UNIVERSITY OF GOTHENBURG
SCHOOL OF BUSINESS, ECONOMICS AND LAW

Graduate School- Department of Business Administration

"Early Experience of Mandatory Non-Financial Information Reporting in Sweden"

- ***A case study of how listed SMEs in the industrial sector have implemented the new law***

GM0360 V18 Master Degree Project in Accounting

Spring Semester 2018

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Abstract

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Motivation/Purpose: Increasing societal pressure on companies for higher transparency and accountability has led to a significant growth in issuance of non-financial reporting. As a result, the Swedish parliament has decided to extend the EU directive on disclosure of non-financial information and diversity information to force more Swedish companies to produce a sustainability report. However, there are two research gaps related to mandatory non-financial information reporting. First, the impact from the implementation of mandatory non-financial information reporting has scarcely been investigated, especially in small and medium-sized enterprises. Second, there is a limited understanding of how sustainability reports are developed. Our research purpose was to examine how industrial small and medium-sized enterprises in Sweden have implemented the law on mandatory non-financial information reporting.

Design/Methodology: An exploratory case study was employed by studying four listed companies within the industrial sector in Sweden. The four case companies were investigated through interviews with key personnel and by reviewing their sustainability reports and annual reports. In addition, two external organizations were interviewed to get an outside perspective.

Findings: We have identified four patterns of implementation of mandatory non-financial information reporting. These four patterns are: 1) implementation focus on both internal and external perspectives 2) focus on the internal perspective; focus on the external perspective 3) and 4) focus on reporting as usual. The patterns are shaped by internal and external motivational drivers, which is why the case companies have implemented the Swedish law in a certain way. Although, the four patterns of implementation consist of similar implementation steps, they do that to various degrees. Also, the patterns of implementation show different behaviors of legitimacy (i.e. institutional, strategic and material), but these cannot be clearly separated.

Contribution: Firstly, our major contribution is the discovery of the four patterns of implementation of mandatory non-financial information reporting, particularly within the industrial sector in Sweden. In a broader perspective, the Swedish law is one version of the EU directive. Our exploratory case study serves as an account of early experience from the implementation within a Swedish regulatory setting. Secondly, our findings support previous researchers' claim that strategic and institutional legitimacy is not mutually exclusive. We have applied legitimacy theory in an unconventional way. Finally, we urge policymaker to consider the fact that GRI or other similar sustainability reporting frameworks are not employed in the case companies to implement the Swedish law.

Keywords: Sustainability reporting, mandatory non-financial information reporting, SMEs, implementation, stakeholder engagement, strategic legitimacy, institutional legitimacy and material legitimacy.

Acknowledgments

During the Spring semester of 2018, we have been able to combine our interest in non-financial reporting and the new Swedish law on reporting the non-financial information, by conducting a case study of listed industrial SMEs in Sweden. Our contribution to the research field would not have been viable without the support from certain individuals. As such, we would like to acknowledge those who have helped us to successfully finish this thesis.

We would like to thank our supervisor, Svetlana Sabelfeld, as well as the seminar leader, Gudrun Baldvinsdottir for their guidance and encouragement throughout the process of developing this thesis. Furthermore, we would like to thank all discussants during the seminars who provided us with great feedback and constructive comments. Also, we would like to thank our parents and family for helping us realize this educational journey. We also want to pass our gratitude to Karin Johansson and Marcus Olsson for helping us by proofreading our thesis. Last but not least, we would like to give special thanks to our respondents for taking their times to participate in this study.

School of Business, Economics and Law
Gothenburg, June 3rd 2018

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List of Abbreviation and Acronyms

CDP	Carbon Disclosure Project
CERES	Coalition for Environmentally Responsible Economies
CSR	Corporate Social Responsibility
ESG	Environmental, Social, and Governance
EU	European Union
GRI	Global Reporting Initiative
IR	Integrated Reporting
IOE	International Organization of Employers
KSI	Key Sustainability Indicators
NFI	Non-Financial Information
SMEs	Small and Medium Enterprises
SMT	Sustainability Management Tool
SR	Sustainability Reporting
SRP	Sustainability Reporting Process
TPL	Triple-Bottom-Line
UN	United Nations
UNEP	United Nations Environment Program
UNGC	United Nations Global Compact

1. INTRODUCTION

The introductory chapter outlines the background pertaining to the topics corporate SR, mandatory SR, SMEs, and stakeholders. Thereafter, a problem discussion is presented which serves as the foundation to identify the research gap that this study opts to examine, followed by the purpose and research questions of the study.

1.1 Background

The pursuit of sustainability is a key challenge in the 21st century. In the 1990s, the increased societal pressures, demands and expectations on companies for more transparency and accountability has led to a significant growth in issuance of voluntary corporate sustainability reports (Ioannou and Serafeim, 2017). In 1997, the Coalition for Environmentally Responsible Economies (CERES) and the United Nations Environment Program (UNEP) launched Global Reporting Initiative (GRI) with goals to develop and establish reporting guidelines for the "Triple Bottom Line" (TBL): economic, environmental and social performance (GRI, 2008). Similarly, the United Nations (UN) introduced the United Nations Global Compact (UNGC) as a source of inspiration for companies when disclosing their sustainability information (UNGC, 2007). The main objective today is to establish sustainability reporting (SR) at par with financial reporting in terms of credibility and comparability (Ioannou and Serafeim, 2017).

Due to several high profile corporate scandals and financial crisis, a growing distrust is spreading concerning companies' inability to self-regulate and provide reliable forward-looking non-financial information (NFI) (Kaplan and Norton, 1992). One example of a major corporate scandal in recent year is Telia Company's unethical business activities in Uzbekistan, where they were involved in corrupt payments, which resulted in fines of USD 965 million to international and U.S authorities (Bloomberg, 2017). As a result of these types of corporate scandals and financial crises that have occurred, investors and creditors in capital markets have begun to integrate environmental and social information in their valuation models, creating additional demand for SR. As a consequence, an increasing number of countries have begun to mandate the disclosure of NFI, either through laws and regulations or through requirement by the local stock exchanges (Ioannou and Serafeim, 2015).

Particularly, the Swedish parliament has given a mandate to every state-owned company to publish a NFI report since 2008. This has been extended to Swedish companies too through the new Swedish law in 2016, which goes further than the European Union (EU) directive (Sveriges Riksdag, 2016). Large Swedish companies have been acknowledged among the best in corporate communication for many years and SR in particular (Arvidsson, 2017). Their excellence in disclosing information on sustainability performance is confirmed by both academic research (Cahan et al, 2015) and comprehensive reports from major accountancy firms like KPMG on global sustainability trends (KPMG, 2015). Similarly, RobecoSAM sustainability ranking of countries with focus on environmental, social, and governance (ESG) indicators, put Sweden as the best country during 2017 (RobecoSAM, 2017). However, one problem with these studies about SR is that they are primarily focused on larger firms rather than small and medium-sized enterprises (SMEs) (GRI, 2014).

Researchers recognized that the issues facing SMEs in SR deserve greater attention due to the importance of SMEs in European and global economies (Borga et al, 2009; Morsing and Perrini, 2009). Statistically, there were 23 million SMEs in the EU, representing 99 percent of all business. In Sweden, SMEs constituted 99,9 percent of all Swedish companies and accounted for almost 40 percent of all revenue in the Swedish private business (Tillväxtverket, 2014). Thus, SMEs are the backbone of the European and Swedish economy, their contribution is essential for pursuing the goal of European 'Europe 2020', the EU's strategy for smart, sustainable, and inclusive growth (Eurobarometer survey, 2012). At the same time, SMEs were responsible for roughly 64 percent of the industrial pollution in Europe and they find it more difficult to comply with environmental legislation than large companies. Despite their importance, it has often been argued that SMEs are laggards to commit to sustainability work (Revell et al, 2010). This is also true in a Swedish context according to the latest survey from Tillväxtverket (2014), which showed that only half of the Swedish SMEs are doing sustainability work at some extent. There are several factors that can explain the slow commitment of companies. For instance, SMEs are explained to have different environmental strategies, including aspects such as financial resources, organizational structure, management style and production capabilities (Del Brío and Junquera, 2003). To conclude, SMEs have different organizational conditions and settings compared to larger companies; thus, we expect that SMEs are using other approaches than larger companies to implement SR.

1.2 Problem Discussion

The introduction of the new Swedish law on mandatory NFI reporting will affect many companies and force them to implement these new requirements. Those companies that have not implemented or published any sustainability report before will have a big challenge ahead with extensive work and changes (Borglund et al, 2010). Hahn and Kühnen (2013) identified in their literature review that there is a gap in research on empirically studies regarding development of SR in reaction to new regulation. The few studies that exist in this stream usually verify an increase in the extent of SR and adoption due to new regulation (Frost, 2007; Acerete et al, 2011). Moreover, some researchers have concluded that regulation of NFI reporting could improve the quality and comparability of this information (Deegan, 2002; Godfrey et al, 2009). Mandatory disclosing of NFI is also important to improve risk management, foster responsible practices, increase transparency towards capital markets and open up new opportunities in global markets (GRI, 2016).

One problem with the previous research about SR and new regulation is that it has mostly been investigated among larger companies rather than SMEs (GRI, 2014). Johnson and Schaltegger (2016) have discovered that there are still low implementation rates of SR within the SMEs. Sweden is not an exception in this regard, as only 40 percent of Swedish SMEs are conducting an active sustainability work. This work is mainly concentrated on selling more sustainable products and services rather than having sustainability policies in place with related sustainability goals (Tillväxtverket, 2014). According to Johnson and Schaltegger (2016), the reason behind this low adoption of SR and sustainability management tool (SMT) is due to two reasons - internal shortcomings and external deficiencies. Internal shortcomings in SMEs include not perceiving any benefits from sustainability work, a lack of crucial expertise and knowledge, the paucity of financial and human resources. Similar obstacles have been discovered in Swedish surveys where companies highlighted that their sustainability work is curbed by low public support, a weak business case and limited time, knowledge and financial resources (Tillväxtverket, 2014; Företagarna and Beyond Intent, 2015). External deficiencies comprises inadequate external incentives, drivers and too complex international sustainability standards for local and regionally focused SMEs (Johnson and Schaltegger, 2016).

Sweden has required that state-owned companies publish disclosure of NFI since 2008. It can be concluded from implementing mandatory NFI reporting in Swedish state-owned companies that many companies found it difficult to implement this and to use international sustainability guidelines such as GRI (Borglund et al, 2010). Based on that insight and the many obstacles SMEs are facing when working with sustainability, it raises the question how well-suited SMEs are to implement mandatory NFI requirements and how they should do when having much fewer resources than larger organizations. Studies have been conducted in Norway regarding mandatory public environmental reporting (Holgaard and Jörgensen, 2005; Vormedal and Ruud, 2009). In Norway, it was revealed that only 10 percent of the reviewed companies were deemed to be in compliance with the law on environmental reporting and only half the companies complied with the provisions on working environment and gender equality. The experience from Norway showed that there was a low rate of full compliance despite the regulation, which is due to the lack of an adequate policy framework for responsibility and reporting, and low interest of stakeholders in SR. Altogether, this leads to difficulties during the first time implementation of NFI reporting for companies, which probably is even more challenging for SMEs.

