perceived as legitimate by stakeholders which is the notion of regulative legitimacy (Herold, 2018). Conformity to legislation is an incentive to provide environmental disclosure, because in doing so they signal their adherence to institutions in the greater society (Chelli, Durocher & Fortin, 2018).

2.2.2 Institutional theory

Institutional theory seeks to explain the institutional pressures and social interactions that influence an organization to adopt certain practices or behave a certain way (Herold, 2018). Institutionalization is the process in which: “social processes, obligations, or actualities come to take on a rule like status in social thought and action” (Meyer & Rowan, 1977, p. 341). Furthermore, it is evident that institutional rules may have an effect on organizations, their structures and their implementation. As these institutional rules increase their dominance and

legitimacy, organizations will eventually abide by these and organize accordingly, causing a change in organizational behavior (Meyer & Rowan, 1977).

A central concept to institutional theory is the concept of isomorphism, which is the notion that all organizations become similar over time or adopt similar practices over time (DiMaggio & Powell, 1983). The institutionalization and wide-spread publishing of sustainability reports is an example of organizations adopting similar practices. Sustainability reports are also a way to maintain legitimacy by organizations (Herold, 2018). There are three isomorphic mechanisms: *coercive* isomorphisms, *mimetic* isomorphisms and *normative* isomorphisms. *Mimetic* isomorphic pressures derive from uncertainty, causing organizations to model themselves after successful organizations in order to be perceived as successful and legitimate (DiMaggio & Powell, 1983). The modelling can be achieved through internal changes in the company or through the help of external actors such as consulting firms and industry associations (DiMaggio & Powell, 1983). *Coercive* isomorphisms are those in power influencing organizations, such as the government and financial reporting requirements by stock exchanges, who are seen as legitimate stakeholders imposing pressure through both regulatory and legislative measures (Herold, 2018). Hence the organization changes correspondingly to government mandates (DiMaggio & Powell, 1983). *Normative* isomorphism is similar to *coercive* isomorphism (Herold, 2018). However, whilst *coercive* isomorphisms address the pressures imposed by governmental power and regulations, *normative* isomorphism addresses social institutional pressures, such as NGOs and other business associations (Herold, 2018).

Another central concept within institutional theory is institutional logics. These are defined as "patterns of beliefs, practices, values, assumptions and rules that structure cognition and guide decision making in a given field" (Pache & Santos, 2013, p. 6). There are several institutional logics that are central to an organization in a certain field, and they do not necessarily converge (Pache & Santos, 2013). Companies publish sustainability reports in response to external pressures to disclose non-financial information, adopting a sustainability logic, meaning that sustainability reports are an expression of sustainability logic (Herold, 2018). The adoption of a certain logic happens due to the isomorphic mechanisms (DiMaggio & Powell, 1983).

2.2.3 Stakeholder theory

Stakeholder theory pioneered by Freeman in 1984 suggests that corporations have groups and individuals that are affected by corporate actions. According to Freeman (2001), stakeholders

have the right to demand action from management of a company, just like shareholders. The theory contrasts Friedman (1970), who suggests that the sole responsibility of a firm is to make profits for its shareholders.

There is no consensus in the literature on what stakeholders matter in the context of the firm. Mitchell, Agle and Wood (1997) have conceptualized one of the most prominent frameworks to identify the stakeholders that matter to an organization, based on their possession of one or more of the following stakeholder attributes: the *power* of the stakeholder to affect the firm, a *legitimacy* of the relationship with the firm and the *urgency* of the cause of action on the firm. Based on this conceptual framework, stakeholders can be classified into different groups. The first group are latent stakeholders, who possess one of the attributes. The second group are expectant stakeholders, who possess two of the three stakeholder attributes and the third group are definitive stakeholders who possess all three stakeholder attributes. Within these stakeholder groups, there are several stakeholder typologies that are illustrated in figure 1 below:

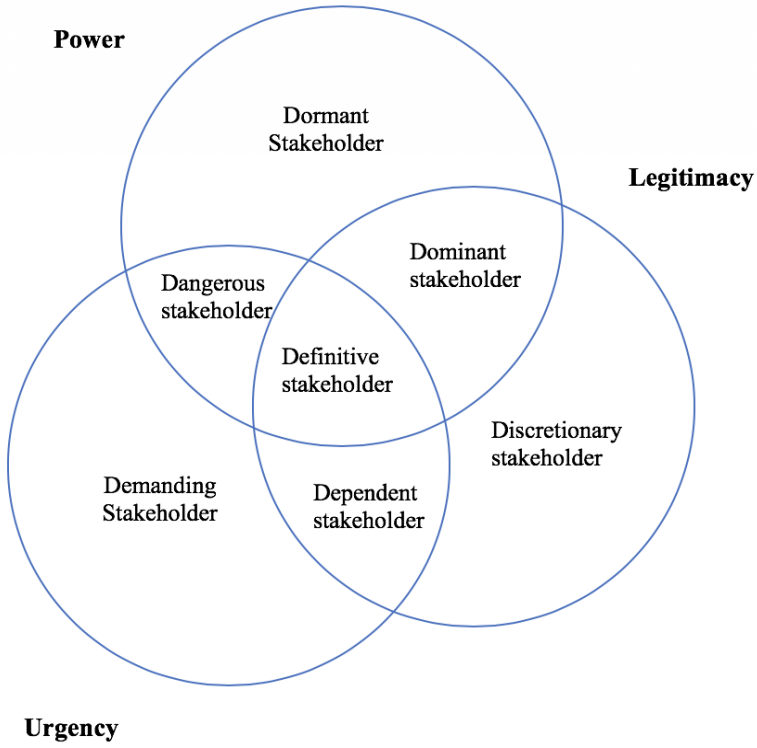

Figure 1- Stakeholder Typology (Mitchell, Agle & Wood, 1997, p. 874)

Another important concept in stakeholder theory that came from this landmark study is the concept of stakeholder salience, which describes the extent to which managers prioritize certain stakeholder groups over others (Mitchell, Wood & Agle, 1997). Stakeholder salience is an important motivation for companies to join sustainability reporting initiatives like the GRI (Perez-Batres, Doh, Miller & Pisani, 2012).

There are varying definitions used for identifying stakeholders in the literature, some of them very broad and inclusive and others narrower. According to Freeman (2001) stakeholders are management, local communities, customers, employees, owners and suppliers. Henriques and Sadorsky (1999) claim that there are four critical groups of stakeholders in the context of environmental activities of a firm: (1) regulatory stakeholders, (2) organizational stakeholders, (3) community stakeholders and (4) the media. Regulatory stakeholders include governments, organizational stakeholders are those directly influenced by an organization and are able to impact a corporation directly, including customers, suppliers, employees and shareholders, and community stakeholders are those that can influence public opinion about organizations, such as environmental NGOs (Henriques & Sadorsky, 1999). Several other studies researched which stakeholders mattered in the context of an organization's sustainability management, however they all came to different conclusions (Banerjee & Bonnefous, 2011; Delmas & Toffel, 2004; Sprengel & Busch, 2011).

Sustainability reports are seen as a mean to engage in dialogue with stakeholders and enhance stakeholder relations (ed. Arvidsson, 2019). Information asymmetry between companies and its stakeholders is reduced when companies publish sustainability reports (Hahn & Kühnen, 2013), as companies can disclose the hidden impacts of their products (Perez-Batres et al., 2012). Perez-Batres et al. (2012) found that stakeholders apply varying amounts of pressure to firms to conduct CSR activities and firms respond differently to these pressures depending on the stakeholder (Perez-Batres et al., 2012).

The expectations of stakeholders' information needs in the context of sustainability reporting has been researched within the literature (Joensuu, Mäkelä & Onkila, 2018). A study conducted by O'Dwyer, Unerman and Hession (2005) on whether sustainability reports meet the information needs of NGOs in Ireland found that NGOs are skeptical of the sustainability reporting practice and are not satisfied with the credibility and usefulness of non-financial information. Additionally, many NGOs called for mandating sustainability reporting

(O'Dwyer, Unerman & Hession, 2005). A study conducted by de Villiers and van Staden (2012) into shareholder attitudes in New Zealand found that different shareholders have different desires when it comes to non-financial disclosure and that over 60% of shareholders called for mandatory disclosures to create a level playing field. Joensuu, Mäkela and Onkila (2018) found contradictory expectations of sustainability reporting from different stakeholders, based on different interpretations of the relevance of information, previous personal experiences and perceptions of corporate sustainability (Joensuu, Mäkelä & Onkila, 2018).

In addition to stakeholder information needs, stakeholder engagement has also been investigated in the literature (Bellucci et al., 2019; Manetti, 2011). Today, stakeholder engagement is at the very core of sustainability reporting (Bellucci et al., 2019). This was not always the case but started around 2000 (Gray, Adams & Owen, 2014). Stakeholder engagement goes further than just involvement of stakeholders to manage expectations but is rather about the creation of a network of mutual responsibility, meaning that stakeholders can also actively raise issues and ask questions, potentially impacting business management (Manetti, 2011). However, Manetti (2011) also found that companies have more of a stakeholder management approach rather than a stakeholder engagement strategy. A study conducted by Bellucci et al. (2019) analyzed almost 300 GRI-adherent sustainability reports and found stakeholders are indeed engaged in dialogue with most of the reporting companies, showing that most organizations take the principle of stakeholder inclusiveness to heart.

3 The EU Directive 2014/95 and the GRI

This chapter will explain the EU Dir 2014/95 and the GRI as well as review the academic research on both. The EU Dir 2014/95 is still relatively new, coming into force only three years ago. Besides an exploratory study conducted by Mion and Adaui (2019) there is no substantial research on whether the directive actually improved information quality (ed. Arvidsson, 2019). The GRI has been criticized as being an insufficient tool for businesses to actually report on sustainability (McElroy, 2017; Moneva, Archel & Correa, 2006). Literature which takes both a positive and critical stand to the GRI and the EU Dir 2014/95 is vital in order to test the perceptions of the stakeholders. The conceptual framework will be introduced at the end of this chapter.

3.1 Sustainability reporting regulations

The last three decades have seen a significant increase in regulatory measures for sustainability reporting, both in informal and formal law (Bebbington, Kirk & Larrinaga, 2012). There are almost 400 reporting instruments in 64 countries, with two thirds of them being mandatory and the remainder being voluntary (KPMG, 2017). Most instruments are issued by governments, but financial regulators and stock exchanges also issue a significant number of instruments, accounting for one third of the total (KPMG, 2017). In most countries the legislation is only applicable to large companies, and whilst small and medium-sized enterprises (hereafter SMEs) are often part of the supply chains of large companies, they are often excluded from legislation (Bartels, Fogelberg, Hoballah & van der Lugt, 2016). According to Prado-Lorenzo, Gallego-Alvarez and Garcia-Sanchez (2009), governments are one of the most influential stakeholder groups impacting sustainability disclosure, and they call for strengthening of regulations on sustainability reports, in order to enhance transparency in social and environmental behavior. The notion of further mandating sustainability reporting has been echoed in the literature by many other scholars (Deegan, 2002; Gray, 2010; Gray & Milne, 2002; Hess, 2007, 2008; Hess & Dunfee, 2007; Milne & Gray, 2013).

3.1.1 The EU Directive 2014/95

Regulation of non-financial disclosure in the European Union commenced in 2001, with the 2001/453/EC European Commission Recommendation on recognition, measurement, and disclosure of environmental issues in the annual accounts and annual reports of companies (2001/453/EC). Recommendations are not legally binding. After the Recommendation in 2001, there were several amendments in 2003, 2006 and 2013. However, these Recommendations did not lead to the widespread regulation of sustainability disclosure in the EU, because a majority of the member states waived the obligation (Fortuna et al., 2020).

On the 22nd of October 2014, the European Parliament and the Council amended the Directive 2013/34/EU with the purpose of mandating the disclosure of non-financial statements by large undertakings. The directive is part of the EU's wider initiative on CSR, and a response to the growing need for transparency of information (Fortune et al., 2020). The goal of the directive is to strengthen the confidence in terms of "Working together to create growth" (Directive 2014/95/EU, Preamble 1). The European Parliament identified a need for transparency across all Member States when it comes to social and environmental information. Therefore, a legislative measure was proposed with the purpose of improving the social and environmental information in non-financial disclosures as well as improving investor and consumer trust. The European Parliament believes that the disclosure of non-financial statements benefits the measuring, monitoring and managing of undertakings' performance and what impact they have on society (Dir. 2014/95/EU, Preamble 3).

Art. 19a(1) of Dir. 2014/95 imposes an obligation for large, public interest undertakings with more than 500 employees on average during the financial year, to in their managerial report include a non-financial statement. The non-financial statement must include the necessary information to understand the undertaking's development, performance, position and its activities' impact on environmental, social and employee matters. This also includes information on matters of the respect for human rights, anti-corruption and bribery. Art. 19a(1) (a-e) states five parts that must be included in the non-financial statement. First of all, the statement must include a brief description on the business model of the undertaking. Secondly, the statement must present what policies the undertaking have adopted regarding the matters mentioned in art. 19a(1) as well as any due diligence policies concerning this. Thirdly, the statement must contain information on the outcome of these policies. Fourthly, there must be

information on what principal risks relating to the above-mentioned matters which can be found in the undertaking's activities, including its business relationships, products or services if relevant and proportionate, as well as how those risks are managed. Lastly, the statement should include non-financial key performance indicators relevant to the undertaking's business.

If the undertaking does not fulfil its obligation according to art. 19a, it must provide an explanation for this lack of compliance in its statement according to art. 19a(1) subpara 2. When implementing the directive, the member states of the EU are required to allow undertakings to rely on national, EU-based or international frameworks of their own choosing, according to art. 19a(1) subpara 4. What framework is used should be stated in the report. The Commission offers guidelines regarding the methodology of the reporting, but these guidelines do constitute binding rules (Art. 2 Dir. 2014/95).