Producing sustainability reports have become more popular among companies in recent years, however, there is a concern for how relevant and comprehensive this information is (KPMG, 2013). Also, there is another concern whether the adoption of SR will increase accountability in the companies through addressing the needs of various stakeholders (Thomson and Bebbington, 2005). Due to the growing interest in sustainability issues, companies want to know what stakeholders consider to be "material" sustainability issues (Eccles et al, 2015). Thus, stakeholder involvement is recognized the main constituent of best practice when it comes to the sustainability reporting process (SRP) (Guix et al, 2017). In this context, stakeholder engagement is essential and deemed as a natural part of Scandinavian society, particularly in Sweden (Strand et al, 2015). There are a small number of researchers that have studied stakeholder inclusiveness (Manetti, 2011; Manetti and Toccafondi, 2012) and stakeholder responsiveness (Moratis and Brandt, 2017), but they have not assessed how disclosure of stakeholder engagement and materiality analysis influence the content in sustainability reports. Parker (2005) also claimed that organizations need to engage stakeholders to scrutinize their SRP and accountability to improve the reporting process. Without that, it is difficult for stakeholders to understand why companies are disclosing certain information (Parker, 2005).

As a result, there are two research gaps that need to be addressed in SR research. First, the impact from the implementation of mandatory NFI reporting on companies and more specifically, within the SME context. Second, there is a limited understanding of the process of how such reports are developed and whose priorities they reflect (Grahovar, 2016). Both gaps are closely related with each other because to understand the impact from the implementation of mandatory NFI reporting, one needs to understand the SRP behind it, i.e. it is difficult to only address one of them without considering the other. Therefore, the intention of this study was to investigate both gaps by combining them. We intend to achieve this through case studies of how listed Swedish industrial SMEs have implemented the Swedish law on NFI reporting and how their reporting process and sustainability reports have been impacted by this. This aim results in the following research purpose and research questions.

1.3 Purpose of Research

Ultimately, the purpose of the study is to examine how listed industrial SMEs in Sweden implement the Swedish law on mandatory NFI reporting. This will be analyzed by using a stakeholder engagement perspective and legitimacy theory as a lens to gain a better understanding of why SMEs in Sweden comply with the law in a specific way.

1.4 Research Question

How is the Swedish law on non-financial information reporting implemented among listed Swedish industrial SMEs?

In order to help answer the main research question, two sub-questions were formulated. We were interested in how internal and external stakeholders and motivational drivers for the case companies influenced their decision on how to implement the law, both directly and indirectly. Furthermore, we aimed to identify the main steps in the implementation process among the case companies.

Sub-question 1: How do the external and internal perspectives impact on implementation decisions made by listed SMEs?

Sub-question 2: What are the main steps in the process of implementation?

1.5 Structure of the Thesis

The content of the thesis is structured in six chapters. Chapter 1 provides the introduction to the topic SR and contains a discussion about the research problem, identifying two major research gaps in the previous literature. These gaps served as an inspirational source when constructing the research questions. Chapter 2 is the theoretical framework and includes a comprehensive literature review of the motivational drivers behind SR and SR practice. The last part of the theoretical framework explains three different dimensions of legitimacy, namely institutional, strategic and material. Based on our theoretical framework, we developed a conceptual model over the implementation process of mandatory NFI reporting. Chapter 3 of the thesis covers the research methodology. This chapter describes how the study has been conducted and which research methods were applied for case selection and data collection. Chapter 4 of the thesis contains our main empirical findings and a description of the case companies. Analysis and discussion follow the chapter on empirical findings, where data were analyzed in relation to the dimensions of legitimacy and our conceptual model. The last chapter comprises the conclusion, which includes contributions as well as limitations and suggestion for future research.

2. THEORETICAL FRAMEWORK

In this chapter, the theoretical basis of the study is presented. The chapter begins with the motivational drivers for SR including external and internal drivers. Thereafter, we describe previous research on the SR process within SMEs. This is followed by the stages of reporting implementation process. Then, the three dimensions of legitimacy theory are presented and the chapter is ended with limitations of current literature and our conceptual model over the implementation process of mandatory NFI reporting.

2.1 Motivational Drivers behind Sustainability Reporting

Laplume et al (2008) argued that an organization's success is determined by its stakeholders (e.g. customers, employees, creditors, suppliers and public authorities), who in turn are driven by different environmental, social and economic interests. Therefore, SR is a vital medium for organizations to manage the stakeholders' different needs and communicate with them (Hahn and Kühnen, 2013). The academic research on SR has for many years been occupied with why companies are adopting SR (Adams and Larrinaga-Gonzalez, 2007). One example of this focus is the literature review on SR conducted by Schaltegger and Burritt (2010), where they listed six major reasons that are encouraging companies to take corporate actions regarding sustainability issues. Based on the assumption that motivational drivers behind publishing sustainability reports voluntarily are affecting how companies are going to implement the new Swedish law on mandatory NFI reporting, it is crucial to be aware of these various motivational drivers. For simplicity reasons, it was decided to divide the motivational drivers, suggested by Schaltegger and Burritt (2010), into two separate categories: external and internal drivers.

2.1.1 External Drivers

External drivers are defined to be legislative pressure, industry pressure and SR standards and stakeholder pressure because companies cannot control this.

Legislative Pressure - The Swedish Law on Non-Financial Information and EU Directive

The global sustainability challenges are increasingly driving the introduction of new regulation to encourage companies to solve sustainability issues (GRI, 2016). Governmental legislation on mandatory NFI reporting is a strong incentive for companies to adopt and publish sustainability reports. Based on a compliance perspective, sustainability accounting can be concentrated on what has to be complied with, where noncompliance has occurred and how to improve the sustainability performance (Schaltegger and Burritt, 2010). Since the purpose of this thesis is to illustrate how Swedish listed SMEs implement the Swedish law on mandatory NFI reporting, the remaining text of this part will be concentrated on the EU directive and the Swedish law.

The European Parliament and the European Council decided in October 2014, through the directive 2014/95/EU (henceforth only called the EU directive), that public interest companies and companies with more than 500 employees have to publish a NFI report. This mandatory requirement is justified by the need for higher transparency and openness in sustainability information. Sustainability information is important to assess sustainability risks, to increase confidence towards investors and consumers, enhance comparability, and to create a change towards a long-term sustainable global economy (EU, 2014).

The law sets a minimum requirement that companies shall disclose information regarding environmental protection, social responsibility and care of employees, respect for human rights, anti-corruption and bribery. This information should be accompanied by a description of the business model, policies regarding the minimum requirement areas, including accomplished reviews and reports on these policies. Companies also need to disclose a diversity policy for the board of directors, which should contain information about age, gender, education and work background (EU, 2014).

The Swedish government decided in November 2007, as the first country in the world, that state-owned companies had to produce a sustainability report. The intention was to raise the level of ambition and sustainability performance within the state-owned companies, to increase transparency and improve the monitoring of their sustainability work (Borglund et al, 2010). After that, the Swedish parliament decided in October 2016 to extend the EU directive, which means that more Swedish companies will be forced to produce a NFI report than required by the EU directive (The Swedish Government, 2016). The Swedish law came into force on December 1, 2016, and shall be applied on financial years beginning after December 31, 2016 (Sveriges Riksdag, 2016.). The amendment of the Swedish law stated that Swedish companies that meet more than one of the three following conditions are obliged to publish a sustainability report:

1. A company that has an average number of more than 250 employees during each of the last two fiscal years, or

2. A company that has total assets more than 175 million SEK for each of the last two fiscal years, or

3. A company generates net sales more than 350 million SEK for each of the last two fiscal years (KPMG, 2017).

Approximately 1600 Swedish companies are now obligated to produce a sustainability report due to the Swedish law extension (The Swedish Government, 2016). The requirements on the minimum level of content in the sustainability report are in accordance with the 2014/95/EU directive. Thus, there are no specific demands regarding the content and if it should be separated or integrated within the annual report. The company can choose if they want to apply a SR framework or not. Finally, there are no legal requirements of sustainability assurance, neither no law that regulates sustainability assurance (KPMG, 2017; Sveriges Riksdag, 2016)

Industry Pressure and Sustainability Reporting Standards

When a majority of competitors are focusing on sustainability and are publishing sustainability reports, it creates a need for other companies to mimic each other, which amplify the numbers of companies working with SR. Mimicry tendencies could be illustrated by many companies adopting the same sustainability accounting ideas, because they do not want to differ from their peers and lose control over the sustainability agenda (Schaltegger and Burritt, 2010). One example of a prominent sustainability accounting idea is global SR standards such as GRI and sustainability principles like United Nations Global Compact (UNGC). Due to the discovery that the most common sustainability accounting ideas used by Swedish medium and small cap industrial companies (see 3.3.1) are GRI and UNGC, these concepts will be further described hereinafter.

Two decades after pioneering the SRP in 1997, GRI is now the world's leading sustainability standard setter (GRI, 2017). The GRI guidelines are a multi-stakeholder-oriented framework with the purpose of improving NFI reporting and to reach a wider audience of stakeholders (Brown et al, 2009; Buhr et al, 2014). GRI has gained legitimacy among a wide range of actors worldwide (Levy et al., 2010) and aims to enhance the comparability, verifiability and general acceptance of SR (Willis, 2003). Massa et al (2015) mentioned that the GRI framework can serve as a tool for alignment with an organization's mission in relation to sustainable development, allowing learning and changes, even if the organization is small. Lastly, La Torre et al (2018) stated that the EU directive can be implemented in organizations with different types of international and national reporting frameworks. For example, Federation of European Accountants (FEE, 2016) highlighted nine international guidelines and frameworks as suitable to comply with the EU directive, where GRI is oneself of these nine frameworks.

Willis (2003) argued that GRI has the potential to improve the quality and usefulness of sustainability reports. However, GRI standards are voluntary, and might not be written in a way that makes it applicable as a mandatory standard. The author highlighted that one of the GRI's key challenges is to accommodate the broad variety of disclosure needs and expectations of a wide range of report users and company stakeholders (Willis, 2003). Moreover, some companies that label themselves as GRI reporters do not behave in a responsible way with respect to social responsibility or human rights (Moneva et al, 2006).

The UNGC is a call to companies everywhere to voluntarily align their operations and strategies with ten universally accepted principles in the areas of human rights, labor, environment and anti-corruption. The UNGC works as a leadership platform for the development, implementation and disclosure of responsible corporate policies and practices. It was launched in the year 2000 and is recognized as the largest corporate sustainability initiative in the world, with over 12000 signatories from 145 countries (UNGC, 2013). By using the UNGC as a reference point, companies can naturally develop more tailored strategies and policies that suit their priorities (UNGC, 2007).

Stakeholder Pressure

Stakeholder pressure is also an important factor that pushes companies to adopt sustainability practices and SR. Based on continual stakeholder dialogues and demands, the management team will acquire information about what the key sustainability issues and topics are, i.e. what they are expected to address (Schaltegger and Burritt, 2010). Sarbutts (2003) argued that CSR issues should be treated as risk management practice by companies because they risk losing important stakeholders and devaluing their brand value if they are not performing well in this area. Therefore, organizations implement corporate social responsibility (CSR) practices as "assurance" against this potential image and reputational risks with sustainability challenges (Schaltegger and Burritt, 2010). Moreover, this is also a way for companies to take control over their social, environmental and financial risks, which have a decisive impact on corporate success, both in the short and long term perspectives (Schaltegger and Figge, 1997).

2.1.2 Internal Drivers

Internal drivers are defined to be the business case, internal context and actors, and internal factors since they are internal conditions within companies that govern these drivers.

The Business Case

From a corporate management perspective, one strong motivation for companies to embrace sustainability accounting is to increase their wealth and profits (e.g. increase revenue and cost reduction potential) through environmental and social activities (Salzmann et al, 2005). Thus, the business case perspective could be viewed as social corporatism, i.e. it is in the company's own short and long-term interest to consider its social, economic and environmental impacts where they operate (Carter and Burritt, 2007). Similarly, it has been discovered that Swedish SMEs who do not see a business case, are less inclined to work with sustainability (Tillväxtverket, 2014). Additionally, economic reasons are rooted in risk and opportunity concerns (Schaltegger and Burritt, 2010). Due to the escalation of integrated global markets and standardization of products, sustainability gives an opportunity for companies to differentiate themselves. Other reasons to create a business case for sustainability are: enable entering new markets, to improve employee morale and enhance brand values (Gunningham, 2007; Schaltegger and Burritt, 2010)

Internal context and actors influence sustainability reporting

It is not only economic drivers that encourage companies to work with sustainability, it also depends on the internal dynamics within the company and its actors. Therefore, to understand how a SRP work in practice, it is important to comprehend the internal context and internal actors behind the SR (Grahovar, 2016).