The EU member states had flexibility in terms of how the directive would be transposed into national legislation, with the deadline passing in December 2016. According to a report prepared by the GRI and CSR Europe (2017):

> The groundbreaking Directive 2014/95/EU has elevated corporate transparency on key sustainability issues in Europe. This crucial EU leadership has the potential to effect change not only in the sustainability performance of relevant European companies, but also to enhance transparency and trust throughout value chains. This legislation provides the world with a best practice example of smart CSR and RBC [responsible business conduct] policy. (GRI & CSR Europe, 2017, p. 14)

The authors also state in the report that the directive is a first step and show that member state implementation of the law vastly differs in how stringent the rules are (GRI & CSR Europe, 2017). In other words, it appears to be a fragmented landscape, with some countries posing strict rules and regulations and going a step further than the EU Dir 2014/95. For example, Sweden and Denmark require third party assurance and have wider scopes also including smaller companies whilst some countries solely kept the minimum requirements of the directive (Sewell, van Oorschot & van der Esch, 2018).

Despite the novelty of the directive, it has received a lot of critique. The comparability and accessibility of sustainability reports has been widely criticized, and the EU Dir 2014/95 does

not seem to solve this issue as each member state has different regulations regarding reporting formats (Sewell, van Oorschot & van der Esch, 2018). In addition, the directive has been criticized for having a too soft tone, potentially hindering actual results in sustainability performance (ed. Arvidsson, 2019).

Since the directive is very new, it is yet to be researched if it has a significant effect on the quality of sustainability reports. The first year of compliant sustainability reports was in 2018. An exploratory study conducted by Mion and Adaui (2019) researching Italian and German companies showed that the implementation of the EU Dir 2014/95 indeed contributed to increasing quality and homogenization of sustainability reports, but most companies they included in the sample already had high-quality sustainability reports before implementation of the directive.

3.1.2 Normativity

The authors of this thesis wanted to find out when a certain law is perceived as legitimate, thus when a law actually can be seen as "effective" and creating normativity, which is known as internal morality pioneered by the famous Fuller (1964). Normativity explains how formal legislation alone may not be plentiful to create a norm in a given regime. Bebbington, Kirk and Larrinaga (2012) studied the production of normativity within the Spanish and British corporate reporting regime. They define normativity as the way in which institutions come to perceive laws and regulations in the conceptual framework of non-financial disclosures as ever binding.

According to Fuller (1964, p. 145): "Law is dependent for its success on the energy, insight, intelligence, and conscientiousness of those who conduct it, and fated, because of this dependence, to fall always somewhat short of all full attainment of its goals". Furthermore, he sees law as a creative process in which he believes one should see the law as an incomplete project which is challenging and always in construction and unfinished. He continues arguing that the efficiency of law depends on an existing mutually exclusive element, where institutions and corporations (governing and the governed) are aligned thus acceptance and understanding needs to exist. This can be identified as an interactive understanding of the law which needs to be present in order for the law to transit to a legal normativity. According to Brunnée and Toope (2000, p. 49): "Fuller's concept of the morality of law actually informs the interactive understanding of legal normativity in important ways".

There are implications of this general "interactionism" which threatens legal outcome and its purpose which is the fact that rules and regulations will only be effective if those who are involved expect and believe that others will apply and understand those rules and regulations in roughly the same way (Postema, 1994). Law-making must anticipate the risk of organizations not understanding nor accepting the rules and regulations and adjust accordingly by providing reason and guidance in the application of these rules and regulations (Fuller, 1964). Postema (1994) emphasizes the importance of legal norms and rules being broadly congruent in order for them to be able have an actual affect in guiding human and organizational behavior or as Brunnée and Toope (2000, p. 70) state: "law is persuasive when it is perceived as legitimate by most actors". Hence in order for rules and legal systems to be legitimate, an acceptance and clear reason perceived by the organization needs to exist (Brunnée & Toope, 2000). If internal morality in terms of the law is nonexistent, and nor is fulfilled the law creation and legislation or regulation is illegitimate. Thus, norms or normativity is constructed through patterns in which there is a shared understanding (Brunnée & Toope, 2000). If there is no internal morality, normativity is failed to be established.

3.2 Sustainability reporting frameworks

3.2.1 Sustainability reporting frameworks and indices

There are many reporting frameworks on the market, focusing on different aspects of sustainability reporting. Most of the frameworks, including the GRI are voluntary and follow a so-called "market-based strategy" meaning that the emphasis is on companies voluntarily adopting the framework or standards (Eccles, Krzus & Ribot, 2015). If they do not, they risk falling behind peers as well as not meeting stakeholder expectations (Eccles, Krzus & Ribot, 2015). Companies voluntarily following a framework or implementing a standard are also more likely to get behind the "spirit of its intent rather than to treat it as a compliance exercise" (Eccles, Krzus & Ribot, 2015, p. 286). The GRI will be explained later in this chapter, but there are several others that are worth mentioning and widely used. They are summarized in Table 2 below.

Type	Scope	Purpose and users	Signatories
International Integrated Reporting Committee (IIRC)	Creation of an integrated report, combining financial and sustainability disclosures into one report focused on value creation over time and integration of ESG topics into strategy.	Primarily for investors, but also for all stakeholders interested in the organization	Unclear, but 1635 companies on the path of publishing integrated reporting in March 2019.
Sustainability Accounting Standards Board (SASB)	US-focused, industry-specific standards across ESG topics, focusing on financially material information.	Primarily for investors.	120 companies use SASB, majority being US-based.
Task Force on Climate-related Financial Disclosures recommendations (TCFD)	Recommendations for decision-useful, climate-related financial information. Categories for climate-related risks and opportunities and how this impacts financials.	Primarily for investors, lenders and insurance underwriters.	785 supporters across 49 countries.
Carbon Disclosure Project (CDP)	Disclosures on climate change, water security and deforestation disclosures. Also used by cities, NGOs and governmental organizations. Also has an index scoring companies on a 100-point scale, with top companies making it on the A-list.	Primarily for investors and direct customers	8400 companies and 920 cities worldwide.
ISO 26000:2010 standard	Guidelines for social responsibility, addressing seven core subjects of social responsibility.	Stakeholders.	80 countries made the ISO 26000:2010 standards available nationally.

Table 2- Overview of sustainability reporting frameworks (Adapted from CDP, 2020; IIRC, 2013; ISO, 2018; S&P Global, 2020; SASB, 2012; TCFD, 2019)

3.2.2 The frameworks: in competition or harmony?

Common criticism by businesspeople and academic researchers alike is the multitude of frameworks, also called the "alphabet soup". However, the major reporting frameworks agree that they are collaborating, not competing (Jorgenson, 2018). In an attempt to better align the frameworks, the CDP, Climate Disclosure Standards Board (CDSB), GRI, IIRC and SASB started a two-year project aiming to align their frameworks to the TCFD recommendations. They published a report in September 2019, showing that the TCFD's seven principles are "harmonious and complementary" with the frameworks of the participants, and 80% of the TCFD's illustrative metrics are fully or reasonably covered by the CDP, GRI and SASB indicators (Corporate Reporting Dialogue, 2019). Many frameworks are publishing reports in how they complement each other. The CEO's of GRI and SASB in 2017 in a joint opinion article stated that the two frameworks complement each other, focusing on different audiences (Mohin & Rogers, 2017). The GRI has also published several linkage documents describing how the GRI is complementary to other frameworks, for example with the CDP and ISO 26000 (GRI, 2014).

3.2.3 The Global Reporting Initiative (GRI)

A thriving global community that lifts humanity and enhances the resources on which all life depends. – GRI Vision Statement (GRI, n.d.c, n.p.).

The GRI has rapidly established itself as the worldwide standard for sustainability reporting. (Grushina, 2017; KPMG, 2017; Brown, de Jong & Levy, 2009) According to Bebbington, Kirk and Larrinaga (2012), in its years of being active, the GRI has established itself as an institution, and its guidelines have achieved normativity. The framework was pioneered in 1997 by The United Nations in collaboration with the Boston-based Coalition for Environmentally Responsible Economics (Pennington & More, 2010). Today, the GRI is the most widely used sustainability reporting framework in the world (Brown, de Jong & Levy, 2009; Grushina, 2017; KPMG, 2017) and a free public good, meaning that the standards are available for download at no cost (GRI, n.d.a). In 2017 75% of G250 and 63% of N100 companies used the GRI framework to report on their sustainability impacts (KPMG, 2017).

The GRI recently released the newest version of their framework: the GRI standards (GRI, n.d.a). The standards encompass: Universal Standards, Economic Standards, Environmental

Standards and Social Standards and companies can select the disclosures that are material to them from the Economic, Environmental and Social Standards (GRI, n.d.a). Hence, the GRI is built on the foundations of the triple bottom line (Gray, Adams & Owen, 2014). Today, 14606 organizations report according to the GRI framework, situated in more than 100 countries (GRI, n.d.c). The GRI aims to assist corporations and public governance in the understanding and communication of their general impact on CSR issues such as: climate change, human rights, governance and social welfare. Their mission is *"to empower decisions that create social, environmental and economic benefits for everyone"* (GRI, n.d.c, n.p.) and in order for them to deliver on their mission, the GRI requires its signatories to follow their reporting principles both in the process of building the report and afterwards. Hence the report provided by organizations needs to follow specific principles in method, data presentation and aims. The principles are shown in table 3.

Reporting principle	**Meaning**
Stakeholder Inclusiveness	The reporting organization shall identify its stakeholders and explain how it has responded to their reasonable expectations and interests.
Sustainability context	The report shall present the reporting organization's performance in the wider context of sustainability.
Materiality	The report shall cover topics that: Reflect the reporting organization's significant economic, environmental and social impacts; or Substantively influence the assessments and decisions of stakeholders
Completeness	The report shall include coverage of material topics and their Boundaries, sufficient to reflect significant economic, environmental, and social impacts, and to enable stakeholders to assess the reporting organization's performance in the reporting period.
Accuracy	The reported information shall be sufficiently accurate and detailed for stakeholders to assess the reporting organization's performance.
Balance	The reported information shall reflect positive and negative aspects of the reporting organization's performance to enable a reasoned assessment of overall performance.
Clarity	The reporting organization shall make information available in a manner that is understandable and accessible to stakeholders using that information.

Comparability	The reporting organization shall select, compile, and report information consistently. The reported information shall be presented in a manner that enables stakeholders to analyze changes in the organization's performance over time, and that could support analysis relative to other organizations.
Reliability	The reporting organization shall gather, record, compile, analyze, and report information and processes used in the preparation of the report in a way that they can be subject to examination, and that establishes the quality and materiality of the information
Timeliness	The reporting organization shall report on a regular schedule so that information is available in time for stakeholders to make informed decisions.

Table 3- GRI Principles (Adapted from GRI, n.d.b)

In 2002, after introducing the second version of their guidelines, the GRI already became the most widely used sustainability reporting tool (Brown, de Jong & Levy, 2009) overtaking competing frameworks such as the UN global compact, and ISO 26000 (Grushina, 2017). Hess and Dunfee (2007) called the GRI standards the new Generally Accepted Accounting Principles (GAAP) and recommended using them for sustainability reporting. Several features of the GRI set it apart from other frameworks. First, the GRI framework standards are developed through a consensus-based approach by multiple stakeholders that represent a wide range of interests, including for example businesses, government, academics (GRI, n.d.d,; Grushina, 2017). Specifically, the multi-stakeholder process has been a major contribution to the sustainability reporting field (Brown, de Jong & Levy, 2009). Second, the organization continuously updates and revises its guidelines and standards all the while keeping it a free public good (Grushina, 2017).

Furthermore, Brown, de Jong and Lessidrenska (2009) suggest that the success of the GRI is based on two main elements: timing and balance. Timing because of its emergence at the end of the 1990s, right when the public demanded an increase in accountability and corporate social responsibility. The second element relates to balance:

> Between individual and collective interests; between inclusiveness and broad consultation, and efficient pursuit of technical objectives; between holding a vision of social change and setting attainable instrumental goals; and between building a new institution and not challenging existing institutions and power relations (Brown, de Jong & Lessidrenska, 2009, p. 195).

The GRI has also built an impressive network of partnerships with a variety of institutions (Grushina, 2017). The framework has been called a "harmonized, standardized, understandable and objective report for all firms, regardless of their country of origin" (Prado-Lorenzo, Gallego-Alvarez & Garcia-Sanchez, 2009, p. 99).

Despite the many achievements of the GRI, it has also been widely criticized in the literature. McElroy (2017) argues that not a single report prepared according to the GRI standards actually accounts for sustainability performance. He argues the GRI only measures impact incrementally, not being about sustainability performance at all. Indeed, Belkhir, Bernard and Abdelgadir (2016) have not found a correlation between GRI reporting and sustainability performance. According to Boiral and Henry (2017, p. 306): "unclear, ambiguous, or incomplete answers, release of qualitative and non-comparable data, unspecific information, heterogeneous measurement units, report complexity and opacity, overemphasis on positive elements" are some of the reasons for the measurability and comparability problems of non-financial information disclosed in GRI adherent sustainability reports.

Gray and Milne (2013) offer another prominent critique of the GRI, suggesting that the GRI, which is based on the TBL notion, is incoherent due to lack of a theory or framework aiding selection of disclosures. Hahn and Lülfs (2014) state that the GRI guidelines are too vague on multiple fronts, an example being the specification of "negative incidents" leaving companies with much room for their own interpretation and hindering comparability of reports. Furthermore, according to Brown, de Jong and Levy (2009), the initial aim of the GRI to harmonize an alphabet soup of many frameworks has not been achieved, but instead the GRI contributed to increased competition between the reporting frameworks.

3.3 Conceptual framework

The literature review examined previous research conducted in the field of sustainability reporting, and the prominent theories that guided the field of research as well as the EU Dir 2014/95 and the GRI. The conceptual framework used in order to answer the research question will be based on stakeholder theory and institutional theory. For stakeholder theory, the stakeholder salience conceptual framework by Mitchell, Agle and Wood (1997) will be used combined with the stakeholder groups that are deemed most important for environmental

activities of an organization according to Henriques and Sadorsky (1999). For institutional theory, DiMaggio and Powell's (1983) isomorphic pressures will be used. Herold (2018) suggests that stakeholders have a significant influence on the relative importance of a certain institutional logic, which is the sustainability logic in the case of sustainability reporting, and in turn on the degree of sustainability reporting. He further suggests that stakeholder theory complements institutional theory in identifying and investigating stakeholder roles and influences in the sustainability reporting field. Since the stakeholders in our research also exert different isomorphic pressures on companies, we have drawn on both theories in order to develop our conceptual framework. The conceptual framework is shown in figure 2 and 3.

The stakeholder that represents the perspective of the European Union and the EU Dir 2014/95 can be called a regulatory stakeholder who exerts coercive isomorphic pressure on companies to publish sustainability reports. Governments are powerful stakeholders that are able to force companies to behave a certain way with laws and regulations (Herold, 2018), and one of the most impactful stakeholders when it comes to sustainability disclosures (Prado-Lorenzo, Gallego-Alvarez & Garcia-Sanchez, 2009). The European Union has mandated companies to publish sustainability reports through the EU Dir 2014/95.

The stakeholder that represents the sustainability reporting framework (GRI) perspective is a community stakeholder that exerts normative isomorphic pressure on companies to publish sustainability reports. The GRI is the most popular sustainability reporting framework in the world (Brown, de Jong & Levy, 2009). The GRI indirectly exerts pressure on companies to adopt the world-renowned standards, because they risk falling behind their peers and losing their legitimacy if they choose not to do so.

The stakeholder that represents the company perspective can be called an organizational stakeholder that exerts, albeit indirectly, mimetic isomorphic pressure. The company, that developed a software for companies to calculate their sustainability impact, can be hired by companies wishing to publish a sustainability report, and helps them with calculating their sustainability impact. Using this service is a way for companies to decrease the uncertainty that underpins mimetic isomorphism and publish high quality, transparent sustainability reports that account for the sustainability impacts of a company along their supply chain.

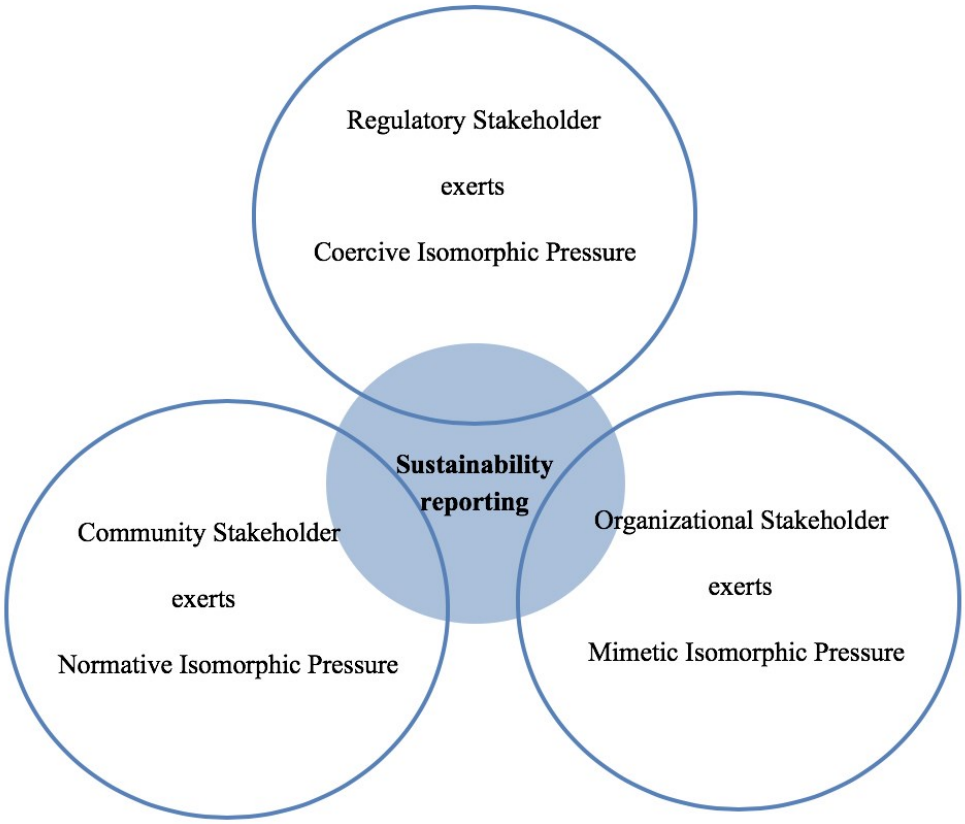

Figure 2- Isomorphic pressure of stakeholders

We can modify our conceptual framework shown in figure 2 to illustrate the hierarchical relationships between the stakeholders using the concept of stakeholder salience by Mitchell, Agle and Wood (1997), as shown in figure 3.

The regulatory stakeholder, in the case of this thesis the European Union lawyer, is the government that has the power to mandate companies to comply to certain legislation and therefore one of the most powerful stakeholders (Prado-Lorenzo, Gallego-Alvarez & Garcia-Sanchez, 2009). Utilizing the conceptual framework of stakeholder salience by Mitchell, Wood and Agle (1997) the regulatory stakeholder possesses all three stakeholder attributes: power, urgency and legitimacy and is therefore a definite stakeholder.

The community stakeholder, in the case of our thesis the GRI representative, sets sustainability reporting standards. The GRI is the most popular reporting framework in the world, and has greatly influenced the sustainability reporting landscape (Brown, de Jong & Levy, 2009) giving the GRI the stakeholder attributes of power and legitimacy. However, the GRI has no specific

claim on companies, as companies are not forced to use the GRI framework, it is their choice. Therefore, the GRI possesses the attributes of legitimacy and power, but not urgency and is therefore a dominant stakeholder.

The organizational stakeholder, in the case of our thesis the co-founder and CEO of Normative AB, provides companies with a service that allows them to publish high-quality and transparent sustainability reports and therefore has the attribute of legitimacy because of their relationships with companies. Companies can choose to utilize the services of the organizational stakeholder but are in no way required to do so. Therefore, the organizational stakeholder does not have power or urgency and is therefore a discretionary stakeholder.

The stakeholders in this thesis can therefore be shown in descending order of stakeholder salience, where the regulatory stakeholder, who possesses all three stakeholder attributes is the most influential stakeholder and at the start of the sustainability reporting process. The community stakeholder, who possesses two stakeholder attributes, follows below the regulatory stakeholder as the next most influential stakeholder since companies worldwide adopt the GRI standards, but on a voluntary basis. Lastly, the organizational stakeholder, who possesses only one stakeholder attribute, is the least influential stakeholder as companies can choose to utilize the services of the organizational stakeholder but are in no way required to do so.

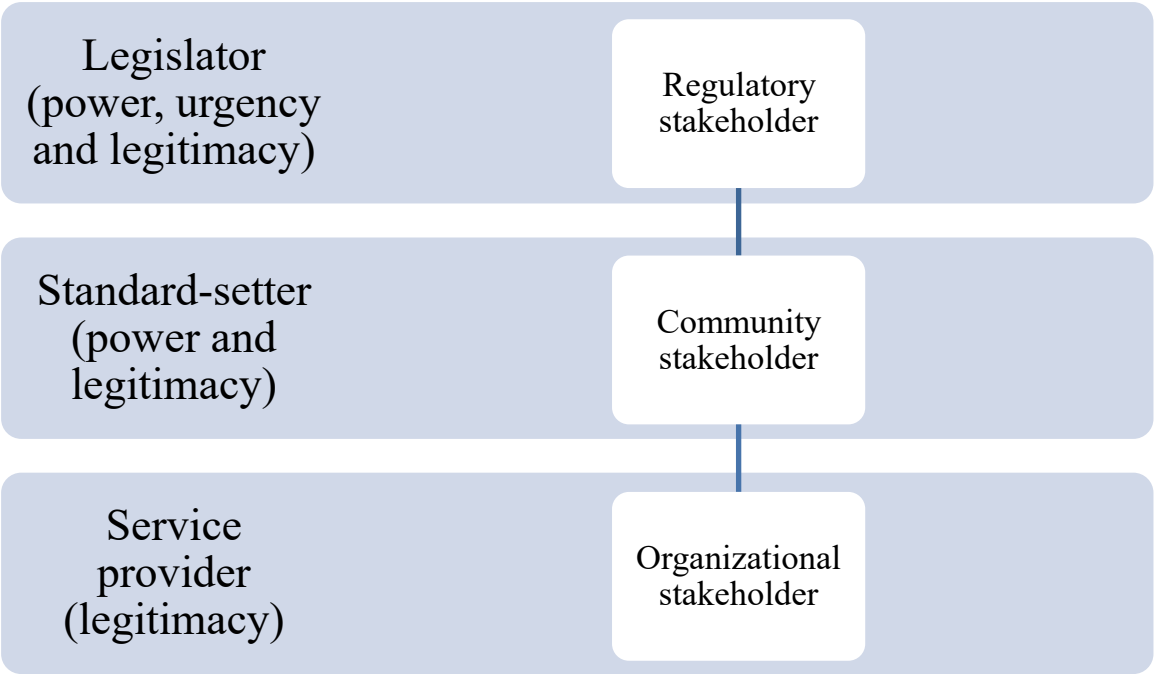

Figure 3- The hierarchical relationships between the stakeholders

4 Methodology

4.1 Research Philosophy and Approach

The research philosophy relates to the way in which knowledge about a phenomenon should be gathered, analyzed and used, influencing research questions, method choice and interpretation of results by researchers (Saunders, Lewis & Thornhill, 2012). It relates to the assumptions of the researchers, and what they believe is acceptable knowledge and how it is developed (Saunders, Lewis & Thornhill, 2012). Therefore, it is important to explain the epistemological and ontological position underpinning our research. Epistemology deals with the question of what is regarded as acceptable knowledge, whereas ontology is concerned with the nature of social entities (Bryman & Bell, 2011).

We believe that the institutionalization of sustainability reporting worldwide involves many different stakeholders, holding different perceptions of the phenomenon that do not necessarily converge. Therefore, the epistemological and ontological position of our study is interpretivism. This paradigm means that we aim to understand the phenomenon of sustainability reporting as it is from a subjective point of view, seeking an explanation through the research participant (Ponelis, 2015), appreciating the differences between the research participants and understanding their point of view (Saunders, Lewis & Thornhill, 2012) and attempting to make sense of how their different perspectives illuminate our research topic (Yin, 2018).

We will therefore be taking an exploratory stance to gain deeper understanding about sustainability reporting from a multi-stakeholder perspective through using a qualitative data collection method: semi-structured interviews. The best approach to achieve this is a case study, which " investigates a contemporary phenomenon (the "case") in depth and within its real-word context" (Yin, 2018, p. 45). A case study allows us to address the "how" and "why" of our research question (Yin, 2018).

The departure point for our research was the observation that one of the authors made when doing an internship. Our thesis started with the observation of a surprising fact, specifically, an interesting answer that the author got from a large multinational enterprise when investigating

the sustainability reporting landscape in Denmark. This observation sparked our initial interest in the topic, and led us to investigate the widespread controversies around sustainability reporting and criticism of the phenomenon. Consequently, we are taking an abductive approach to our research, in essence combining an inductive and deductive approach. We will test our findings to our conceptual framework (deductive) but also build on existing theory and generate new theory if appropriate (inductive) (Saunders, Lewis & Thornhill, 2012).

4.2 Data Collection Method

We started our data collection based on the experience one of the authors had whilst conducting an internship at Normative AB. The first confirmed interview was with the CEO and co-founder of this company, an organizational stakeholder. Following this confirmation, we contacted our business law professor specialized in EU Law with working experience as a lawyer at the European Commission, hence a regulatory stakeholder. The aforementioned research participants were already in our network. We contacted a long-time employee at the GRI through LinkedIn, based on their expertise. We tried to also get an interview with an auditor of sustainability reports, and an interview with the company whose statement sparked our interest in the topic in the first place, but unfortunately we were not able to confirm interviews with the aforementioned stakeholders and hence we were unable to include their perspective in this research. Given the fact that we are in the midst of a global pandemic, we had a very open approach to our choice of interviewees and hence perspectives, as we were not sure which people were willing and able to do an interview with us. Hence, we partially sampled based on convenience (Bryman & Bell, 2011). The largest drawback of this method is the impossibility to generalize the data but given the exploratory nature of our study and the need to confirm the findings through additional research we believe that our sampling is still relevant.

As a result of the research questions and availability of stakeholders, the sample for this thesis is depicted in figure 4.