Internal context refers to the interplay between employees, senior managers and steering committees within an organization. Campbell (2000), for example, identified that changes in the company chairman position affect the quantity of social disclosure reporting. *Internal actors* are about what kind of power different employees have in term of deciding strategic sustainability priorities for the organization and the content of SR. Research has found that internal actors such as management, CEO (Campbell, 2000), accountants (Bebbington et al, 1994) and board members (O'Dwyer, 2005) influence how sustainability reports are prepared and the content in it. These actors have different reasons to why they want to engage with sustainability reports, but due to internal power relationship between them, the actors have different possibilities to utilize their ideas (O'Dwyer, 2005).

Another relevant issue that has been researched is what kind of competence leading internal actors have about SR (Adams and Evans, 2004). Adams and McNicholas (2007) discovered that these individuals lacked, for example, the knowledge to involve stakeholders in their sustainability work. Without collaboration with stakeholders, there is a high risk that companies' sustainability reports are not adjusted to their demands and expectations (Adams and Evans, 2004). Thus, it is common that organizations are taking help from auditors (O'Dwyer, 2001) and consultants (Frostenson et al, 2013) to prepare their sustainability reports. Another important skill that active internal actors in the SRP need are collaboration skills. Grahovar (2016) detected that poor collaboration between internal actors suppress the SRP and has a negative impact on materiality assessment.

Internal factors

Internal factors are for example the organization reporting processes, internal resources and information systems, these factors do individually and together influence how companies prepare and change the content of their sustainability reports (Grahovar, 2016). Burns and Scapens (2000) explained that routines are established when the organization performs activities in a collective way. This makes the routines (i.e. processes) important for the employees and difficult to change when needed, which might explain why companies do not change their disclosures notably in financial statements between the years (Adams, 1997). Limited resources in terms of time and money are also factors that contribute to resistance against modifying or developing the content in sustainability reports (Becker, 2004). In addition, information systems are crucial to enable companies to change the content in sustainability reports to satisfy stakeholders' information needs (Deys, 2007). However, these type of information systems are expensive and therefore rarely available for many companies (Frostenson et al, 2013).

2.2 Sustainability Reporting Process

This thesis is about the implementation of the new Swedish law on NFI reporting. Therefore, it is motivated to introduce previous research on implementation of NFI reporting within SMEs. Thereafter, we present different stages of reporting implementation process by using stakeholder engagement guidelines and discuss the significance of stakeholder engagement.

2.2.1 Implementation Process of Sustainability Reporting for SMEs

GRI and UNGC have devoted large efforts to mainstream environmental and social reporting (UNGC, 2007; GRI, 2017). Still, SMEs encounter difficulties in initiating the SR, despite that most of them try to use the GRI framework as the tool, but they are incompatible for SMEs characteristics (Brown et al, 2009). He argued that SMEs need a specific approach that is suitable for them and their characteristics of the business and the essence of sustainability lies in the specific characteristics, not in the formalization.

Arena and Azzone (2012) discussed specific features that make GRI hardly applicable for SMEs. They criticized that the total set of key sustainability indicators (KSI) are large, which make the SRP too costly for SMEs, given a large amount of data that have to be collected and analyzed. Also, GRI has been accused of lacking detailed quantifiable measures and being too general, which make it difficult to meet the demand of the stakeholders on NFI reporting (Levy et al, 2010). Therefore, SMEs struggle with skills and resources constraints and the lack of expertise in the field, which limits their capacity to prioritize key issues. However, recent studies have found that GRI framework can serve as a tool for alignment with an organizational mission in relation to sustainable development, allowing learning and changes, even if the organization is small (Massa et al, 2015). Therefore, Schaltegger (1997) and Steven (2004) mentioned that the idea of defining common guidelines for SR is necessary to communicate sustainability information.

Many authors have attempted to propose a general implementation process that is specifically tailored to SMEs characteristics. Arena and Azzone (2012) proposed a process for SR implementation by taking the GRI framework as its foundation, then derives the customized set of KSIs. The criteria for selecting KSIs shall be linked between the KSIs and the company's specific-processes. This means that the implementation process depends on the quality of actors involved, particularly the third-party experts because the completeness, reliability, and relevance of the set of KSIs are influenced by their advice. Similarly, Muñoz-Torres et al (2012) suggested that a successful CSR model is based on the selection of the most important ESG issues with the help of expert knowledge.

2.2.2 Stages of Reporting Implementation Process

Gallo and Christensen (2011) discovered that larger companies have a greater impact on sustainability issues than smaller companies. Thus, larger companies are exposed to the more narrow scrutiny of stakeholders. However, stakeholder engagement is increasingly being expressed as means of achieving sustainability (Hart and Milstein, 2003; Hart and Sharma, 2004). Stakeholder accountability requires empowered stakeholders (Cooper and Owen, 2007), hence it is necessary to analyze the disclose information about stakeholder inclusiveness, materiality and responsiveness principles in the SRP to evaluate how current practices enable stakeholders to hold the organization to account. According to Guix et al (2017), by using the stakeholder engagement guidelines from AA1000SES that comprises measurable principles of inclusiveness, materiality and responsiveness, the SRP will result in high accountability and transparency. This includes (1) identifying and engaging with stakeholders, (2) using stakeholders' insights to determine the importance of sustainability issues, and (3) transparently communicating the organization's response to these material issues. The evaluation of whether stakeholder concerns are addressed by the reporting organization is also in line with GRI G4 (GRI, 2013).

Inclusiveness: Stakeholder Identification and Engagement

According to AccountAbility (2015), inclusiveness is defined as an organization trying to be accountable to all stakeholders, which means that the organization needs to define which groups who merit to be the legitimate (Phillips, 2003). Donaldson and Preston (1995) claimed that the concept of legitimacy is imprecise and there are different understandings of who the stakeholders are. Therefore, they identified stakeholder as those to whom the organization has a moral obligation based on contractual relations. Other authors expanded the managerial attention to those groups that can affect the organization which constitutes as normative/derivative stakeholders such as media, trade unions, non-governmental organization, and advocacy groups (Mitchell et al, 1997; Phillips, 2003). According to Phillips (2003), stakeholder theory is concerned with who has influence, input in decision-making and benefits from the outcomes of such decisions, i.e. stakeholder dialogue is a tool for management to decide which expectations from stakeholders to focus on. The usage of stakeholder dialogue, for instance, through one-to-one group meetings or questionnaires allows a high level of interaction and in-depth knowledge (GRI, 2014).

Depending on the influence that the organization gives to each stakeholder groups, the stakeholder engagement can be classified as informative (organization informs, stakeholder listens), consultative (organization and stakeholder dialogue), and decisive (organization actively involves the stakeholders in decision-making) (Green and Hunton-Clarke, 2003). Successful stakeholder engagement relies on understanding the legitimacy of the stakeholders and having proper procedures to respond to their concerns. Stakeholder engagement can be assessed based on the procedural quality (how the organization conducts the engagement and how it is aligned with the declared purpose), responsiveness quality (how the organization responds to the stakeholder concerns) (Zadek and Raynard, 2002).

Materiality: Determining the Content of the Report
Materiality is determining the relevance and significance of an issue to an organization and its stakeholders that they consider as important in the first place. The process of prioritizing which stakeholders matter involves a judgment (AccountAbility, 2015). Materiality must be evaluated and applied in a relevant context, for instance, something that is considered material information in one context, might not be that in another setting. According to GRI framework, materiality is a complex concept with less standardization and it depends on different organizations due to different contexts within the reporting standards (GRI, 2013).

When an organization focuses strategically on the most material issues, its sustainability performance is deemed as accountable (Eccles and Serafeim, 2013). Moreover, the material issues are potentially identified by the assessment from internal and external documents which often are informed by the industry-specific guidelines. Some organizations map the sustainability issues by using a materiality matrix and link the matrix with the content of the report, or articulate how materiality informs the deployment of resources (Eccles et al, 2015). By providing a transparent communication of the materiality process and scoring mechanisms behind these materiality matrices, there would be sufficient information for stakeholders to judge how the organization is using the stakeholder input to respond on their concerns (Guix et al, 2017).

Responsiveness: Addressing Stakeholders' Contributions
AccountAbility (2015) defined responsiveness as an organization's responsibility to act transparently on material issues and willingness to provide a thoughtful response to stakeholder concerns and a commitment to work on those material issues (David et al, 2007). This means that responsiveness requires an organization to explain how it perceives the relationship towards its stakeholders, how it intends to build and sustain these relationships. Moreover, Bundy et al (2013) define responsiveness as the process by which the managers interpret the issues raised by stakeholders and decide which are worthy to response.

Responsiveness requires the organization to involve its stakeholders in identifying and responding to sustainability issues, and it requires them to report to the stakeholders on their decisions, actions and performance (AccountAbility, 2015). Therefore, responsiveness is realized through the organization's governance, strategy, performance and communication with its stakeholders. Being responsive to stakeholder concerns acknowledges an accountability relationship with the targeted stakeholders (Cooper and Owen, 2007). However, the finding from Greco et al (2015) suggested that producing SR is not a static activity and that there is a case for further investigation how SR evolve over time and how it is influenced by stakeholder engagement.

2.3 Legitimacy Theory
The purpose of this study is to illustrate how listed industrial SMEs in Sweden implement the new Swedish law, based on a stakeholder-related perspective. Thus, it is deemed useful to use legitimacy theory in to analyze and understand why the case companies implement this law in a specific way. It is

usually asserted that legitimacy theory is being systems-oriented (Cho, 2009), i.e. business entities are considered to be parts of the larger social system where they exist as organizations (Gray et al, 1995). That is, companies gain legitimate status from society; thus, legitimacy is usually defined by the social contract that is enacted between firms and society at large (Cho, 2009). According to legitimation theorists, to gain "social license to operate", companies need to incorporate the interests of all their stakeholders, rather than only shareholders (Laplume et al, 2008).

Due to this strong concept of social contract between companies and society, legitimacy theory has been used extensively in social and environmental accounting (SEA) research, both in empirically (Patten, 1992; Deegan and Rankin, 1996) and qualitative (Campbell, 2000) studies to explain corporate decisions regarding environmental and social disclosures. Suchman (1995) define legitimacy as: "*a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions"*. The implication of this definition is that legitimacy should be understood as a condition or status where the value system of an organization is compatible with the value system of the larger social system of which the organization belongs to (Lindblom, 1994). It is possible to study legitimacy dynamics from different angles, both from an institutional and a strategic perspective (Mobus, 2005). Usually, the accounting literature regarding NFI reporting accentuates the strategic dimension (Mobus, 2005). However, some researchers argue that the institutional and strategic perspective should not be used in isolation, because they are actually complementary to each other (Suchman, 1995; Ahmed Haji and Anifowose, 2017). This argument is strengthened by the findings made by Dumay et al (2015) who discovered that management actions, to enhance legitimacy, can be made both from institutional and strategic perspective without being mutually exclusive.

Based on these later insights and our own preliminary empirical findings, we decided to use both perspectives of legitimacy theory to analyze and explain why the case companies have implemented the Swedish law in a certain way. This will be done by drawing on Suchman's (1995) two dimensions of organizational legitimacy; institutional and strategic perspectives, and "material legitimacy" developed by Dumay et al (2015).