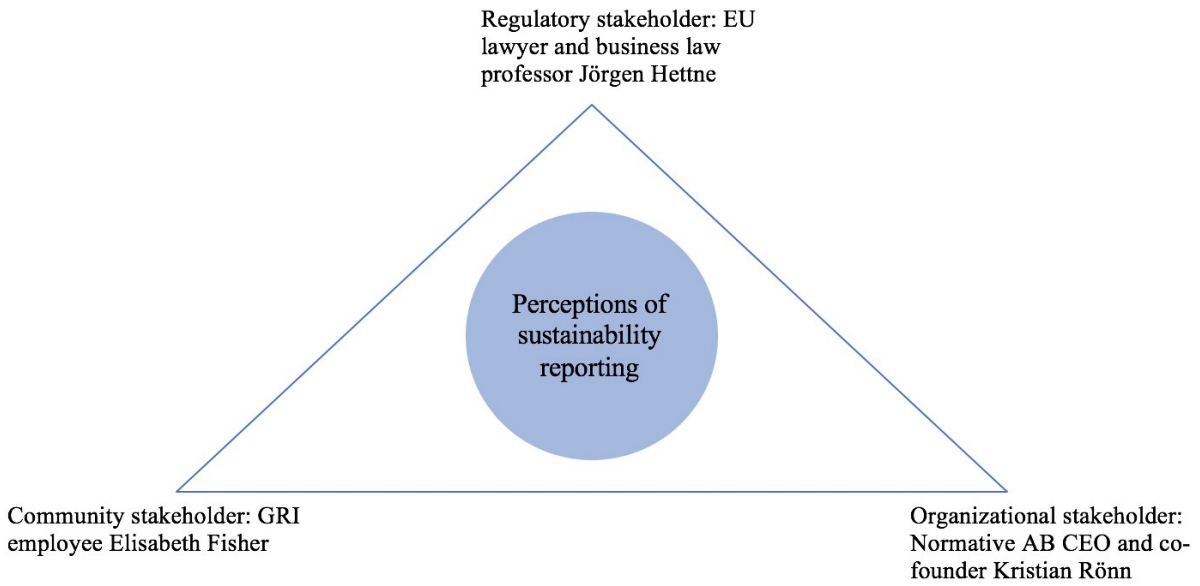

Figure 4- The interviewees

Before starting our interviews, we did extensive research into sustainability reporting and its different aspects using a variety of mediums like reports from NGOs, companies and government agencies, as well as articles and academic literature. The academic literature on sustainability reporting provided the basis for our theoretical framework, which in turn guided us in creating our interview guide. The interviews were semi-structured in nature, and we asked different questions to each stakeholder based on their expertise and field of work and in order to answer the first research question. We made sure that during the interview there was space to ask additional questions if they came up, meaning we had an open approach to our interviews. We took a naturalist approach to our interviews, meaning that our focus wasn't on obtaining 'facts' but on the subjective experience and opinions of our research participants in their field of expertise (Silverman, 2015). Our interview guides can be found in Appendix A.

Due to the Covid-19 pandemic, we had to conduct all our interviews online. We used Zoom and Google Hangouts for our interviews. The interviews are shown in table 4. In addition to our interviews, we used a variety of documents on sustainability reporting from multiple sources like professional services firms, NGOs, governments and academia to get a broad understanding of the state of sustainability reporting as well as the criticism that it faces. The interviews can be found in Table 4.

Expertise	Name	Medium	Date	Duration
International business law professor and EU lawyer	Jörgen Hettne	Zoom	31-03-2020	26:20 min
Employee at the GRI	Elisabeth Fisher (fictional name)	Google Hangouts	03-04-2020	54:53 min
CEO and co-founder of Normative AB	Kristian Rönn	Zoom	02-04-2020	43:39 min

Table 4- The interviews

After writing the discussion chapter of the thesis, we were given the opportunity talk to Ms. Susanne Arvidsson for a short interview, a professor at Lund University and expert on sustainability reporting. We presented the findings of our thesis and asked her about her opinion on our conclusions and how she sees the future of sustainability reporting. We included her perceptions in section 6.3 of the thesis, and the questions and her answers can be found in Appendix B.

4.3 Data Analysis

We conducted a thematic analysis for analyzing our data, meaning we identified, analyzed and reported on themes within the data. A theme "captures something important about the data in relation to the research question and represents some level of patterned response or meaning within the data set" (Braun & Clarke, 2006, p. 10). As our research is exploratory in nature, the flexibility and freedom of interpretation that thematic analysis offered are favorable for our data analysis.

During the interviews we both took notes on interesting ideas and answers which we discussed with each other after the interviews. In the week following the interviews, we transcribed the interviews and checked the transcription back against the original recordings to ensure accuracy. This commenced the first phase of thematic analysis as per Braun and Clarke (2006), which is familiarizing ourselves with the data. After that, we separately identified interesting aspects of the data, producing initial codes. We then discussed the codes we identified with each other and searched for themes. After defining and naming our themes for the first

stakeholder interview, we wrote up the results for that stakeholder perspective. Upon completion of the first stakeholder perspective, which was the regulatory stakeholder, we started the thematic analysis for the community stakeholder following the same process as described above and finally the organizational stakeholder. We decided to separately analyze the data for each stakeholder perspective first, in order to be able to pay full attention to the data and identify as many themes out of each qualitative interview as possible and in order to answer the first research question. Following the writing of the results section, we analyzed and discussed the data across themes and across stakeholders in order to answer the second research question and identify convergence and divergence between the stakeholder perceptions.

4.4 Validity and Reliability

According to Yin (2018) case study research has to be subjected to four tests in order to ensure quality. The four tests are construct validity, internal validity, external validity and reliability. Internal validity is not relevant for exploratory studies, so this test is omitted (Yin, 2018).

4.4.1 Validity

Construct validity refers to having the right research measures for the phenomenon being studied (Yin, 2018). This is especially challenging in case study research, according to Yin (2018), as the danger is that researchers collect data that can confirm their preconceived notions and impressions. He further mentions that there are three tactics that enhance the construct validity in case study research. The first one relates to maintaining a chain of evidence, which means that the reader should be able to follow the arguments from research questions down to findings and also from findings to research questions. The second tactic is the use of multiple sources of evidence, or triangulation. In addition to our semi-structured interviews, we also used documents published by NGOs and governments as well as academic literature in order to study the phenomenon of sustainability reporting. The last tactic refers to having the case study reviewed by the research participants of the case. Unfortunately, due to time limitations we were unable to utilize this tactic, but the previous two tactics enhanced the construct validity of our case study.

External validity, also called generalizability or transferability, refers to the extent in which the study's findings can be generalized (Bryman & Bell, 2011). The danger of a case study

approach in regard to external validity is the fact that case studies often rely on a small sample size, which is also true for our research since our case study only included three individuals sharing their perceptions. In order to ensure external validity, Yin (2018) suggests that for case studies the aim is often to generalize the study analytically. Thus, it is important to use theoretical concepts when designing case studies in order to enhance or modify the theory based on the case study's findings. We believe our conceptual framework provided a solid ground to build the findings of the case study findings on.

4.4.2 Reliability

Reliability refers to whether the data collection and analysis techniques would produce the same findings if conducted on another occasion or done by another researcher (Saunders, Lewis & Thornhill, 2012). The main way to ensure reliability is to work in a transparent way, documenting each step of our research allowing others to judge for themselves and possibly replicate the study (Saunders, Lewis & Thornhill, 2012; Yin, 2018). We recognize that our study is subject to several threats when it comes to replicability. We have a rather critical view towards sustainability reporting which might lead to researcher bias (Saunders, Lewis & Thornhill, 2012). However, our viewpoint is well-supported across academia as well other sources. Another potential threat to the reliability of our study is the concept of anecdotalism, which is the tendency of qualitative researchers to use short snippets or quotations from data as evidence for a certain argument, especially if that data fits an ideal conception or stands out from the other data (Silverman, 2015). We aim to overcome this by ensuring that our identified themes are occurring throughout the interview and are not just an "exotic" quote, as well as providing the reader with the entire quote and specifying which question they answered, so that the reader can get a complete picture of the interviewee's response and understand the question that they answered.

4.5 Research Ethics

Since we are conducting qualitative research and interviewing research participants, it is important to address the ethical principles in our research. There are four main areas of ethical principles that a researcher must consider (Bryman & Bell, 2011). These are (1) harm to participants, (2) whether there is a lack of informed consent, (3) invasion of privacy and (4) deception (Diener & Crandall, 1978 cited in Bryman & Bell, 2011). In order to prevent harm

to participants, the anonymity and confidentiality of the research participants must be ensured. We asked the participants how they wanted to be presented in our thesis and gave them the option to remain anonymous. In order to ensure that there was full consent from the research participants and prevention deception of the research participants, we thoroughly explained the purpose and nature of our research, so that the participants understood what we would do with the interview data. Furthermore, in order to avoid invasion of privacy we recorded the interviews with permission of the participants and gave the participants the option to not have the interview recorded. In addition, we deleted the records or the interviews after we transcribed them.

4.6 Limitations

Even though we have tried to take as many barriers as possible into consideration, there are still limitations to our research design that we have to address. First of all, we have included three stakeholders and thus three different perspectives on sustainability reporting in our thesis. We are aware that there are more perspectives that we could have included in the study but were not able to conduct more in-depth interviews with stakeholders due to time limitations and the occurrence of the Covid-19 pandemic. Furthermore, we only have one interviewee for each of our perspectives. It would have been better to interview multiple people representing the same perspective and include more stakeholder perspectives, but this was not possible due to the Covid-19 pandemic that occurred at the time of writing this thesis which made it very difficult to find additional interviewees. Second, our interviewees had different expertise and levels of knowledge on the topic of sustainability reporting. Some of our interviewees were more knowledgeable on the topic and had more experience with sustainability reporting. In addition, there is a chance that the research participants are biased.

5 Results

In order to answer how different stakeholders perceive their role in the context of sustainability reporting we will present the themes from the interviews with each stakeholder separately in this chapter. When an excerpt is introduced, the question the stakeholder answered is specified by (Q). The interview guides can be found in Appendix A.

5.1 Regulatory stakeholder perceptions of sustainability reporting

The regulatory stakeholder is Mr. Jörgen Hettne, an associate professor at the Department of Business Law at Lund University, specialized in EU-law and author of several books covering the field. Furthermore, he has working experience at the Tribunal of the European Court of Justice in Luxembourg and is an executive at the Swedish Institute for European Studies. Four broad themes with sub-themes emerged from the interview with Mr. Hettne. The themes are depicted in figure 5 below.

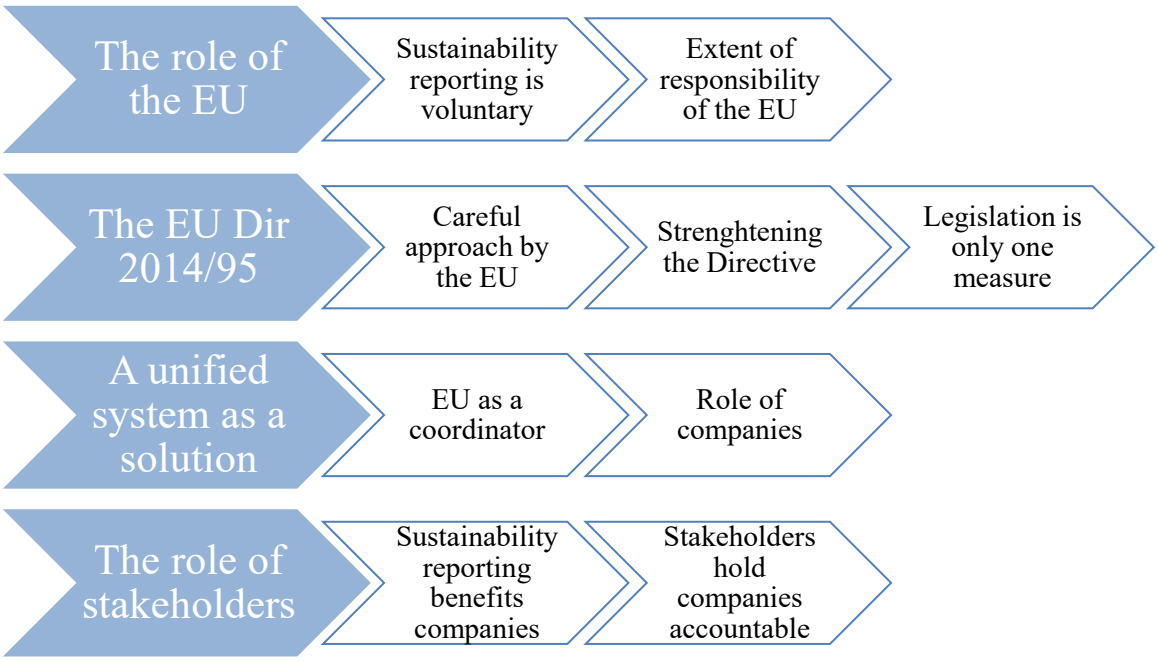

Figure 5- Themes and sub-themes interview with Jörgen Hettne

5.1.1 The role of the European Union as a regulator

The first theme that emerged from the interview with Mr. Hettne was the role of the European Union as a regulator. Two sub-themes emerged. The first sub-theme that was identified regarded the voluntary nature of CSR and sustainability reports. A rather interesting dilemma came to the surface. Mr. Hettne emphasized the fact that many frameworks are going in the same direction, with the purpose of making a more sustainable Europe. Mr. Hettne mentioned that:

> [...] it should be voluntary, because this is the CSR, the corporate social responsibility, aspect of it. And then you can of course make the reporting more binding, but it is more about the reporting itself, it's not about the conditions. (Q.1)

The authors continued asking Mr. Hettne if he believed that frameworks like the GRI are effective for companies to use in sustainability reporting and whether or not they are aligned with the EU Dir. 2014/95. Mr. Hettne argued that they are aligned and continued to emphasize that sustainability reports are voluntary. When Mr. Hettne was asked about whether or not he believes that the EU Dir. 2014/95 prevents lack of transparency and credibility in sustainability reports, he emphasized the importance of the voluntary nature of CSR:

> I think the thing is the directive is going hand in hand with CSR so it tries to strengthen something which should be voluntary for the companies. (Q.5)

He continued to argue that the directive is trying to strengthen the will of the companies, hence strengthening the voluntary nature of CSR. He then further emphasized the importance of the European Union keeping this very voluntary nature:

> Keep the voluntary nature when it comes to CSR, I think that's also important. Even if you think it is possible to make it more coordinated and more binding, but there is a balancing all the time. (Q.11)

Another sub-theme that emerged when interviewing Mr. Hettne was the question concerning how much the EU, the member states, and the companies should do. Mr. Hettne mentioned how the EU Dir. 2014/95 is a minimum legal requirement, meaning that member states have the

opportunity to impose stricter regulatory measures. He continued to emphasize the dilemma in terms of how the market should be regulated:

> But there are aspects, we're coming to that also, about penalties for example, so sanctions, that should be on the national level so that is not something that is by the European Union. But this is how much the European Union should interfere if you compare with the member states and if you also compare with the global level. Because the best thing is if we have the same conditions in the whole world right? But that is more difficult to achieve. So I can agree that it is a careful approach from the European Union. (Q.2)

However, Mr. Hettne further argued that the member states still should have some leeway and that is why it is a directive and not a regulation. He further explained that member states are required to provide penalties for companies that infringe the provisions of the EU Dir 2014/95, and member states must ensure those penalties are enforced. He emphasizes again that sustainability reporting used to be voluntary, and that the directive is based on that. The question that then emerges regarding the penalties provided by the member states will be:

> How far should the member states go to put sanctions if they are not following this because it is voluntary from the beginning. And it has been thought that this can be more effective than normal legislation (if) the companies are creating this for themselves. So it's good, we have to strike a line somewhere that there should not be so much sanctions if it's voluntary. (Q.7)

5.1.2 The EU Dir 2014/95 as a first step and the possibility to further strengthen the directive

When presented with the criticism of the EU Dir 2014/95 as having a too soft tone, Mr. Hettne agreed and stated that he believes the European Union is taking a careful approach.