2.3.1 Suchman's Institutional and Strategic Legitimacy Approaches

Suchman (1995) has identified three forms of legitimacy: pragmatic, moral and cognitive. First, *pragmatic legitimacy* is driven by an organization's self-interested judgment regarding their primary stakeholders. Usually, this occurs by direct exchanges between organization and stakeholders, where organizational decisions and activities have a visible impact on the stakeholders' well-being (Suchman, 1995). Hence, stakeholders commonly turn into constituencies**,** who scrutinize the organizational behavior to assess practical implications for themselves, of all types of activities the organization are undertaking (Wood, 1991).

Secondly, *moral legitimacy* is a form of positive normative evaluation of the organization, because it is a mirror of the organization and its related activities (Aldrich and Fiol, 1994). Therefore, the evaluators judge if the organization's actions "are the right thing to do", rather than if they benefit from these actions themselves (Suchman, 1995). Moreover, it is important that organizations get positive (external) evaluations of its activities in relation to the social contract (Mubus, 2005). Suchman (1995) explained that *cognitive legitimacy* is derived from either supportive backing for an organization or as a general acceptance of the organization's existence, which is based on taken-for-granted cultural accounts.

Beck et al (2015) explained that in the context of reporting on non-financial performance and information, the drivers behind strategic legitimacy emerge from the organization's management who design the boundaries and deploy symbols in to achieve their agenda, while drivers of institutional legitimacy arise from the external environment in which the management subordinate themselves with current cultural norms of behavior. In other words, the difference between these two approaches of legitimacy is "a matter of perspective, with strategic theorists adopting the viewpoint of organizational managers looking 'out' to secure legitimacy, whereas institutional theorists adopt the viewpoint of society looking 'in' to impose conditions for legitimacy " (Suchman, 1995).

Institutional Legitimacy

According to Beck et al (2015), it is possible for organizations to achieve institutional legitimacy by adopting and complying with local rules of society. For example, one way to comply with local rules is to apply GRI in SR, which bring institutional legitimacy to the organization who are using it. Their case company Zeta (an Australian bank) initially faced a strong public backlash due to wrongdoings in its financial tradings, something that threatened their institutional legitimacy. To repair Zeta's status, they decided to release their first CSR report (i.e. a management symbol), which also were in accordance with GRI (used as an external amplifier) (Beck et al, 2015). The release of the CSR report could be interpreted as a way for Zeta to align themselves with socially accepted norms, and provide their stakeholders an opportunity to "look in" (Beck et al drawing on Suchman, 1995). Dumay et al (2015) argued that the institutional perspective mainly is represented by pragmatic legitimacy; hence, the most common tactics to maintain this legitimacy are through predictable and consistent exchange behavior with stakeholders (Mobus, 2005).

The institutional dimension of legitimacy theory implies that SR practice is spreading among companies (Suchman, 1995), i.e. isomorphism causes companies to copy the procedures and structures of leading organizations to adjust to institutional and social pressure (Higgins et al, 2014). Moreover, the isomorphism is the result of to what extent reporting practice has become institutionalized in a specific industry (Bebbington et al, 2012). Ahmed Haji and Anifowose (2017) found, in their empirical study of large South African companies regarding the implications of mandatory IR practice on corporate disclosure, that the companies mainly disclosed the same information as before but with a slight increase of the amount. The researchers stated that this "could imply a trend towards institutionalization of corporate reporting practices in South Africa following the adoption of IR framework" (Ahmed Haji and Anifowose, 2017). They argued that companies have responded to external pressures (strategic legitimacy) caused by the IR framework and their disclosure strategies have become institutionalized within several industries in South Africa.

Strategic Legitimacy

The strategic dimension of legitimacy takes a managerial perspective and is concentrated on which strategies companies utilize to gain, maintain or repair organizational legitimacy (Suchman, 1995). Gaining legitimacy is a form of "proactive" activity as companies need to obtain support from external stakeholders (Suchman, 1995) while repairing legitimacy usually is a reactive way to respond to a crisis that was triggered by unforeseen events. However, maintaining legitimacy is a continuous, but relatively low-effort demanding, process (Mobus, 2005). When legitimacy has achieved a state where it is almost taken for granted, stakeholders have lower incentives to scrutinize and will be pleased of evidence that shows that the ongoing operations are "business as usual" (Ashforth and Gibbs, 1990; Suchman, 1995).

Dumay et al (2015) argued that moral and cognitive legitimacy are the primary tools to achieve strategic legitimacy because managers are using them to "look out" and capture the material issues that need to be managed by gaining, maintaining and repairing legitimacy. Previous research on strategic legitimacy has proven that companies, for example, engage in the strategic restructuring of governance and personnel structures as mean to repair legitimacy (Pfarrer et al, 2008). Beck et al (2015) discovered that their case company Zeta "removed" their Chairman, Chief Executive Officer (CEO) and Chief Financial Officer (CFO) as a consequence of the public backlash (mentioned in the institutional legitimacy part) which arose during their leadership. Lastly, Ahmed Haji and Anifowose (2017) identified a pattern where companies in South Africa strategically disclose the most beneficial trends and social performance to enhance reputation and legitimacy.

Material Legitimacy

Dumay et al (2015) explained that SR could strategically be concentrated on "material issues" by addressing major stakeholders concerns. The case company developed something they called "flagship" programme (e.g. they established a microfinance business program towards indigenous communities in Australia), with the sole purpose to strengthen their corporate image as a good corporate citizen. This programme enabled the case company to manipulate their legitimacy through meeting the wants and feedback of key stakeholders to enhance reputation, while at the same time making money on the programme (Dumay et al, 2015).

Dumay et al (2015) define material legitimacy as "the form of legitimacy that enables organizations to blend what is important to the organization (strategic legitimacy) with the primary concerns of its major stakeholders (institutional legitimacy). In this sense, organizations are trying to achieve a mutually beneficial "win-win" outcome for themselves and their stakeholders". The microfinance business program is a good example of how a company can combine what is deemed "to be the right thing to do" in the eyes of stakeholders (i.e. strategic and moral legitimacy) and still be beneficial for the customers (i.e. institutional and pragmatic legitimacy) (Dumay et al, 2015).

2.4 Limitation of Current Literature

There exists a strong critical academic debate about the perceived benefits and advantages with SR and many researchers are disagreeing with each other regarding this (Frost and English, 2002; Schaltegger and Burritt, 2010). According to Gray and Milne (2002), the main weakness of the current sustainability accounting practice is the overreliance on the financial dimension, which is the cause for the unsatisfactory quality of environmental and social disclosures. According to Schaltegger and Burritt (2010), the limitation of conventional accounting are widely recognized among researchers, in terms of incapability to provide relevant information about corporate sustainability performance. At the same time, it has been discovered that many companies are resistant against SR and particular mandated SR because it raises compliance costs and reduces the flexibility in what to disclose (Frost and English, 2002). Other concerns with SR is that it does not lead to real progress and is rather used as a marketing tactic; the popular term "greenwashing" is one manifestation of this controversy (Grogan et al, 2010). Similarly, some scholars have even called SR as nothing more than a marketing and public relations vehicle (Cerin, 2002).

The stakeholder engagement is argued to be a mechanism that assists the business in achieving sustainability due to the incorporation of stakeholders' inputs (Guix et al, 2017). But there are many critiques around the potential risk of stakeholder engagement and dialogue (Crane and Livesey, 2003). As Banerjee (2001) pointed out, understanding of stakeholders' needs can be limited especially where stakeholder groups have very different social, cultural and political agendas. As such, in the prospects of open dialogue and updating stakeholder priorities as part of the engagement processes appear to be optimistic. Conflicting demands by stakeholders provide business yet another potent excuse for not engaging in sustainability (Collins et al, 2005).

2.5 Conceptual Model over the Implementation Process of Mandatory NFI Reporting

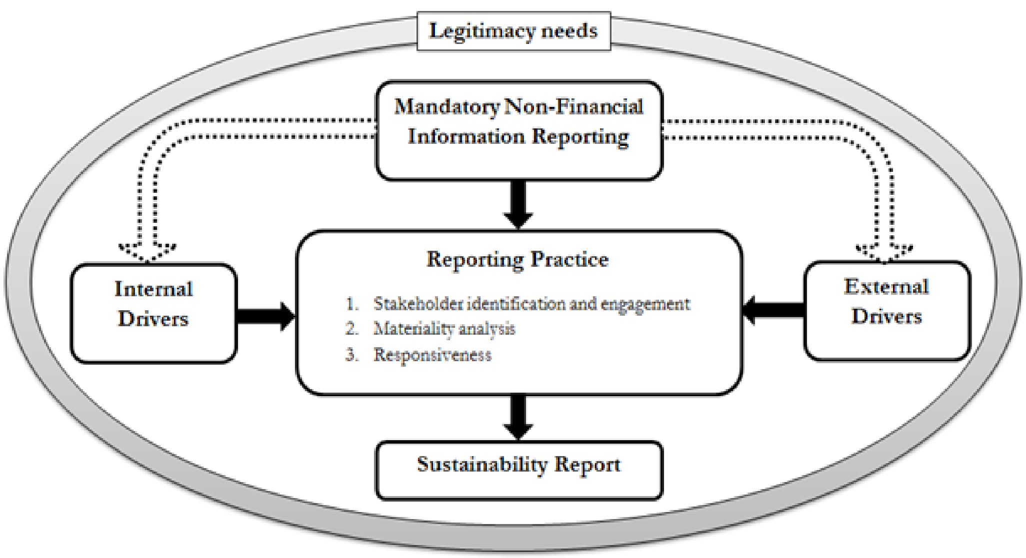

Figure 1: Illustration of the conceptual model over the implementation process of mandatory NFI reporting, which is constructed by the authors based on prior research.

Based on our research questions and literature review, we have synthesized the content on our own into a conceptual model over the implementation process of mandatory NFI reporting. The purpose of our conceptual model is to make it easier to distinguish the relevant empirical data and facilitate a more structured analysis of the case companies Schaltegger and Burritt (2010) were a major inspirational source for the motivational drivers we have named internal and external drivers. In addition, the center box (Reporting Practice) in figure 1, we are primarily drawing on Arena and Azzone (2012), Guix et al (2017) and the stakeholder engagement guidelines AA1000SES created by the organization AccountAbility. Lastly, as discussed in section 2.3, we are mainly relying on Suchman (1995) and Dumay et al (2015) for our ideas about legitimacy.

The underlying logic behind our conceptual model is founded on the assumption, that motivational drivers behind SR and stakeholder engagement influence how organizations are using SR and what issues they are focusing on. Furthermore, we believe that these forces also shape how organizations decide to implement and adjust to mandatory external requirements, such as the Swedish law on NFI reporting. As Suchman (1995) explained, companies need to either gain, maintain or repair legitimacy. Therefore, depending on the type of legitimacy need an organization has, it will impact the dynamics of internal and external motivational drivers as well as reporting practice. Thus, legitimacy need is circled around the conceptual model to illustrate it is an independent variable affecting all boxes.

3. METHODOLOGY

This chapter explains the proceedings that have been used to investigate how listed Swedish industrial SMEs have implemented the Swedish law on NFI reporting. It presents how the research was conducted in terms of literature collection, research design, data collection, data processing, and analysis. Methodological limitations are presented together with a discussion of the research quality at the end of the chapter.

3.1 Literature Search

The literature search was tailored to the interest of investigating how listed Swedish industrial SMEs have implemented the new Swedish law on NFI reporting. To be able to get an insight into the subject, it was deemed necessary to get knowledge about how companies use stakeholder engagement in relation to their SR and work with sustainability. Another area of interest was how legitimacy theory has been used in previous SR research. This is one of the most common approaches in terms of analyzing disclosure strategies and how companies use SR to "gain social license to operate" (Suchman, 1995; Laplume et al, 2008; Dumay et al, 2015).