> I can agree it is a kind of soft approach. Maybe it is also a first-step approach, that it's the first time I think the Union is creating conditions for sustainability reporting. (Q.3)

He further argued that he believes the EU Dir 2014/95 is a first step, and that there is a possibility to strengthen the directive if it is deemed to be necessary:

> I think what I see also in directive 2014/95 can also be a first step. So I can see that it is possible, depending on the experience of this system, it is quite still new, then the EU can formalize it a little bit further to make it more strong. Because there is of course a problem that it also affects competition between the companies and if there's ways of making this fake reporting in a way or try to make it better than it really is, then there is a problem. So the Union can take action and make it more coordinated and have more conditions for what must be included. So it is absolutely possible to go a bit further. (Q.9)

Mr. Hettne further reported that legislation, for example the EU Dir 2014/95, is only one measure that attempts to ensure a more sustainable future, and he stated that it cannot be the only measure:

> Keep in mind that of course there are legislation in this area which are hard legislation, which are binding for the companies. This is just one part of the puzzle, so to speak. Everything cannot come from this, it must be a combination of different measures to make a more sustainable world. (Q.11)

5.1.3 A unified system as the solution

When asked about the possibility of a unified system to publish sustainability reports, Mr. Hettne expressed that he believes having a harmonized reporting system across the world and the EU would be favorable. However, he identified several reasons why the European Union has not legislated a harmonized reporting system. Firstly, he expressed that the European Union is coordinating different frameworks as opposed to mandating just one system:

> And the question will be then should the European Union pick one of them or create its own. Because then it will also make the other ones ineffective, because then the only thing which will work in Europe will be only one system. I think that is why the EU and the Commission proposing this is so careful not to destroy something built up on the world level or national level and that's why they rather try to coordinate this kind of different system than putting one in place. But of course, the best would have been to just have one but it's difficult, especially at the world level. (Q.8)

He further suggested that the European Union is not sure which system would be the best to impose on the member states, and it is apparent that the EU is not prepared to create their own reporting system. Furthermore, he expressed that the absence of a global legislator at the world

level further hinders the possibility of having a harmonized reporting system on a global scale and emphasized the role that companies themselves have in sustainability reporting:

> So, if you just look at it from a more theoretical point of view, the most effective way would be to have exactly the same reporting system in the whole world and have very clear conditions on that. The reason for not having that is that we don't have that kind of global legislator who can make this. So this has come from the companies themselves… so it is voluntary standards and reporting system. (Q.10)

5.1.4 The role of stakeholders in ensuring company accountability

Another theme that emerged from the interview with Mr. Hettne was the role of stakeholders in ensuring company accountability. Interestingly, Mr. Hettne expressed that sustainability reporting should first and foremost benefit the companies themselves. Sustainability reporting is a way for companies to legitimize their actions to their stakeholders and gain popularity, and the role of the EU Dir 2014/95 is to ensure more comparability amongst company sustainability reports:

> And the most important for the companies will be then that they gain something from this, and something they gain is of course a better world, a more sustainable world but also that they will prosper in the long run because they will be a popular company amongst the consumers and they will have good reactions from the market et cetera, so I think the most important thing is here that this should benefit the companies themselves but then of course to make it more fair and comparable you will have the same kind of reporting conditions. (Q.5)

This theme also came up in response to a question regarding his thoughts on sustainability reporting as a greenwashing activity. He expressed that if companies engage in greenwashing of their sustainability reports, they risk that it becomes known to a company's stakeholders, which can have repercussions for the companies. He also emphasized that stakeholders such as NGOs play an important role in holding companies accountable.

> I think what's important is that the main sanction is that this is also a risk for the company because it can be known to the consumers, consumers organizations, NGOs in general that they are doing this, and that can hurt them. It can be tough for them if that information is

coming through, that they are not actually having good reporting or that there is something fuzzy about it so that is the only thing we can think about. (Q.7)

So I think one always has to think about an NGO and maybe especially if it's an environmental organization or consumer organization are still very important to supervise what is happening in the market and also take action in their way for companies not really putting this in an honest way (Q.8)

5.2 Community stakeholder perceptions of sustainability reporting

The community stakeholder, Ms. Elisabeth Fisher, is a long-time employee at the GRI. During the interview five broad themes with several sub-themes emerged, depicted in figure 6.

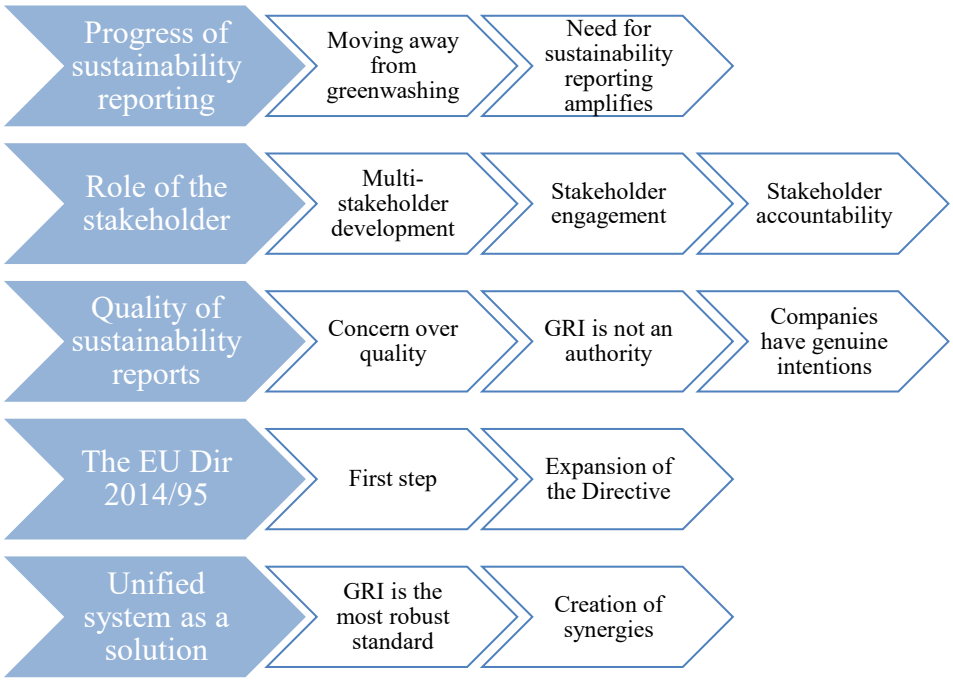

Figure 6- Themes and sub-themes interview with Elisabeth Fisher

5.2.1 Progress of sustainability reporting

The first theme that emerged from the data regarded the progress of sustainability reporting. Ms. Fisher argued that sustainability reporting had a tendency to be a greenwashing activity in the initial years, something which sustainability reporting is often accused of:

> In the beginning when this was new to everybody then there was maybe more of that greenwashing, but I think that was not necessarily ill-intended in the way. Back in the days, in the early days, the profession of the sustainability manager or whatever just simply didn't exist. So oftentimes these reports were developed and created by the marketing team or the communications team and of course it was very tempting to know these people are used to bringing out the good news and you know make the most out of it. (Q.13)

However, she suggested that the intentions behind sustainability reporting have changed since then, and it is no longer a greenwashing activity. Furthermore, she suggests that the need for sustainability reporting, and more specifically transparency and accountability, has strengthened significantly throughout the years and will continue to amplify:

> I think the only way forward is that we are all more transparent and accountable towards each other so I think that the sustainability, sustainable development, GRI and sustainability reporting all of this, will only become more and more important. I think people have to start to be honest and accountable and most of them are of course. That is kind of my view. (Q.14)

5.2.2 Role of the stakeholder

The second theme that emerged from the interview with Ms. Fisher relates to the role of the stakeholder in sustainability reporting as well as in the development of the GRI standards. First, she emphasized the importance of the multi-stakeholder process of developing the GRI standards, and how this aspect sets the GRI framework apart from other sustainability reporting frameworks:

> But from the very start the GRI, everything that is developed or put out is from a multi-stakeholder perspective, and that is a very important element. That also gives credibility, because it is not just something that some people cook up in their office after doing some desk research or something. It is all done through the multi-stakeholder process. (Q.2)

Secondly, the principle of stakeholder engagement when creating a sustainability report is at the very core the GRI. When asked about the reasons for this, Ms. Fisher commented the following:

> Fundamental. Because you as an organization, you have an idea about your business, and its probably about what do you consider to be your sustainability impact, so your material issues. And I'm sure you know all about that and nobody would question that. However, you are not alone in the world, and you interact with so many different stakeholders. This might be, you know the community that you are working in and for instance if you are producing something that is super important, the authorities, your employers, should never be forgotten as an important stakeholder. And all kinds of others, investors of course and the media. But it is so important that you understand, what do these individuals or stakeholder groups think about you. What do they want to know about your company? And it's very revealing, because they might have a completely, I mean they might agree with you but also the things that you think are important, but they might have other things that are very important to them. And if you don't consult them, and listen to them to the extent possible, to what they are saying you might really be missing out and you might be making life very difficult for yourself. And sometimes you know the issues that are being raised by the stakeholders , you could easily solve them, you just never thought about them, you didn't know. So it's just about it should be a two-way communication, and so that is why the stakeholder engagement is so important. (Q.7)

Next to the role of stakeholders in developing the GRI guidelines and in creating a sustainability report, Ms. Fisher also emphasizes the fact that companies are accountable to their stakeholders and that the stakeholders play an important role in both the process of sustainability reporting as end-users of the reports and in keeping companies accountable. The following excerpts illustrate this:

> We are engaging with investors in different ways, for instance in helping them understand how they can use sustainability reports as a very important source of data. And we also have some programs with media in some countries where we are helping journalists understand that there are really great stories in these reports as well. Because there people are really talking open-heartedly hopefully about how they are addressing issues of their sustainability impact etc. So we are trying to focus more on the intended end-user, because it is a great effort for companies to create a sustainability report and obviously for them it is more motivating if they know the data is actually being used. Because else it just ends up being a tick-box exercise, and that is in nobody's interest right. (Q.3)

> At the end of the day you are reporting to your stakeholders and then it's also up to the stakeholders a little bit to be alert and identify reported information that is not true. We have this example of the Volkswagen where they basically lied in their report. You could

> say that they got away with it until it was discovered, but then they suffered big time. It may be tempting to, how do you say, arrange the truth a little bit but at the end of the day you should be able to live with yourself and if you want to lie your way to success then I guess there are many ways for you to do that and not only through sustainability reporting but many other ways. (Q.13)

5.2.3 Quality of sustainability reports

The third theme that emerged from the interview was the quality of sustainability reports, and GRI's initiatives to improve the quality. Ms. Fisher expressed concern about the quality of sustainability reports but emphasized that the role of the GRI in improving the quality is limited, as companies do not report to the GRI directly. This means that the GRI does not hold any authority over companies. She goes on mentioning the various programs that the GRI has set up to help companies improve the quality of their reports. Furthermore, she argues that the intent of companies publishing a sustainability report is good, and it might be a matter of not knowing how to apply the GRI standards correctly. The following excerpt illustrates this:

> I think the only kind of risk is that the quality of the reports is not good enough. And I think that is probably... and maybe people don't understand correctly how to apply the standards so that could be then the downside of the standards. But in principle I think it is more probably positive that you are making an effort to report and things can only get better, you know. You can only improve on your reporting. And we see that, we have some of our programs that we are running in developing countries we're working for instance with SMEs [small and medium sized enterprises] and their reports, their first reports, so they are the result of them participating in the program are of course often very basic but you could see the intention and the real wish to do better next time. So I think, you know, we all have to start somewhere and we are never experts when we begin so I think that is sometimes just a matter of time and better learning. (Q.5)

Lastly, when asked why the GRI has not developed any templates to calculate sustainability impacts, Ms. Fisher commented the following:

> They are the top-notch measurements, but what is missing is that we have not issued any kind of reporting templates that people have to use. If we would do that then it would be easier to aggregate or extract the data. [...] There is no sort of aggregated consolidated repository for all this information and ideally that would of course be wonderful. We cannot

> insist that people use a certain template, because people are not reporting to GRI. We don't have the authority to tell anybody to do anything. (Q.12)

5.2.4 EU Dir 2014/95

The fourth theme that emerged from the data regarded the EU Dir 2014/95. Ms. Fisher expressed support for the EU directive and sees it as a favorable development. Furthermore, she argues that the directive is a first step, and a step towards mandatory reporting. Next to the mandating by governments she mentions the increasing number of requirements from stock exchanges and financial regulators. Lastly, she favors expansion of the directive:

> And so I think so far, or at least in the beginning, sustainability reporting has been voluntary. A voluntary practice. And so this EU directive was of course a step in the direction of mandatory reporting. And so there you always have these two camps. [...] And I think it is obvious that the regulation, in whatever form that is does drive change because it is in human nature I think to always do as little as you have to, so if you don't really have an incentive or there is nothing that requires you to do something you might have a tendency to not do it and so I think that's what we see. So for instance, what we see is that there is big trend also from stock exchanges and financial regulators, so securities and exchange commissions et cetera to start to require some kind of non-financial reporting from their listed companies. And we think this is a great development obviously and yes, so we see that as very favorable. And I hope the outcome of this conversation with the EU or the consultation will be that they will expand the scope of the directive. (Q.6)

5.2.5 Unified system for sustainability reporting

The fifth theme that was identified from the interview with Ms. Fisher was about having a unified system for sustainability reporting. When asked about the many sustainability reporting frameworks on the market, Ms. Fisher questioned the multitude of frameworks on the market and believed that the GRI should be the global standard due to the wide array of topics that the GRI covers and the robustness of the standards. An excerpt that exemplifies this is:

> Sometimes I also wonder why people have a tendency to want to create their own where there is a perfectly solid framework that has been out there for over 20 years which is being used by thousands and thousands of companies. (Q.8)

She goes on recognizing the difficulties this so called "alphabet soup" brings to reporting companies, and emphasizes the GRI's role in creating synergies and harmonization between the frameworks:

> We really make a lot of effort to try to ease the burden on the reporter. But I think that it isn't avoidable that there will always be different initiatives, but then it's very important that we try to identify the synergies between them. (Q.8)

5.3 Organizational stakeholder perceptions of sustainability reporting

The organizational stakeholder is climate activist, CEO and co-founder of Normative AB, Mr. Kristian Rönn. Mr. Rönn holds university degrees in philosophy and mathematics and has worked at the University of Oxford Future of Humanities institute prior to founding his company. Since starting his company, he has been a part of the Danish trade delegation to a United Nations conference. Furthermore, the European Commission has invited Normative AB to provide various workshops for the European action plan on sustainable finance. During the four broad themes emerged from the interview, depicted in figure 7.

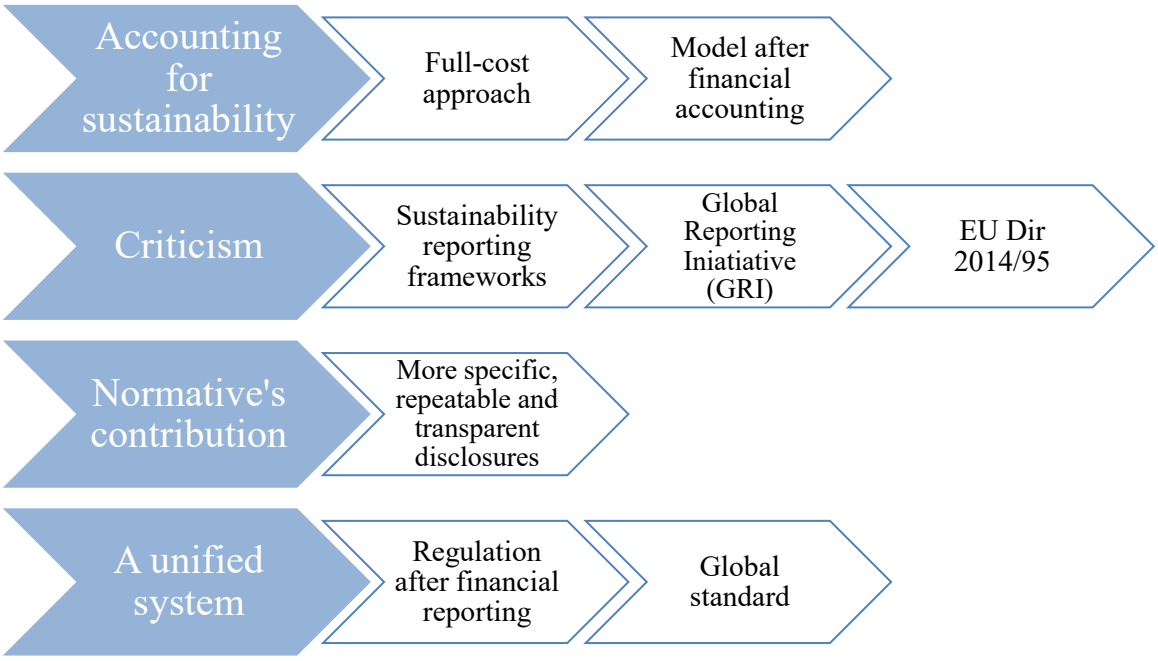

Figure 7- Themes and sub-themes interview with Kristian Rönn

5.3.1 Sustainability accounting as financial accounting

A recurrent theme in the interview with Mr. Rönn was his view that sustainability accounting and reporting can and will follow in the footsteps of financial accounting and reporting. When asked about his motivation to start his company, Normative AB, and his opinions on the criticism of sustainability reporting, he expressed that he believes accounting for sustainability needs to take externalities and real costs into account. In other words, Mr. Rönn wants a full-cost approach to sustainability accounting:

> I was thinking we have an opportunity here to leapfrog that 500 year of history and do it in a decade instead when it comes to sustainability reporting. Because fundamentally we need new ways of accounting where externalities are taken into account. So we need new standards and we have the opportunity to directly encode those standards into software and even do it with the next generation software using machine learning and data science, which is the case in the most modern financial accounting software. (Q.1)

Furthermore, he believes sustainability accounting should model after financial accounting and it can become as reliable as financial accounting:

> In financial accounting it's very different because it's not gonna balance unless you have the complete data set and it's often directly fetched from the underlying bank transactions in the accounting so that everything that goes in and out in the company is in this accounting ledger. If you were to actually use the same approach with an accounting financial ledger for the sustainability accounting it could be much more reliable. (Q.3)

5.3.2 Criticism of sustainability reporting frameworks, the GRI and the EU Dir 2014/95

A second theme that emerged from the interview with Mr. Rönn were his views on sustainability reporting frameworks, the GRI, and the EU Dir 2014/95. Firstly, he believes that all sustainability reporting frameworks are fundamentally flawed due to lack of an underlying accounting system to generate data:

> If you look at the GRI or the SASB or CDP you have a set of disclosures in the reporting standard you're supposed to report on gender pay ratios you're supposed to report on CO2 from transport, you're supposed to report on water so they'll tell you what to report on. However they don't tell you very much about the underlying accounting principles for how to calculate it in the first place. I think they do make a difference but I think they are fundamentally flawed because they're not having any accounting perspective for how the data is generated in the first place. If you have that perspective, it's easier to take concrete actions. Much like the way you do in financial accounting, how should I balance this result sheet in a better way? You can get some real insights and then maybe make a difference but it's hard to do that in sustainability reporting right now, because it's just an aggregated number that is not comparable across business units and especially not between businesses. (Q.2)

Mr. Rönn also voiced strong criticism of the GRI reporting framework. First, he believes that the GRI has too many disclosures as well as hidden sub-disclosures that lack details and references in calculating. Second, he claims that the GRI is not a digital standard, hindering the aggregation of data. Thirdly, he believes the GRI's approach to materiality and stakeholder engagement is flawed:

> The GRI is saying that you should make a materiality assessment and actually select the disclosures that are most relevant to you. The process that they talk about them, I think that is very unscientific. I understand what they mean but they basically say that you should make some kind of stakeholder analysis where what is material to you is basically what the stakeholders think is material. I mean that's not how environmental science or sustainability works. Just because some random uninformed customer or investor says that something is super important, from their perspective, it doesn't make it important.[…] It also means that it's hard to compare because some have deemed something material, others have not. It's not a common set of disclosures that will definitely be the same for everyone when you use the GRI. That is hugely problematic. (Q.9)

When asked about the EU Dir 2014/95 and whether he believes it improves the quality of non-financial disclosure, Mr. Rönn viewed the directive as a first step and believes it should be expanded. He also expressed concern:

> It incentivizes sustainability reporting but it doesn't improve quality at all. On average quality has decreased because it has meant that more and more companies need to engage in sustainability reporting. Definitely the amount of companies that engaged in it has increased by a lot which is, I think on the margin, a really good thing but it hasn't increased quality. The directive is super super vague. Basically you should just report vaguely on 5 areas like human rights and social issues and environmental issues. It doesn't say anything on exactly what you should do. So then you have a situation where all of a sudden 15,000 new companies in the EU do this for the first time and then they do the minimum required which means that the average quality has decreased in sustainability reports. However I still think it's a good thing that that reporting directive came about but now they really need to step up and take it into the next step to actually get some quality data in there. (Q.10)

5.3.3 How Normative contributes to better sustainability reports

Another theme that emerged from the data relates to Mr. Rönn's views on how Normative contributes to better sustainability reports. Mr. Rönn expressed that Normative specifies the formulae behind each disclosure that is mentioned in a sustainability reporting framework, allowing for a year to year comparison and making the data more specific and repeatable. He mentions a challenge for companies when they start to use Normative's software:

> It's always a challenge because when they use our products their overall CO2 emissions for instance, become 10 times higher. The simple reason for that is that we take all supply chain emissions into account and we really follow the Greenhouse Gas Protocol standard whilst most companies tend to just have the default position of "lets calculate what we know how to calculate on". Therefore you might know the impact from CO2 impact from your electricity, or heating in your offices because it says so in the utility bill, but then you skip the rest and the rest typically accounts for 90% of your total emissions. So it's a little bit of a shock for a lot of companies seeing like wow our total emissions increased this much. Then I try to point out no they haven't decreased they have always been like this, but now you know what they are and now you can actually do something about it. Before when you were in the blinds you couldn't do anything. (Q.7)

5.3.4 A unified system and additional sustainability reporting regulations

The last theme that we identified from our interview with Mr. Rönn relates to the use of a unified system for sustainability reporting and additional regulation. Mr. Rönn suggests that having a universal system for sustainability reporting would be a good solution to many of the problems sustainability reporting faces. He mentions that instead of having each company using different approaches to accounting for sustainability, there should be a systems software approach to it. Furthermore, he suggests that sustainability reporting should be further regulated:

> I want it to be just as regulated as financial accounting and reporting. I think it should be integrated into the same type of models as well. […]So if we could agree on the set of such assumptions and have some kind of committee updating those assumptions regularly you could actually have it as good old fashioned US dollars integrated into the same way of calculating. The first thing is just to calculate things right but I think in the end you need to integrate social environmental and economical issues to one single metric. I think that single metric can be a financial metric because otherwise it's hard to prioritize when it comes from a decision theoretical angle. How do I prioritize number of CO2 equivalents against my profit? Against gender equality in the board of my company? You can't really make decisions in a coherent way unless you have a coherent unit of measurement for success. You will always run into these, from a decision theoretical point of view, headaches that are impossible to overcome unless you have a single unit of measurement but this is I think I don't know maybe 40 years in the future or something. (Q.12)

Interestingly, when asked about whether or not he notices any vast regional differences between countries or regions and their sustainability reporting practices, he said that he has not noticed vast regional differences, showing potential for a global standard:

> When I talk to someone from South Korea or Japan or any company in the world that engages in sustainability reporting, we can have a discussion around the same type of disclosures. If you look at the NASDAQ reporting guidelines for instance, if you look at the CDP most disclosure-based frameworks are partially inspired by GRI. I think it makes it very encouraging to actually see where sustainability reporting can leapfrog a lot of the

headaches that financial reporting has had with consolidating across many countries and how things work and go more towards a global standard. (Q.15)

6 Analysis and discussion

The following section will demonstrate the convergence and divergence of stakeholder perceptions and what implications this has for sustainability reporting and the future of the practice. We have identified four themes from the results which illustrates how the stakeholders' perceptions converge and diverge, illustrated in figure 8.

Figure 8- Themes on converging and diverging stakeholder perceptions

6.1 Converging and diverging stakeholder perceptions of sustainability reporting

6.1.1 Converging and diverging perceptions of the stakeholders' role in sustainability reporting

Ms. Fisher and Mr. Hettne both argued that companies are accountable to their various stakeholders, which is aligned with Freeman's (1984) stakeholder theory. Both of the interviewees mentioned the risk companies take if they are to lie about their sustainability activities. If the stakeholders of the companies discover this information, the company can be heavily affected. The beliefs of Mr. Hettne and Ms. Fisher are aligned with legitimacy theory and the notion that companies need to be perceived as legitimate by society in order to be granted a social license to operate, and risk losing this legitimacy if stakeholders believe that they portray unacceptable behavior (Hahn & Kühnen, 2013). Furthermore, both Ms. Fisher and Mr. Hettne suggested that there is a responsibility for stakeholders to hold companies accountable and take action if companies portray unacceptable behaviour. Mr. Hettne explicitly mentioned the role of NGO's and environmental organizations in holding companies accountable, whereas Ms. Fisher mentions stakeholders in general.

In addition to stakeholder accountability, Mr. Rönn and Ms. Fisher have contradictory views when it comes to stakeholder inclusivity in creating sustainability reports. A central principle to the GRI is the principle of stakeholder inclusivity (GRI, n.d.b). When asked about the GRI's motivation behind this, Ms. Fisher explained that companies must understand the opinions of their stakeholders, and what stakeholders want to know about a company, in order to create a sustainability report. On the other hand, Mr. Rönn believed that this concept of stakeholder inclusivity is flawed. He argued that the concept goes against the notion of sustainability and environmental science and in addition leads to the incomparability of sustainability reports, as some stakeholders and companies deem certain disclosures to be material, while others do not. This means that there is no common set of disclosures that is the same for all GRI signatories, which is very problematic according to Mr. Rönn. The problem of incomparability of GRI-adherent reports has also been echoed in the literature, for example by Boiral and Henry (2017 p. 306) who found that it is "impossible to measure and compare sustainability performance disclosed in the analyzed GRI reports in a credible manner and to classify firms on this basis".