The literature search was conducted in a traditional way, where keywords were applied to identify relevant literature. The search was conducted through a number of databases, such as Supersearch in the Gothenburg University Library, Business source premier, Web of Sciences and Google Scholar. Other sources such as government and industry (e.g. auditing firms) websites were also used. The main search included keywords such as sustainability accounting, mandatory SR, implementation process, SR in SMEs, stakeholder engagement and institutional, strategic and material legitimacy.

3.2 Research Design

Research has scarcely explored what kind of impact the new regulation has on SR (Hahn and Kühnen, 2013), nor how the reporting process behind it works (Grahovar, 2016). One area of importance where more research is needed is the introduction of the EU directive on non-financial and diversity information (La Torre et al, 2018). It is therefore fitting to use an exploratory case study, which has been applied in similar studies (Mobus, 2005; Cho, 2009; Beck et al, 2015), to interpret and analyze how the case companies have implemented the new Swedish law on NFI reporting. By using a case study, it is possible to conduct in-depth - research on how Swedish listed industrial SMEs have implemented the law and how it has been influenced by stakeholder engagement and legitimacy concerns (Collis and Hussey, 2014). This design provides a rich stream of details, variation and completeness that is well-suited for answering the research questions (Denzin and Lincoln, 2011). In addition, it enhances the awareness of the specific setting where the research objects, i.e. the case companies, are active, which is crucial to find new knowledge (Bryman and Bell, 2013). Only use case companies from one sector were included to reduce the risk of confounding.

In-depth studies also enable the prospect to theorize our findings from first time implementation of mandatory NFI reporting, despite SR being a relatively unexplored field (Collis and Hussey, 2014). The approach was used to compare findings and patterns from the case companies. Furthermore, the findings and patterns will be discussed in relation to existing knowledge from previous research discerned from a legitimacy perspective.

3.3 Data Collection

Two types of data collection methods were used in the thesis: interviews and document review. The interviews with the case companies and external organizations were undertaken from March to April 2018 and each interview was thirty to sixty minutes long. We performed the document review on published company information (i.e annual report, sustainability report and sustainability information on their website) between February and April 2018. The data collected from the interviews were the primary source of information to answer our research questions.

Eriksson and Kovalainen (2008) emphasized that interpretation is a decisive feature of qualitative studies. They also explained that the main objective of a case study is to interpret the case and construct an interesting story. To achieve that, the researcher needs a holistic picture of the specific case setting (Eriksson and Kovalainen, 2008). Thus, the interviews provided in-depth knowledge about the companies' SR, while the document review worked as "checking board". This triangulation approach reduced author bias - because we analyzed different sources of empirical data and we could also cross-check our findings (Collis and Hussey, 2014).

3.3.1 Selection of Case Companies

Before selecting relevant and suitable SMEs for our study, we needed a proper definition of SMEs. We looked at the EU definition of what SMEs are. In short, the EU (2018b) has defined SMEs as follows:

- Medium-sized companies: Staff headcount < 250, turnover ≤ € 50 m or balance sheet in total ≤ € 43 m
- Small-sized companies: Staff headcount < 50, turnover ≤ € 10 m or balance sheet in total ≤ € 10 m.

The de jure meaning is that no European SMEs are covered by the EU directive that mandate public interest companies with a staff headcount over 500 people to publish a mandatory NFI report (EU,2018a). As Gassen (2017) explained, the primary readers of financial reporting of private owned SMEs are shareholders, tax authorities and banks. It was therefore decided to investigate medium and small cap listed companies instead because they have a wider audience and were assumed to be more open to discussing SR than private held SMEs. Thus, we applied the Stockholm Stock Exchange's (NASDAQ Stockholm) criteria to differ between a large, medium and small cap companies. According to this, medium cap companies have a market value from 150 million euro to 1 billion euro, and small cap companies have a market value below 150 million euro (Nordnet, 2014). The main inclusion criteria for our study were SMEs with a market value below 1 billion euro.

There are limited studies about the implementation of SR in SMEs (Arena and Azzone, 2012), and even less in a Swedish context. We conducted an initial screening of 222 medium and small cap companies on the NASDAQ Stockholm as shown in figure 2 (Nasdaq OMX Nordic, 2018). The goal was to discover how many companies are affected by the new Swedish law on NFI reporting and how many are publishing a sustainability report today. Among these 222 companies, 73% were identified as fulfilling the Swedish criteria to publish a mandatory NFI report after 2016. We decided to investigate these companies more thoroughly. Based on further investigation, we discovered that 55.4% of the companies meeting the Swedish criteria did not publish a sustainability report. From figure 2, we are able to see differences between the sectors on the NASDAQ Stockholm. For instance, a high percentage of industrial companies (90%) meet the Swedish criteria to publish a mandatory NFI report. By screening the 54 industrial listed SMEs, we noticed that many of these companies are signatories of UNGC (i.e. SR principles). In addition, a low number of these companies have applied a SR framework, but among the industrial listed SMEs that are using a SR framework, GRI is the most common.

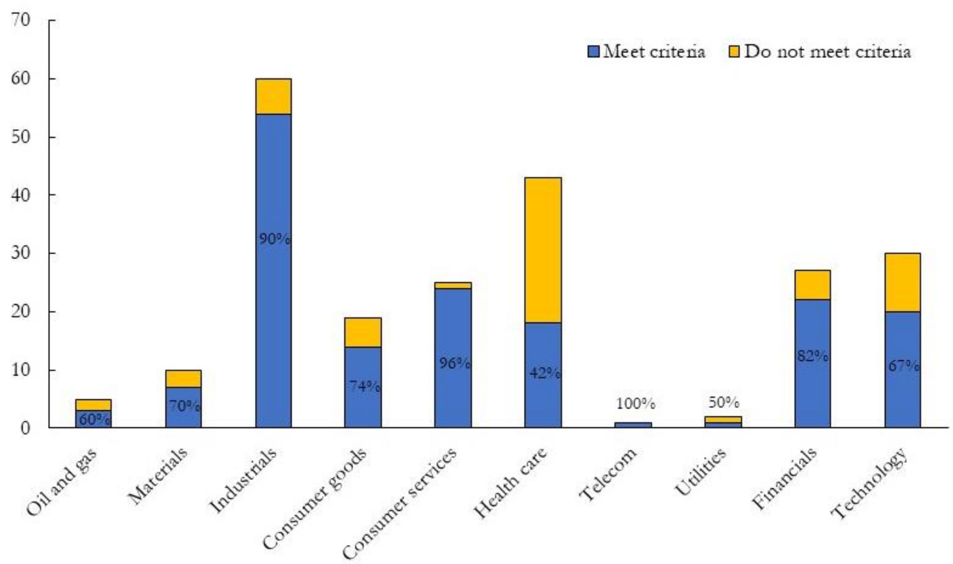

Figure 2: Overview of the screening process of 222 medium and small cap companies. The blue bars show the total number of companies in one specific sector. It also demonstrates the percentage of companies in the specific sector that meet the Swedish criteria to disclose a mandatory NFI report.

Previous studies have been interested in the relationship between a firm's industry sensitiveness and quantity of positive environmental information disclosure (Deegan and Gordon, 1996). The idea is that companies within extra sensitive sectors try to influence the opinions on their environmental impacts in the industry (e.g. to increase the level of industry legitimization) or use it in a way to positively differentiate themselves from competitors (e.g. to increase the level of organizational legitimation) (Patten, 1992). Deegan and Gordon (1996) have constructed an environmentally sensitivity index, where industrial sectors have been ranked in top 10 of the most environmental sensitives industries. The Swedish industrial sector is specifically considered one of the most active industries in Sweden that are working with the environmental, social, and ethical issues (Tillväxtverket, 2014). As a result, we decided to investigate Swedish listed SMEs in the industrial sector on NASDAQ Stockholm, because they are the biggest sector on NASDAQ Stockholm and it is also regarded as one of the most environmental sensitives industries (Deegan and Gordon, 1996).

Among the 90% of Swedish listed industrial SMEs that meet the criteria to publish a mandatory NFI report, we decided to select four case companies. The selection of the case companies was based on their sizes, experience of SR and different nature of business operations. By selecting case companies with different experience of SR, size and business operations, they enabled us to find similarities and differences between them. As a result, two medium and two small cap companies were selected. The two medium cap companies have published sustainability reports before the year 2016, while the two small cap companies have not (but they have disclosed certain sustainability information in previous annual reports).

3.3.2 Selection of External Organizations

To support answering the sub-research question 1, the authors decided to extend the data collection to include two external organizations, namely Svenskt Näringsliv and CSR Sweden. The approach to include external organizations was inspired by Cho (2009). He investigated a major environmental scandal in the French Oil company Total - by conducting interviews with external organizations to enhance understanding from several perspectives (Cho, 2009). Both Svenskt Näringsliv and CSR Sweden are an association with companies in Sweden and they assist private companies with NFI reporting issues. By including the two external organizations, we expected to gain an external perspective on how listed companies are working with SR and how they involve their stakeholders.

3.3.3 Respondents and Interviews

There were eight interviews in total, including six interviews with the case companies and two interviews with the external organizations. The respondents were approached based on their roles and knowledge connecting to SR. The respondents have different positions such as CFO, Finance Manager, Sustainability Director, Communication Manager, Financial Reporting Specialist and CSR Specialist. Out of these eight interviews, three interviews were conducted at the respondent's place of work and five interviews were conducted via Skype or phone. Table 1 contains the order of the interviews and details about the dates, interview length, interview methods and the respondents' details.

Before the interviews started, the respondents were asked if they wanted to be anonymous or not. Some of the respondents at the case companies wanted to be anonymous, therefore it was decided to make all case companies and their respondents anonymous, while the external organizations agreed to reveal their identity. Each case company was assigned an ID number (C1-4) and the respondent's name was assigned an ID number (R1-10)

Table 1: An overview of the interview details

Date of interview	Interview length	Interview method	Respondent ID	Company/ Organization	Position
2018-03-14	60 minutes	Skype	R1	C1	Sustainability and Communication Director
2018-04-10	30 minutes	Skype	R2	C1	CFO
2018-03-27	48 minutes	Skype	R3	C2	Finance Manager
2018-04-05	45 minutes	In-person	R4	C3	Sustainability and HR Manager
2018-04-05	32 minutes*	In-person	R5	C3	CFO
2018-04-05	32 minutes*	In-person	R6	C3	Communication Manager
2018-04-19	54 minutes	Phone	R7	C4	Sustainability Manager
2018-03-16	50 minutes*	Phone	R8	Svenskt Näringsliv	Financial Reporting Specialist
2018-03-16	50 minutes*	Phone	R9	Svenskt Näringsliv	Financial Reporting Specialist
2018-03-23	51 minutes	In-person	R10	CSR Sweden	CSR Specialist
*Indicates that the interview took place with two respondents at the same time.					

The interviews were performed in the form of semi-structured interviews. This allowed us to prepare questions about particular themes connecting to our conceptual model (see appendix 1). We created two separate interview guides, one for case companies and one for external organizations. These interview guides were sent to the respondents approximately one week in advance of the interview date. This approach was well-suited because the implementation process of mandatory SR within companies is assumed to be heterogeneous. Moreover, the semi-structured interviews also utilized the possibility to compare answers among the case companies. This results in increased generalizability (Collis and Hussey, 2014). Furthermore, interview guides facilitate the interviewers to be flexible during the interviews and the respondents get the opportunity to prepare their answers in a personal way (Bryman and Bell, 2013). When it comes to ethical consideration, all respondents were asked if they wanted to be anonymous or not as described earlier (Shenton, 2004). We also asked for their permission to record the interviews, which all respondents permitted under the condition that their answers would only be used for research purposes.