6.1.2 Converging and diverging perceptions of the EU Dir 2014/95

All of the interviewees expressed that the EU Dir 2014/95 has been an appropriate first step in the direction of mandating sustainability reporting. The EU exerts coercive isomorphic pressure on companies, where according to Herold (2018) organizations follow these external pressures from the EU in order to gain legitimacy. However, whilst all of the stakeholders seemed to agree that the EU Dir 2014/95 is a great first step in the right direction, the interviewees also suggested that the directive has a rather soft approach. Furthermore, the interviewees have divergent views on further regulating sustainability reporting.

Mr. Hettne emphasized that it is a minimum directive, and that it does not exclude stricter measures on a national level. Hence each individual member state can impose stricter legislation, going further than the directive itself. Mr. Hettne believes that it is a question and dilemma in terms of how much you want the European Union to intervene and how much leeway you want to give the member states. Mr. Hettne mentioned different member states have different regulations and therefore, different formats in terms of reporting. Ms. Fisher mentioned that she would have preferred Dir. 2014/95 and the obligation it imposes on companies with more than 500 employees to be extended further to smaller companies as well.

According to Arvidsson (ed. 2019), the EU Dir 2014/95 has been criticized for having too soft of a tone, hindering actual results when it comes to sustainability performance. Mr. Rönn seems to agree that the EU Dir 2014/95 is rather vague and lacking general quality. He believes that on average quality has decreased, due to an increase in companies now engaging in mandatory sustainability reporting across the EU. The problem from Mr. Rönn's point of view is that each company does what is minimum required and that there is room for that due to the vagueness of the directive, which then decreases overall quality. This view contrasts what scholars Mion and Adaui (2019) found in a study of the effects of the directive on reporting quality in Italy and Germany, showing that the EU Dir 2014/95 actually contributed to an increase of quality when it comes to sustainability reports.

All stakeholders seemed to agree that the EU Dir 2014/95 has a soft approach. However, it's a great first step in the right direction in terms of improving quality of sustainability reports. One might ask then how the EU Dir 2014/95 should proceed? The European Parliament identified a need for transparency across all member states in terms of non-financial disclosures when it comes to environmental information. Hence the legislative measure was proposed with the purpose of improving overall social and environmental information (Dir. 2014/95/EU, preamble 3). However, the interviewees seem to agree that the EU Dir 2014/95 has not fulfilled its goal and that further actions towards a more regulated sustainability reporting landscape need to be taken by the institution. Mr. Hettne is the only one who hesitates a little in terms of this matter, since he believes that one should keep the voluntary nature of CSR. Whilst Ms. Fisher suggests that the scope of the directive should be expanded Mr. Rönn takes the approach further and states that he wants it to be just as regulated as the financial accounting and reporting. These views are broadly consistent with the major trend in the literature calling for a further regulated sustainability reporting landscape (Deegan, 2002; Gray, 2010; Gray & Milne, 2002; Hess, 2007, 2008; Hess & Dunfee, 2007; Milne & Gray, 2013).

When it comes to further expanding the EU Dir 2014/95, Fuller (1954) sees law as something which is incomplete and emphasizes the importance of seeing law as a project which is challenging and always in construction and unfinished. In terms of forming the directive Mr. Hettne mentioned that the EU Dir 2014/95 could have been a regulation instead of a directive with more or less the same texting, hence making it more "regulated" to report on sustainability in the first place and that it seems to be a problem that the directive can be regulated after country preference and differ due to that. However, he emphasizes the importance of keeping

the voluntary nature of CSR thus preferring that it is a directive instead of a regulation. Whilst the EU Dir. 2014/95 is obligating undertakings to provide non-financial statements, Mr. Hettne seems to believe that the voluntary nature of CSR and sustainability reporting is vital and that everything cannot come from the directive itself. He believes that there should be a balance at all times.

Mr. Hettne claims that everything cannot come from the directive itself, which can be explained by normativity. As previously mentioned according to Bebbington (2012), normativity is the theory which states how formal legislation alone may not be plentiful to create a norm in a given regime. According to Fuller (1954) the "effectiveness" and implementation of the EU Dir 2014/95 also depends on how institutions and companies see these as ever binding. As Mr. Hettne mentioned: "everything cannot come from this". Much like Mr. Hettne, Postema (1994) emphasizes how laws and regulations only will be effective if those who are under the law believe that others will apply and understand them in the same way. Like Mr. Hettne stated the directive is implemented on a national and not Union level. Hence creating a lack of transparency when it comes to sustainability reports within the EU and therefore a lack of mutual understanding of the law is present due to the EU Dir 2014/95 being a directive and not a regulation. Member states can interpret the law as one might see it fit, hence creating these gaps of mutual understanding, which then leads to lack of internal morality and illegitimate behavior by institutions. Without this shared understanding and internal morality, normativity will fail to be established (Brunnée & Toope, 2000) thus leaving sustainability reporting as something which lacks coherency on methodology and transparency due to individual perceptions and interpretations of the law across member states within the EU. However, one should be critical towards this internal morality. Interestingly, Mr. Hettne mention that the sanctions are not that strict, meaning that the existence of internal morality is even more important. If these sanctions were stricter, then the companies would have stronger incentive to oblige by the law, thus internal morality could be held as less relevant.

6.1.3 Converging and diverging perceptions of one unified reporting system

All interviewees agree that it would be favorable to have one unified system for sustainability reporting. However, the interviewees have divergent opinions on how this would work in practice and identify different aspects that hinders theimplementation of a unified system. Whilst Mr. Hettne suggested that a unified system for sustainability reporting would be very

favorable, he also expressed that the EU favors coordinating different systems as opposed to mandating one reporting system. The reason for this is that the EU is careful not to disrupt the global reporting landscape, as well as the absence of a global legislator that can legislate one reporting format. He emphasized the role companies themselves have, as sustainability reporting is still predominantly voluntary. This contrasts the view of Mr. Rönn, who strongly believes that a unified reporting system would be very favorable for improving sustainability reporting. Throughout the interview, Mr. Rönn mentioned that he believes the data generation process for sustainability reports is flawed, and that the sustainability reporting frameworks are in need of an accounting approach to calculating disclosures. He favors a full-cost approach to sustainability accounting also accounting for externalities, aligned with scholars like Russell (2011) and Bebbington and Larrinaga (2014). Furthermore, he suggests that eventually, triple bottom line issues should be included into one single financial metric so that stakeholders can easily compare information between companies. Despite his opinions on the flaws of sustainability reporting frameworks, he views the fact that reporting frameworks such as the GRI and CDP are used worldwide as a very encouraging step towards a global standard.

Despite the criticism that the GRI faces in the literature (Belkhir, Bernard & Abdelgadir, 2017; Boiral & Henri, 2017; Brown, de Jong & Levy, 2009; Hahn & Lülfs, 2014; Milne & Gray, 2013), some of which Mr. Rönn also echoes, Ms. Fisher believes that the GRI should become the global standard for sustainability reporting. She questions the multitude of frameworks as the GRI standards covers the widest array of topics and is the most robust and popular. However, she does express understanding for the various frameworks, and argues that the GRI strongly believes in creating synergies between different frameworks, which is evident in the various linkage documents that the GRI has published, for example with CDP and ISO 26000 (GRI, 2014).

6.1.4 Converging and diverging perceptions on the quality of sustainability reports

Both Mr. Rönn and Ms. Fisher agree that the quality of sustainability reports is an area of concern, but the interviewees expressed different views addressing the underlying causes of the variance in quality by the interviewees. Ms. Fisher emphasized the fact that the GRI is not an authority, therefore companies do not report to the GRI directly and the GRI also does not control the way companies adhere to the GRI standards. She further expresses that she does believe the intentions of companies that publish sustainability reports is good, and that it can

only get better. She mentions an example of the GRI's work in helping small and medium-sized enterprises report on their sustainability, and emphasizes the fact that companies reporting on their sustainability activities is inherently a good action despite the fact that quality might not be adequate in the initial years of a company's reporting journey. Furthermore, Ms. Fisher suggests that sustainability reporting was greenwashing in the early days of the phenomenon, but that this is no longer the case. Ms. Fisher's view starkly contrasts many scholars that are very skeptical towards sustainability reporting and companies that claim to be sustainable (Gray, 2010; Gray & Milne, 2002; McElroy, 2017; Milne & Gray, 2013)

Mr. Rönn is also rather skeptical towards the quality of sustainability reports, and identifies the vagueness of the EU Dir 2014/95, fundamentally flawed sustainability reporting frameworks, and more specifically the GRI, as important reasons. Mr. Rönn criticizes the GRI for not being a digital standard, hindering comparability of GRI reports. This view concurs with the study by Boiral and Henry (2017), who found that GRI reports are indeed very difficult to compare. Ms. Fisher acknowledges the lack of a reporting template, and agrees that it would be very favorable if the GRI could issue a reporting template to enable better comparability of sustainability reports, but also emphasizes the fact that the GRI is not an authority and companies do not report to the GRI, making it impossible to enforce companies to use a certain template.

In the final part of the interview, Ms. Fisher and Mr. Rönn were asked about their views regarding the future of sustainability reporting. Ms. Fisher suggested that the need for sustainability reporting, as well as accountability and transparency, will continue to amplify. Mr. Rönn expressed hopefulness for the future of sustainability reporting, and believes that sustainability accounting and reporting will follow the path of financial reporting and accounting. He mentioned the European action plan on sustainable finance, which is part of the EU Green Deal.

6.1.5 Conclusion of the analysis

Following the analysis, it is possible to conclude that there is a greater divergence in stakeholder perceptions than convergence. The following tables summarize the main perceptions from each stakeholder on each of the four themes and draws a conclusion.

Stakeholder	Theme: stakeholders' role	Conclusion
Regulatory	Companies are accountable to their stakeholders, and stakeholders must supervise the conduct of companies.	Both the regulatory and community stakeholder believe that companies are accountable to their stakeholders and stakeholders must supervise their business conduct. For sustainability reports, the community stakeholder strongly emphasizes the concept of stakeholder inclusivity, which the organizational stakeholder considers unscientific.
Community	Companies are accountable to their stakeholders, and stakeholders have a role in supervising companies' actions as well as engaging in dialogue with companies for their sustainability reports. The opinions of stakeholders on their business conduct are highly valuable for companies, which is the notion of stakeholder inclusivity.	
Organizational	The concept of stakeholder inclusivity is unscientific. The opinions of stakeholders are not valuable when it comes to companies and their sustainability reporting, because the opinions have nothing to do with sustainability and environmental science.	

Table 5- Conclusion stakeholders' role in sustainability reporting

Stakeholder	Theme: EU Dir 2014/95	Conclusion
Regulatory	It is indeed a soft approach. Additional regulation is an option because it is a minimum directive. It is a question and dilemma; of how much the European Union should intervene and how much leeway the member states should have. Everything cannot come from legislation. Sustainability reporting is by nature voluntary.	All stakeholders agree that the EU Dir 2014/95 is a first step. Both the community and organizational stakeholder would like to see an expansion of the directive, with the organizational stakeholder calling for radical strengthening of the directive. The regulatory stakeholder
Community	The expansion of the directive would be favorable, and the current directive is a great first step.	

Organizational	Sustainability reporting should be just as regulated as financial reporting. Overall quality of sustainability reports has decreased, as the number of companies required to report has increased. The EU Dir 2014/95 is super vague.	however emphasizes that sustainability reporting is still a voluntary activity, and the legislation can't be the only measure.

Table 6- Conclusion EU Dir 2014/95

Stakeholder	**Theme: unified system for reporting**	**Conclusion**
Regulatory	A harmonized reporting system would be favorable, but the EU favors coordinating different systems as opposed to mandating one reporting system and is also careful not to disrupt the global reporting landscape	All stakeholders agree that a unified reporting system would be favorable. The organizational stakeholder believes the GRI should become the global standard for sustainability reporting, as it is the most robust. The community stakeholder strongly supports a unified system as a solution for the flawed data generation process and sustainability reporting frameworks. The regulatory stakeholder, agreeing that similar reporting conditions would be favorable, emphasizes the coordinating role of the EU as opposed to legislating one reporting system to not disrupt the fragmented global landscape.
Community	The GRI should become the global standard for sustainability reporting. One can question the multitude of frameworks as the GRI standards covers the widest array of topics and is the most robust and popular. The GRI believes in creating synergies between different frameworks.	
Organizational	A unified system would be a solution in improving the data generation process for calculating sustainability disclosures, which is currently flawed and lacks an accounting approach to generate data.	

Table 7- Conclusion unified system for sustainability reporting

Stakeholder	Theme: the quality of sustainability reports	Conclusion
Regulatory	No comment	The organizational stakeholder is more skeptical towards the quality of sustainability reports, as the underlying methodology of calculating disclosures is fundamentally flawed. The community stakeholder is more optimistic and believes sustainability reporting is a learning curve which can only get better.
Community	Even though quality is of a varying degree, sustainability reporting is no longer a greenwashing activity and companies have genuine intentions. Companies can only improve the quality of their reports.	
Organizational	Sustainability reports lack comparability and quality due to flawed methodology of generating data and disclosures and flawed reporting frameworks.	

Table 8- Conclusion quality of sustainability reporting

6.2 The divergent perceptions of stakeholders

The regulatory stakeholder (Mr. Hettne), also a definitive stakeholder that possesses the power, urgency and legitimacy stakeholder attribute, exerts coercive isomorphic pressure through legislation, thus becoming the initiator in the process of sustainability reporting. Our findings show that the regulatory stakeholder believes that one should keep the voluntary nature of sustainability reporting in mind, thus contradicting a more mandatory type of sustainability reporting. The regulatory stakeholder takes a rather interesting approach towards regulatory measures and states that legislation alone cannot solve the problems of sustainability reporting, thus referring back to the fact that companies themselves carry the main responsibility in the matter.