3.3.4 Secondary Data

To get an understanding of the case companies' SR experience and business context, we have also reviewed their annual reports, sustainability reports and sustainability information on their website from the first time they reported on sustainability information (e.g. employee, social issues and environment) to the current year 2017 of mandatory NFI reporting. This means that we have gone back to 2008 for one case company because they have the longest history of disclosing sustainability information in relation to the other case companies. In comparison, the case company with the shortest history of disclosing sustainability information began doing so in 2015. The primary information we searched for in the document review were sustainability goals, KSIs, main focus areas and what reporting framework and guidelines they are following.

3.4 Data Analysis

A general analytical procedure was applied to analyze the collected information from the interviews and reviewed documents. This procedure involved three simultaneous flows of activities: reducing the data, displaying the data, and drawing a conclusion and verifying the validity of those conclusions (Miles and Huberman, 1994). The process began with data reduction of the collected data with over 6 hours of recorded material and a substantial amount of documents. As Merriam (2009) noted, transcribing is a great tool for generating insights about the data. Our transcription consisted of over 32 200 transcribed words on 62 pages. Before the interview with C2, our tape recorder malfunctioned and that interview was not recorded. However, we took individual notes during the whole interview and compared them afterward with each other. We also wrote down all our notes in a document and made a text of it to ensure the dependability of the data.

To manage the massive amount of empirical data, we structured the data based on its relevance to the conceptual model (i.e. motivational drivers, reporting practice and implementation process of the Swedish law on NFI reporting). The information that was irrelevant to the conceptual model was discarded. The primary empirical data was then summarized into a data display (see 4.5). This approach made the empirical data more structured and easier to analyze and discuss in relation to our conceptual model. In addition, the data display facilitated comparisons among the case companies and detecting patterns of implementation. According to Miles and Huberman (1994), by doing this it developed a small set of generalizations that cover the consistencies found in the data and the linkage these generalizations to a formalized body of knowledge. This can help us to draw the conclusions based on the similarity and differences among the case companies in the implementation process of mandatory NFI reporting.

3.5 Research Quality

Due to the importance of researchers' interpretation in qualitative studies, the research quality and trustworthiness in this type of research were dependent on researchers' judgments (Kvale and Brinkmann, 2014). Therefore, Lincoln (1995) argued that it was equally important in qualitative research, as in quantitative research, to use a systematic, conscious and comprehensive method to reach sufficient research quality. Shenton (2004) explained that Guba's (1981) proposal, regarding four criteria that ensure trustworthiness in qualitative research, had been widely accepted by many researchers. We will therefore also use these criteria when discussing the research quality. Guba's (1981) four criteria are: credibility (similar to internal validity), transferability (similar to external validity and generalizability), dependability (similar to reliability) and confirmability (similar to objectivity).

Credibility

Achieving credibility is considered to be one of the most crucial factors to form trustworthiness in qualitative research (Lincoln and Guba, 1985), in other words how well the findings were aligned with reality (Merriam, 1998). To address this qualitative criterion, we took several actions to ensure that this was accurately reflected. For example, before conducting interviews, an initial examination was made by reading the case companies' latest annual reports and SRs or NFI disclosures to familiarize ourselves with their sustainability disclosure and context (Shenton, 2004). We used a triangulation approach by combining individual interviews and reviewing their SRs, annual reports and code of conducts. This was a similar approach that Cho (2009) and Dumay et al (2015) used to investigate how companies employed SR to gain and repair legitimacy. Guba (1981) explained that this approach enhanced strengths and reduced weakness in the respective data source. Lastly, member checks were carried out by allowing the respondents to read a first draft of the empirical chapter, which gave them the opportunity to correct any perceived misinterpretations or wrong statements made on our part.

Transferability

Transferability is to what extent we could generalize our findings to cases in similar situations, i.e. how other companies are going to implement mandatory NFI reporting (Merriam, 1998). Since this was an explorative case study with four case companies, the findings are permeated by specific characteristics in their context and reliant upon our own interpretation that inductively led us to identify patterns of implementation (Shenton, 2004; Collis and Hussey, 2014). This hampers the transferability of our findings and conclusions to other settings, which is a great limitation of using case studies as the primary method for data collection. However, we increased the transferability of our study by providing background information about our selection criteria of the industry and case companies as well as external organizations, so that other researchers can make a decision on the degree of fittingness for their own research (Guba, 1981). We also made the list of interview questions available in the appendix to enable other researchers to compare their themes and questions with ours. In summary, we have tried to improve our transferability by providing necessary contextual factors about the case companies and external organizations, being transparent regarding how and when data have been collected and analyzed, and by visualizing key findings in table 4 in section 4.5 (Lincoln and Guba, 1994).

Dependability

Dependability regards reliability of the study if the work was repeated in the same context using same methods of interview and participants, then similar results would be achieved (Shenton, 2004). To address the issue of reliability, in-depth methodology were described enabling the future researcher to repeat the work to gain similar results (Guba, 1981). We thoroughly documented our research design including details transcription of the interviews and provided details tentative project plan (see appendix 2) to clarify how the task was undertaken. This schedule is describing the timeline of each task.

Confirmability

Confirmability is how to ensure the work is objective and avoids bias resulting from preferences, beliefs and assumptions of the researchers (Shenton, 2004). Triangulation was used to reduce our bias (Guba, 1983). As described in the credibility section, our data was triangulated in different ways to test our bias. Also, in the transparency section, we provided a thorough description of how our interviews were transcribed and the steps to present our finding and analysis. In the empirical findings chapter, we provided a large number of quotes from our respondents that the readers can follow.

4. EMPIRICAL FINDINGS

This chapter begins with a presentation of the four case companies and the two external organizations that constitute the main data source for this thesis. The empirical findings are presented in accordance with the conceptual model over the implementation process of mandatory NFI reporting. This includes categorization of the findings as internal and external drivers and a description of the reporting practices among the case companies. Lastly, the chapter ends with a summary of the key empirical findings, which is done by a data display.

4.1 Description of Case companies and External Organizations

In this section, the description of each case companies and external organizations are briefly presented with their background and experience of SR.

Company	Number of employees	Revenues in 2017 (SEK)	List type of Stock Exchange	Business Markets	Type of Business	SR experience*
C1	6000-8000	>10 billion	Medium Cap	Nordic countries, and some other European countries	Critical infrastructure networks	>4 years
C2	1400-1600	>4 billion	Medium Cap	Nordic countries	Diversified industrial group of companies	~1 year
C3	2000-2400	>1,6 billion	Small cap	Northern Europe	Industrial technological consultants	>10 years
C4	500-700	>1 billion	Small cap	Nordic countries	Water taps products	>5 years
*Indicates the number of years experienced in publishing sustainability information						

Table 2: A summary of the key facts about the case companies in this thesis.

4.1.1 Company 1

Company 1 (C1) is a medium cap company that was listed a couple of years ago. According to C1's annual report 2017, C1 is a leading Northern European provider of technical services for critical infrastructure networks, with operations primarily in the Nordic countries and some other European countries. In addition, C1 has published a separate sustainability report called "Sustainability Review" for a couple of years. C1 is a signatory of the UNGC initiative since 2014 and are adhering to the Carbon Disclosure Project (CDP). According to C1's annual report 2017, the scope of C1's sustainability activities and SR will become more versatile in the future and they believe that the company's NFI will henceforth be in line with the new EU directive and Swedish Annual Account Act. In the past, C1 experienced some turbulence due to wrongful revenue recognition

4.1.2 Company 2

Company 2 (C2) is a medium cap company that was listed in 2015. C2 is a Swedish industrial group that primarily acquire Nordic companies with a focus on SMEs that have leading market positions.

They mentioned in their annual report 2016 that their ambition is to develop the subsidiaries and achieve long-term value creation. The group companies are organized in different business areas, with some groups are selling to both private consumers (B2C) and companies (B2B). C2's subsidiaries have own manufacturing plants and product development in-house. Like the other case companies, C2's main market is the Nordic countries, but they also have operations in other European countries. In 2018, C2 published their first sustainability report at the group level. C2 state in the same sustainability report that they have developed a new group policy for sustainability and a group-wide HR policy that all of their business units must follow.

4.1.3 Company 3

Company 3 (C3) is small cap international technological consultancy firm focused on developing products and technical solutions for other organizations (B2B). C3 primarily operates in Northern Europe. Compared to the other case companies, C3 has been listed for many years and has been disclosing sustainability information (mainly on employees) for a long period of time. The disclosures of sustainability information have been integrated into the annual reports for more than 10 years and the company's code of conduct is based on UNGC. Additionally, they mentioned in their annual report 2017 that they conducted a materiality analysis for a couple of years ago regarding the company's impact on sustainability, which resulted in the creation of five main perspectives that since then have guided them in their sustainability work and SR.

4.1.4 Company 4

Company 4 (C4) is a small cap company and one of the leading manufacturers of water taps in the Nordic region. They sell to both private consumers and companies. Also, C4 has its own factory where their water taps are manufactured together with certain components to these taps. This is the first year that the company releases its sustainability report, which is extensively detailed and integrated with the annual report. The company assumes responsibility for sustainability and safe usage of water and aspires to become the industry leader in environmentally and health-friendly solutions. C4 adds that the company has a strong stakeholder relationship. Moreover, they mentioned in their annual report 2015 that a good relationship and an ongoing dialogue with the stakeholders are essential to ensure that C4 is focusing on the appropriate sustainability issues.

4.1.5 Svenskt Näringsliv

Svenskt Näringsliv is Sweden's largest and most influential business federation representing 49 member organizations and 60 000 member companies with a total number of employee greater than 1,6 million (Svenskt Näringsliv, 2018). Svenskt Näringsliv represents the interests of the members and is involved in rulemaking concerning companies and markets in Sweden, as well as sustainability issues thereby ensuring that legislation is in the interests of the members. In fact, Svenskt Näringsliv provided feedback on the new Swedish law on mandatory NFI reporting. In addition, the respondents at Svenskt Näringsliv stressed that SR frameworks contain stakeholder-oriented information, however, the identities of primary stakeholders for an individual company varies depending on their context and affiliation with industry (R8 and R9).

4.1.6 CSR Sweden

CSR Sweden is the leading business network in Sweden for stimulating corporate social responsibility (CSR) and the partner of CSR Europe. The main activities of CSR Sweden are to organize events for companies to share experiences from their sustainability work, providing ongoing education within different areas of sustainability (e.g. supply chain and anti-corruption) and help organizations improve their SR, which includes training for the new Swedish law on mandatory NFI reporting. As pointed out by R10, working with CSR is challenging when people have many different views on what sustainability actually is. R10 argued that companies should integrate environmental, social and ethical concerns into their operations and core strategies in close collaboration with their stakeholders to produce the most relevant sustainability report.

4.2 Motivational Drivers behind Sustainability Reporting

Unsurprisingly, the drivers behind working with sustainability differ significantly between case companies, as do the focus areas for SR. However, there are many common themes among the four case companies which will be further discussed in the analysis and discussion chapter. The most important circumstances in relation to external and internal drivers will hereafter be highlighted with the following summary in section 4.5.

4.2.1 External Drivers

All case companies acknowledge that sustainability related laws are pushing them to improve their daily business activities, but it is not the main incentive to be proactive in this area. Also, as R4 at C3 indicated, there are several other important sustainability related laws in Sweden besides the new Swedish law on NFI-disclosure. For example, Sweden has the working environmental law ("Arbetsmiljölagen") and the anti-discrimination law, which require all companies to improve their practice in these areas (R4 at C3).

However, there is another dimension of legislation on companies worth mentioning, namely that it is crucial with regulation compliance when dealing with foreign companies. R3 at C2 explained that it is extra critical for their subsidiaries to comply with the Swedish law when they are doing business with companies (outside of Europe) that are associated with higher risk. Moreover, based on R3's working experience, it is equally important for B2B companies and C2C companies to comply with regulation because both types of companies need to work closely with their suppliers regarding sustainability. Yet, customers to C2C companies tend to have higher demands and expectations when it comes to sustainability (R3). R1 and R2 at C1 argued that they are used to heavy regulation, i.e. it is a part of doing business in their industry. R7 at C4 emphasized that C4 is required to work with sustainability and communicate this regardless of existing regulation. C4 are acting on a market for the environmental saving of water, i.e. a SR is an important tool to communicate their progress and improvements to stakeholders. Still, the new Swedish legislation on mandatory NFI reporting has the potential to push Swedish companies to report on more sustainability areas than before (R10). Even if the reporting requirements for NFI have been altered in Sweden with the law compared with before, it will not change the accountability situation between the individual company and its stakeholders.

Although, the amount of information companies are required to make available to comply with the law might enhance the possibility to hold companies accountable with more transparent information (R9)

A common trait between the case companies is that they all have expectations from their customers to work with and improve sustainability performance. Their home market is primarily the Nordic countries where sustainability is viewed as a competitive advantage (R2 at C1). Still, based on the interviews, it appears that C1 (mostly from large customers), C2 and C4 are exposed to higher customer expectations than C3, which mostly focuses on better products, solutions and specific social issues (e.g. gender balance and diversity). The other case companies are expected to address more sustainability areas such as reduction of environmental impact, supply chain and health and safety. Awareness of these expectations convinced many of C2's subsidiaries to start working with sustainability early due to the importance of offering sustainable products when dealing with suppliers (R3 at C2). However, one outcome of companies being eager to satisfy their customers' sustainability demands and win customer contracts from larger companies, is that they have to adopt SR standards (R10 at CSR Sweden). R1 at C1 stated the following on the pressure to meet sustainability demands:

> *"Joining the UNGC has been quite popular among customers, some of them require that their partners are signatories of the UNGC to be able to win contracts." (R1, 20180314)*

In the role as CSR expert, R10 at CSR Sweden has also observed this development and explained that:

> *"This is very much the situation we have, namely that big companies send the global compact book to smaller manufactures in other countries and just expect them to comply with it immediately, instead of understanding that if we have signed-up for global compact, we need to follow that and help our suppliers to understand it as well." (R10, 20180323)*

In fact, it is only C4 that does not use any SR guideline or principles, but R7 at C4 explained that they have been inspired by GRI and have received feedback from stakeholders to implement GRI in the future. Furthermore, it is not only customers' expectations that motivate companies to commit themselves to sustainability, they are also aware of what their competitors do in this area. For example, R4 at C3 mentioned that they are aware that some of their competitors have a separate sustainability report. Lastly, C1, C2 and C3 are benchmarking themselves with large and prominent companies to get inspiration for their own sustainability reports.

Nevertheless, when it comes to stakeholders other than customers and suppliers, the pressure to become more sustainable is lower. R8 and R9 at Svensk Näringsliv described that their understanding of investors' interest in SR usually is how companies' CSR activities relate to their value drivers. Since many investors do not have time to read and go through all the reports, they tend to send out questionnaires to companies with specific questions based on what R8 and R9 have been told by their member companies. However, this practice with questionnaires has not yet reached the case companies in any larger extent. C1 seems to be the company that received the most questions and requests from investors compared to C2, C3 and C4. R2 at C1 explained that this is due to certain investment policies by investors, which is a growing trend in general. In addition, investors also consider if companies are involved in for example environmentally sensitive industries or are active in higher risk markets (R2). According to R3, C2 has received a few questions about sustainability. Meanwhile, investors at C3 and C4 have shown little interest in sustainability until now.

4.2.2 Internal Drivers

All respondents in the case companies emphasized the numerous benefits of working with different aspects of sustainability. It is evident that they all have a strong business case in mind for why their companies should work with sustainability. It can for instance, bring beneficial improvements to their business in terms of providing better products and solutions, improving work environments, reducing supply chain risks and lowering the environmental impact (R1 at C1; Sustainability report C3, 2017; R7 at C4). According to C3's sustainability report in 2017, their greatest contribution to environmental improvement was developing more energy efficient products and solutions. Furthermore, during 2017 C4 expanded their focus on sustainability and took actions to identify areas of sustainability subject to improvement by said company (Sustainability Report C4, 2017). R7 revealed that the top management team at C4 strategically decided to enhance the importance of sustainability in their corporate strategy.

In addition, R2 explained that C1 is a "field company" with thousands of employees, which means that health and safety conditions are critical for C1 to be successful in their sector. Moreover, it can be very expensive for them in the longer perspective if they neglect the working environment, or as R2 phrased:

> *"As a CFO, the area where I see the company can get the most bang for the buck is obviously to get sick leave done in the company, that is extremely important for us to have a low sick leave and make sure that people actually are going to work every day" (R2, 20180410)*

Another beneficial aspect of working with sustainability is that it attracts talented people, especially belonging to younger generations, which is necessary to retain the best employees in the sector (R2 at C1). Interestingly, some of the respondents emphasized that working with sustainability is important for them personally (R1, R6 and R10). R6 explained that:

> *"One of the reasons why I like to work for C3 is that we have a history of working with sustainability, it is not something we have started to do recently or because people talk about it more now." (R6, 20180405)*

When it comes to the internal dynamics of sustainability decisions within companies, R10 put forward that CSR people usually do not have the same influence as other employees (i.e. actors) in the organization. This is due to the strong business considerations regarding price and quality, where risks such as working environment conditions are less prioritized. This is exemplified by R10:

"It is always about price and quality, but you also need to be able to see the risks. In my opinion, I do not think that CSR people have the mandate, while purchase people do not think CSR people are important enough. So, it has to be the tone at the top who points with the hand that we demand you to do this." (R10, 20180323)

In line with this, R3 stated that it has to be the board and CEO that "set the standard" for what ambitions the company should have when it comes to sustainability. According to R3, top management has two main options to choose between; either the ambition level should be set above minimum requirements to make it a strategic position, or the company could be satisfied with complying with a level requiring the least amount of efforts. At C2 it is the subsidiaries' CEOs that decides what ambition level they should strive for beside the group-wide sustainability and HR policy that all subsidiaries must adhere to. A couple of C2s subsidiaries are using sustainability as a tool to differentiate themselves from their competitors and have been doing that for many years (R3). As mentioned earlier, the top management in C4 become involved with sustainability after deciding to make it a strategic priority. Also at C3, the work with sustainability is mainly driven by top management that decided to appoint a sustainability manager (i.e. R4) for the first time in 2017 and included R4 in the top management group. However, C1 had a slightly different view, because they recognize that the operative level has a huge influence in identifying areas of improvement within health and safety for instance. The operational level also captured requirements from their customers, while the compliance work was driven by management (R1 at C1).

4.2.3 How the Case Companies Work Internally with SR

The case companies differ with regard to where the main responsibility for the SR lies and how it is produced. At C1 it is R1 who acts as the sustainability manager and assumes the main responsibility for the sustainability report, while their CFO R2 is chiefly responsible for the whole annual report and press releases. C3 has the same arrangement as C1, where R4 handles the sustainability report and their CFO (R5) has the overall responsibility for the annual report. In addition, they also have a separate communications manager (R6). C4 has a similar responsibility structure as C3. Lastly, C2 is an industrial group of companies and has appointed R3, the role of finance manager, which encompass managing all forms of external reporting including their SR on a group level.

The separation of responsibilities appears to impact their practical work with preparing the SRs. C1, C3 and C4 are involving more departments when working with the SR, while R3 at C2 works alone by gathering and compiling sustainability related information from their subsidiaries. R4 at C3 explained that their collaborative approach is:

"More of an iterative process where we include input from stakeholders on my side, while I am working closely with our communication department, where R6 is working, and also with finance function with R5 and our auditors." (R4, 20180405)

All case companies collect sustainability information continuously throughout the year to monitor their KSIs and following-up their sustainability performance. One challenge is that neither of them have any good systems in place to track and gather sustainability information, which force them to rely on internal reports and briefings.

4.3 Reporting Practice

All case companies disclose differently how they identify and engage stakeholders. The process of determining what information matters to stakeholders reveals that the necessary decisions, the materiality analysis and their responsiveness to stakeholders' expectation are varied among the case companies.

4.3.1 Stakeholder Inclusiveness: Identification and Engagement

The stakeholder identification and engagement are evaluated based on reviewing explicit statements within the case companies' annual reports and sustainability reports. This evaluation also incorporates the interviews conducted with the respondents in the case companies about their methods and reasons for engaging with the stakeholders. As a result, all case companies identified their primary stakeholders to be investors, customers, employees and suppliers. This identification is shown in different disclosures throughout the annual reports and sustainability reports. For instance, C1 mentioned in their annual report 2017 that:

> *"Various stakeholders demand more exacting standards in corporate responsibility and they expect that a company's commitments will go beyond policy statements."*

However, R3 at C2 also described that stakeholder engagement sometime can take place on different levels within a company:

> *"At the group level, there is not much involvement with stakeholders at the moment, but consumers might be more interested to take part in what our business units have done in the sustainability area." (R3, 20180327)*

Interestingly, other stakeholders such as local communities, NGOs, trade unions, and governments are less mentioned during the interviews and in their published documents. From our review of the case companies' published annual report and sustainability report in 2017, it is clear that the section devoted to stakeholder identification rarely explains the basis of identification.

On the other hand, C4 listed down in its annual report the groups of internal and external stakeholders and did set up an internal workshop to identify who their stakeholders are and who they should talk to during 2017. Thus, the workshop was conducted for stakeholder identification. In addition, C4 conducted interviews as part of its stakeholder engagement with representatives from different stakeholder groups such as owners, employees, suppliers, customers and local authorities. The responses were collected and analytical tools were applied to analyze the input from different stakeholder groups. For example, R7 at C4 highlighted that:

"During the interviews, the stakeholders had to give us this input. The interviews were formal n order to get their views and their values on how important different things are. Then we put their input into the stakeholder analysis and from that, we got the input on how important things are for them." (R7, 20180419)

However, it appears that most of the case companies are reserved themselves to engage in two-way communication which means that they only collected input from stakeholders and presented in their report published to stakeholders. Common engagement methods that the case companies' use for their stakeholder groups is mainly shown through agreement, business transactions, policy and information, all of which can be viewed as dominant engagement levels for the case companies. For instance, R1 at C1 claimed that:

"*I think it is normal that companies have to satisfy the expectations and needs for information about a company, for example, one of our big customers, they are very interested in what the business partners do." (R1, 20180314)*

As such, the case companies that did not really identify the stakeholder and the stakeholder engagement was seen through business transactions base on the stakeholder demand and expectation.

4.3.2 Determining Report Content: Materiality

Two of the case companies (C2 and C4) referred to their materiality analysis, which provides meaning and criteria for determining the materiality of sustainability issues. C2 conducted the materiality assessment by starting with understanding its management point of view within the group companies. Therefore, CEOs from all subsidiaries were asked to participate in a questionnaire, pertaining to a so-called screening phase (R3). The screening phase was followed by in-depth interviews with other key staff members in the group, such as the CFO, environmental manager and other relevant employees. This materiality process resulted in five major areas considered to be critical for all business units, which became focus areas for the whole group (R3). Similarly, C4 used an internal management workshop to identify their material sustainability issues with involvement from other relevant staff and input from their stakeholder interviews. On this topic, R7 at C4 added that:

"We valued different inputs from stakeholders and performed a risk assessment on these inputs. Based on the input, we discovered our top 20 risks, which we are currently acting on." (R7, 20180419)

Meanwhile, C3 described in the annual report what their main sustainability perspectives are and that they are relevant to their business without explaining how they determined these perspectives. Notably, C3 has worked with sustainability for a long time, thus and could be expected to explain the basis for their sustainability perspectives in more detail because of this. In their sustainability report for 2017, C3 provided only a short sentence on the matter:

"We are focusing on those goals that are most relevant to our business and where we can contribute the most, which is based on the materiality analysis we conducted."