The community stakeholder (Ms. Fisher), also a dominant stakeholder that possesses the power and legitimacy stakeholder attribute, exerts normative isomorphic pressures through standard setting, thus becoming the middleman in the process of sustainability reporting. Our findings show that the community stakeholder strongly believes that the foundation of sustainability reporting is legitimate. The community stakeholder is highly confident in the GRI framework as being the most robust standard. The intentions behind a company's sustainability report today

are genuine, thus implying that sustainability reporting is no longer a greenwashing activity. It is a learning curve, emphasizing that companies can only improve their sustainability reporting.

The organizational stakeholder (Mr. Rönn), also a discretionary stakeholder that possesses the legitimacy attribute, exerts mimetic isomorphic pressure through setting a norm for high-quality sustainability reports. Our findings show that the organizational stakeholder strongly believes that the market economy is somewhat broken and sustainability reporting fundamentally flawed. The organizational stakeholder argues that real costs and externalities of goods and services are not taken into account. Furthermore, the system for sustainability reporting lacks an accounting perspective to generate data and calculating disclosures, thus emphasizing that sustainability reporting should be as regulated as financial accounting and reporting in order to overcome its shortcomings.

What does this mean for the phenomenon of sustainability reporting? All of the stakeholders have different perceptions when it comes to solving the puzzle of sustainability reporting. The organizational stakeholder, who witnesses the implications of sustainability reporting every day, is calling for stronger sustainability reporting and accounting regulations resembling those of financial reporting and accounting. The regulatory stakeholder, who is the law maker and one of the most powerful stakeholders capable of bringing about change on non-financial disclosure practices, believes that sustainability reporting should remain a predominantly voluntary practice. Hence, the perceptions of the two stakeholders are not only divergent, they contradict each other. Furthermore, the community stakeholder, who sets the reporting standards for 14606 signatories across the world, is very optimistic and believes that the essence of sustainability reporting and the GRI framework is legitimate and can only improve. This contradicts the organizational stakeholder, who believes that there is a lack of an accounting perspective to generate data and calculate disclosures, but it is clear that the community stakeholder does not recognize this as an issue. Moreover, the regulatory stakeholder is not willing to impose legislation for a unified reporting system. Thus once again the perceptions of the organizational stakeholder, who possesses insider knowledge when it comes to sustainability reporting, strongly contradicts the perceptions of the other stakeholders. Leaving us with the question: how can the puzzle of sustainability reporting ever be solved, when the stakeholders do not even know how to put the pieces together?

6.3 What does the future hold for sustainability reporting?

In an attempt to understand how the puzzle can be solved and what the future holds for sustainability reporting, the authors interviewed Susanne Arvidsson to understand her perception on the future of sustainability reporting. Susanne Arvidsson is an associate professor at the Accounting and Corporate Finance department at Lund University, and was referenced throughout this thesis with her book "Challenges in Managing Sustainable Business: Reporting, Taxation, Ethics and Governance". Ms. Arvidsson argued during the interview that it is vital for different stakeholders to collaborate. She emphasized the need to produce valuable, credible and comparable sustainability information that can assess how companies, organizations and nations perform in different sustainability arenas. This need is amplified by a rapidly developing sustainable finance landscape and initiatives such as the EU Green Deal and the TCFD.

Looking at our analysis and discussion, we identified a great divergence in the perceptions of sustainability reporting amongst the stakeholders, which Ms. Arvidsson also acknowledges as a problem. Ms. Arvidsson says that when it comes to stakeholders and their role in overcoming the problems of sustainability reporting it is hard to point fingers at who is to blame, however, she emphasizes that it all comes down to collaboration amongst the stakeholders. The authors of this thesis identified the same issues in the analysis. It seems that the divergence in perceptions hinders collaboration between the stakeholders, which in turn prevents sustainability reporting to reach its potential and provide relevant, transparent and comparable information to its stakeholders.

The need for businesses to embrace the concept of sustainability and address the challenges of climate change will continue to amplify in the future, especially with major policy initiatives like the EU Green Deal and the Paris Agreement paving the way for a low-carbon global economy. Furthermore, because of initiatives like the EU's action plan on sustainable finance businesses will have to become more transparent about their conduct, and ensure value-relevant, quality information about their ESG activities for their stakeholders.

The authors could not agree more with Ms. Arvidsson. There is dire need for collaboration amongst all stakeholders when it comes to sustainability reporting and solving its complicated puzzle. Furthermore, it seems that a more regulated market when it comes to sustainability

reporting is needed in order to increase the quality of sustainability reports and to extend the obligations to smaller companies as well. The EU Dir 2014/95 is a great first step, but the reporting obligation is rather minimal. The EU Dir 2014/95 is currently under review, and a possible amendment is to be expected at the end of 2020 (European Commission, 2020).

The company statement that inspired us to write this thesis (introduced in the first chapter) reveals that there are too many frameworks and that it is too easy to manipulate the answers, thus calling for consolidation in the market. It appears that the comparability and accessibility of sustainability reports leaves something to be desired. Just like the stakeholders in this thesis, we believe a unified reporting system would be greatly beneficial in order to overcome the lack of methodology and transparency in the market, thus increasing the overall quality of sustainability reporting. It seems that this is vital in order to oblige companies to strengthen their sustainability reporting, because something that looks good from the outside does not always turn out to be so; all that glitters is not gold.

7 Conclusion

At the inception of this thesis we aimed to investigate the sustainability reporting phenomenon from a multi-stakeholder perspective. We wanted to establish an understanding of how a regulatory, community and organizational stakeholder perceive their role in the context of sustainability reporting through semi-structured interviews. Furthermore, we wanted to identify convergence and divergence between the different stakeholder perceptions. This study has shown that there is significant divergence in stakeholder perceptions of sustainability reporting, which leads to sustainability reporting remaining an unsolved puzzle. Sustainability reporting is still a highly criticized phenomenon, despite rapid developments in legislation and worldwide adoption of the practice. The major findings demonstrate that a reason for sustainability reporting remaining a highly controversial phenomenon, and an unsolved puzzle, might be the contradictory perspectives of regulatory, community and organizational stakeholders.

7.1 Limitations

This thesis has a number of limitations that need to be addressed. First of all, we interviewed only one person from each stakeholder group. This is due to time limitations as well as the occurrence of a global pandemic at the time of writing this thesis. Second, all interviewees lived and worked in Northern Europe, because we partly sampled based on convenience. Due to these limitations it is difficult to generalize our conclusive results to other sustainability reporting landscapes. Furthermore, the opinions of the stakeholders we interviewed might be biased and not representative for the entire stakeholder group. However, since we were mostly interested in the individual experiences and perceptions of the stakeholders we interviewed, we do not consider this concern an issue.

7.2 Practical Implications and Future Research

This is the first study, to our knowledge, to examine the perceptions of a regulatory, community and organizational stakeholder in the context of sustainability reporting. Previous studies that investigated stakeholder perceptions mainly focused on the information needs that stakeholders

have within sustainability reports (De Villiers & Staden, 2012; Joensuu, Mäkelä & Onkila, 2018; O'Dwyer et al, 2005). Our results describe for the first time how the perceptions of different stakeholders diverge and converge around the phenomenon of sustainability reporting. Moreover, our study takes a critical approach towards sustainability reporting and shines light on a pitfall within the sustainability reporting landscape that has not been identified prior to this study. We hope that this thesis will encourage those who are involved or affected by sustainability reporting and those who shape the future of the practice, through business and policy making, to collaborate in order to ensure that sustainability reports become more transparent, comparable and value relevant, especially given that the need for businesses to be transparent about their conduct will continue to amplify.

Due to the preliminary findings of this thesis, future studies on this topic are highly recommended. Further research should be undertaken to investigate more perspectives from the same stakeholder group, as well as include additional stakeholder groups and perspectives in order to establish a fuller picture of stakeholder perceptions. This could be achieved through large-scale surveys and other quantitative studies. Additionally, it is highly recommended that the perceptions of stakeholders from different world regions are investigated, in order to add a global perspective and investigate if the same conclusions can be drawn.

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Appendix A: Interview guides

Name: Jörgen Hettne

Profession: Associate professor at the Department of Business Law at Lund university and former lawyer at the European Court of Justice

Questions:

1. Can you tell us something about the origins of the EU Dir 2014/95?
2. EU Dir 2014/95 is a directive, not a regulation. What is the motivation for this? Doesn't that lead to different interpretation by member states?
3. The directive is being criticized by several scholars and organisations as having a too "soft tone", which might affect the reporting quality and integration of sustainability activities into the business model of companies. What is your opinion on this?
4. There are many different frameworks and standards in the European Union which companies can use to disclose non-financial information. An example being the GRI. Do you believe these frameworks are effective for companies to report? Are they aligned with the EU Dir 2014/95?
5. Sustainability reporting has long been criticised. Lack of transparency, credibility, used as a marketing stunt etc. What is your opinion on this, and do you believe the EU Dir 2014/95 helps in preventing this?
6. Are there any consequences for companies not following the EU Dir 2014/95?
7. Many believe that it is too easy to manipulate the answers in sustainability reporting so that even with a poor performance companies may receive a top score, either because they are not truthful in their answers or they use consultants who know how to spin the answers to get a high rating. What are your thoughts on that?
8. Do you believe that the above-mentioned problem is due to lack of a unified system build sustainability reports? Please elaborate
9. How could such problems be solved?
10. Do you think it could be solved by creating principles/ regulations for companies in all member states to use the same method when calculating impact?
11. Do you believe that the EU Dir 2014/95 gives way for unethical behavior?

Name: Elisabeth Fisher (fictional name)

Profession: Long time employee at the Global Reporting Initiative (GRI)

Questions:

1. Can you tell us a little about your job at the GRI? How long have you worked at the organization?
2. Can you tell us something about the origin of the GRI? How did it get started and what is the mission?
3. What is your opinion on the general quality of sustainability reports? Do you believe the GRI contributes to improving the quality of reporting and also contributes to actual sustainable activities?
4. The GRI is the most popular framework for sustainability reporting amongst companies and organizations. Why do you believe this is?
5. What are the main positive outcomes of the GRI framework and standards in your opinion? Are there any negative effects?
6. Regarding the EU Dir 2014/95, should it be extended or improved in your opinion? What role does formal law hold in sustainability reporting and its quality in your opinion?
7. The role of the stakeholder is very important in the Global Reporting Initiative. Why is this?
8. Many scholars criticize sustainability reporting and the GRI framework. Lack of transparency, lack of consolidation on the market due to many different frameworks and methods. It also seems like companies "pick and choose" what to report on from the GRI framework, hence not fully complying with the policies and technical requirements from the GRI and use an external party (like a consultant) to "spin the answers". What do you think about this?
9. Do you believe that there should be a unified system for sustainability reporting? Please elaborate
10. Do you believe that sustainability assurance providers (like KPMG, PwC but also smaller firms) improve the quality and honesty of sustainability reports according to the GRI framework? How?
11. Does the GRI way of working have shortcomings? If so, how do you believe they can be improved?
12. When are you going to make it specific on how to calculate your disclosures?
13. Do you believe that the GRI gives leeway for unethical behavior?

14. What does the future hold for GRI and sustainability reporting?

Name: Kristian Rönn

Profession: CEO and co-founder at Normative AB

Questions:

1. Why did you start Normative?
2. What are your thoughts on sustainability reporting in general? Do you believe that it has an actual effect on sustainable performance?
3. Many believe that it is too easy to manipulate the answers in sustainability reporting so that even with a poor performance companies may receive a top score, either because they are not truthful in their answers or they use consultants who know how to spin the answers to get a high rating. What are your thoughts on that?
4. How do you believe Normative contributes to solving this problem?
5. Do you believe that sustainability assurance providers (like KPMG, PwC but also smaller firms) improve the quality and honesty of sustainability reports?
6. Do you think companies avoid honesty in sustainability reporting due to consequences of this honesty? Reporting?
7. Looking at your experience working with different clients have you noticed anything interesting when Normative helps them with sustainability?
8. What is mostly the motivation for companies to contact Normative?
9. What is your opinion on the GRI framework? Does it have shortcomings?
10. Regarding the EU Dir 2014/95, does it incentivize sustainability reporting and improve its quality in your opinion?
11. Do you believe that the EU Dir 2014/95 and the GRI gives way for unethical behavior?
12. Do you believe that sustainability reporting should be more regulated?
13. Do you think that companies/ software like Normative contribute to truthful sustainability reports? Should all companies use Normative's software?
14. What does the future hold for Normative and sustainability reporting?

Appendix B- Interview Susanne Arvidsson

Name: Susanne Arvidsson

Profession: Associate professor at the Accounting and Corporate Finance department at Lund University

Questions and answers:

1. **How can the puzzle of sustainability reporting be solved?**

To join forces is really important when it comes to different stakeholders, from industry-perspective, from financial institutions and the authorities. I think they need to collaborate also, what kind of information can we produce, how can we use it inside the companies, how can this be valuable, credible and comparable also to outside stakeholders.

2. **What does the future hold for sustainability reporting?**

I hope the developments will continue towards more value-relevant and comparable information of how companies perform in the different sustainability arenas.

3. **Where do the problems of sustainability reporting start?**

I think that is difficult to say to point fingers at any of these. I think that there is a need for collaboration to bring out good examples and also highlight those examples that are not very good, failure stories also in order to see the best way forward. And I think that it's important that the financial market act, the whole kind of landscape for sustainable finance is really developing now. We have the EU taxonomy, we have the EU action plan for sustainable finance, we have the TCFD, lots of different initiatives putting an emphasis on the role of financial markets in promoting global sustainable development. In that, we need to be able to assess how companies, organisations and nations perform in different sustainability arenas.