R5 at C3 described this further by mentioning that they conducted an internal workshop for some years ago, where they decided upon their sustainability perspectives. R4 and R6 explained that they were not working at C3 when the internal workshop took place, hence they are not aware of the exact details and arguments. Lastly, C1 is the only case company that has not performed a sustainability materiality analysis yet. R1 at C1 stated that:

> *"What we have not done and what we certainly will do in the coming years is a materiality assessment." (R1, 20180314)*

R1 explained that one of the reasons why they have not conducted a materiality analysis yet is their focus on "getting the house in order" after the turbulence caused by the wrongdoing of revenue recognition. When that is done, C1 can move towards materiality assessments of their SR (R1).

From the review of the case companies' annual reports and sustainability report in 2017, we were able to extract their key sustainability focus areas (see table 3 below). C1, C2, and C4 are focusing on similar material sustainability aspects. One possible explanation for why all these three case companies are, for instance, addressing health and safety is because their employees are exposed to higher working environment risks. In comparison, C3 is a consultancy company without production or physical services, thus, health and safety are not as highly prioritized. Another common sustainability focus area is the environment. This is not surprising since industrial companies' activities are expected to reduce the environmental impact in term of materials, emissions, waste, and physical transportation requirements.

Table 3: Sustainability focus areas extracted from case companies' annual report and sustainability report 2017.

	C1	**C2**	**C3**	**C4**
Material aspects	Health and safety	Diversity, equality and non-discrimination	Employees	Product performance
	People and society	Health and safety	Business activities	Health and safety
	Environment	Anti-corruption and human rights	Customers	Environment
	Supply chain	Environment	Social	Corruption
			Environment	

It is evident that those case companies that placed considerably more effort on stakeholder engagement (C2 and C4) had more work when performing the materiality assessment. Despite the disclosure of sustainability focus areas in the sustainability report, the following question remains unanswered: how the case companies actually determine what their vital sustainability issues are. All of the case companies employ general terms in their sustainability reports to explain what they consider to be material, such as "relevant to our business" and "of importance for the organization", but no company elaborates the meaning of the term used. Additionally, R3 at C2 mentioned that the group companies need to consider what the material issues are for the entire group because some sustainability issues might only be relevant for individual subsidiaries and not for everybody. R3 at C2 also added that when deciding what to include or exclude in the SR for 2017, R3 kept in mind what C2 is good at, how they can demonstrate that, be transparent about areas that could improve and how to illustrate all of this in the SR. Some of the case companies admit that they have become inspired by the UNGC, the disclosure requirement from the new Swedish law on NFI reporting and comparable or other leading companies when recognizing material sustainability issues. For instance, R1 at C1 mentioned that:

> *"The Global Compact gives us certain guidelines and they involve health and safety, and environment, which is very important for us. We have learned from other big companies and we have for example developed our reporting and monitoring of environmental issues during the last years"* (R1, 20180314)

Even if the companies are performing some sort of assessments that could be interpreted as materiality analysis, it is more of a general statement without defining the relative importance to different stakeholders. Thus, it raises the question how stakeholder engagements meaningfully inform decision-making and influence the degree of importance.

Obviously, the methods for materiality assessment vary across the case companies, which increase customization in communicating company-relevant information and make it more difficult in terms of benchmarking the case companies' materiality practices. Furthermore, the case companies within the industrial sector tend to adapt their material issues to favor corporate rather than sustainability goals. Beyond this, evidence of the outcome of stakeholder engagement cannot be clearly observed. In almost all of the case companies' SRs, the planned activities for the focus areas are disclosed in general terms, without explicitly providing an answer to each stakeholder group. Regarding materiality analysis, most of the case companies, are involving experts in the process of identifying their main sustainability focus areas to disclose in the SR. 3 case companies have recruited professional firms, as exemplified below by, R1 and R2 at C1:

> *"By having our advisors, we have easy availability of what new regulation means to us and what impact it has."* (R2, 20180410)

> *"One of the things our advisors pointed out for us, in the beginning, was that we focused too much on reporting past performances. This encouraged us to disclose our targets and goals setting"* (R1, 20180314)

Therefore, third-party experts play an important role in helping SMEs identify the material issues, key focus areas and to make sure to cover all issues for their SR.

4.3.3 Responding to Stakeholder Concerns: Responsiveness

From the interviews, the majority of the case companies identified their material sustainability issues from internal stakeholders' perspectives (i.e employees and top management) and through engagement methods with mostly customer and suppliers as mentioned earlier. Most of the responsiveness is seen through the company's governance structure, corporate strategies and policies, performance and communication with its stakeholders. To this effect, R2 at C1 mentioned that:

> *"We are committed to making sure that we actually work according to these policies." (R2, 20180410)*

All case companies updated their code of conduct and different policies. For example, it was an important milestone for C2 that the board of directors introduced the group-wide sustainability policies during the year 2017. Specifically, the main focus area for C2 is diversity, equality and non-discrimination and the C2 respond to this by introducing group-wide HR policy. The company encouraged CEO of all its subsidiaries to initiate a program to attract more women employee. Another example from C1's SR in 2017, the company has also established new and updated:

> *"Group policies have been updated including Accounting and Controlling, Code of Conduct, Whistleblowing, the CEO instructions and the Work Order for the Audit Committee. The changes and new key principles have been communicated and cascaded throughout the organization and to administrative bodies."*

How the case companies respond and communicate their sustainability practice to their customers and other stakeholders is highly variable. All case companies have adopted sustainability into the formal strategies and policies that they follow, which are expressed in their code of conducts. In addition, responsiveness is also displayed through their daily routines concerning issues like transportation, relationship with suppliers, and contact with customers, company purchases and business routines. For example, as C4's business relates to environmental issues specifically, all business activities and product development have taken sustainability issues into account. R7 at C4 mentioned that:

> *"We have different action plans relating these issues. From the materiality analysis, it is not so many new things that we do not know, it is more to check on what we have missed." (R7, 20180419)*

Corporate sustainability has become part of how the company operates a business. However, the question arises whether responsiveness through strategies, policies and SR actually shows the truth of what the companies are doing or not. However, there was an argument from R10 at CSR Sweden that:

> *"It is easy to report, but to ensure that what you say in the report is true is a completely different thing. It is easy to have policies, but to be really sure that the policies are working is a completely different thing." (R10, 20180323)*

The truth about what the company is doing with sustainability, it does not depend on how long the SR is, it depends on how relevant the information is and what they are doing in their daily business activities in relation to sustainability.

4.4 The Implementation Process

In this section, the implementation process that each case companies has done for the implementation of this new Swedish law is presented.

4.4.1 Company 1

R1 stated that the company began to gather and collect quantitative data for two of their focus areas; employees and health and safety. Notably, R1 added that the company used external consultants to produce their sustainability report in a more structured way when they prepared for the new Swedish law and EU directive, as demonstrated below:

> *"When we reviewed a couple of our policies, such as diversity statement and the diversity of governing bodies, which means the board, we had to do make some adjustments." (R1, 20180314)*

R1 and R2 added that the new Swedish law has limited impact on the company's sustainability report. However, the company has been working on updating different corporate policies recently to be more relevant for internal purpose. Of notes, a new whistleblowing policy has been implemented to comply with the new law regarding the mandatory area of preventing corruption. R1 expressed the following:

> *"During this year, there has been a focus on getting our policies in place and people in place. The next area is to make sure we roll out the policies and adhere to them, which is a process many companies will have to work within a much more structured way than before. That is one of the good things when you publish corporate policies that you have to make sure that people not only read the code, but they also live by it." (R1, 20180314)*

According to R1, this development leads to management discussion about the target setting:

> *"It is also a management discussion that, we have set targets, as everything depends on the target setting. We have medium-targets and current plans. 2017 was the last year of the medium-term target setting, which means that we have created a new plan reaching to 2020." (R1, 20180314)*

The Group CFO (R2) added that by planning and setting targets for sustainability, the company knows exactly what needs to be achieved. For instance, C1 has a lot of plans when it comes to employee engagements concerning health and safety, which is the primary focus area of the company.

> *"In our employee's engagement survey, we received the feedback on what we should improve in the results. That is one way of testing the stakeholders need." (R2, 20180410)*

To summarize the implementation process of the new Swedish law made in C1, they have updated some of their critical sustainability documents and kept their former sustainability KSIs but renewed them. In terms of reporting, C1 has changed the name from "Sustainability Review" to "Sustainability Report", and have added a sustainability summary in the annual report for the first time. The sustainability report is still separated from the annual report, but that might change in the future (R1).

According to R2, they are aware that some investors prefer to invest in companies with separate sustainability reports. Furthermore, C1 has not used GRI or any other reporting framework for their SR yet. R1 emphasized that GRI, for example, brings high costs and is very time-consuming to comply with. Hence, it is not appealing for C1 to apply GRI or similar framework at this stage. R1 also stressed that it is essential that a SR has:

> *"The right balance between the reality of your business and company in relation to risk-sensitivities and Regulation." (R1, 20180314)*

Finally, it appears that C1 disclosed more information in their sustainability report for 2017 compared to previous years. One thing they have incorporated into the report for 2017 is the use of references to other parts in the annual report, as well as highlight the most relevant governance policies for the individual focus areas in the sustainability report. For instance, C1 crossed reference the governance and risk management discussion between sustainability report and annual report. Also, C1 introduced a program for their subcontractors for two years ago, that can be interpreted as a flagship programme, which remains to this day.

4.4.2 Company 2

As mentioned previously, C2 published their first SR in 2017, which was an integrated part of the annual 2017 report. In the two previous years, C2 disclosed briefly on sustainability related information (e.g. supply chain and employee). Therefore, it took a great amount of implementation work to publish their first SR on the group level and to comply with the new Swedish law. C2 carried out their implementation work in different steps. First, C2 performed a materiality analysis with the help of consultants on both subsidiary and group levels (as explained in the 4.3 section). R3 explained that the group companies are facing various types of sustainability challenges. For example, some subsidiaries are more exposed to corruption risks in foreign markets, while others need to make sure that workers' rights are respected by suppliers. Thus, it is essential to find the right balance regarding focus areas in C2s SR for the group (R3). Due to the diverse risk exposures within the group, C2 allows individual subsidiaries to publish their own SRs to fully report on "what they are doing" to their customers. As a result, there are group companies that publish their own SRs despite that C2 has published the first group-wide SR (R3).

Secondly, essential policies have been revised such as code of conduct and new important policies like the first group-wide sustainability policy have been introduced. R3 admitted that some of the mandatory areas to "disclose or explain" in the Swedish law are challenging to disclose on a group level. For example, the group's environmental impact is mainly generated within the subsidiaries, but there are other areas where C2 at a group level can exert a greater influence. Therefore, C2 has launched a new HR policy to increase equality, diversity and improve career development for women within C2, which could be regarded as a future flagship program in C2. Lastly, to comply with the Swedish law, C2 did again hire consultants and conducted more interviews within the organization to gain a deeper insight of what the group is doing within sustainability. They wanted to find a way to mitigate risks, to best educate staff and to know if something needed to be changed in the group to comply with the law. R3 emphasized that:

> *"The group consists of very different companies that are selling different kinds of products and solutions with different requirements. This means that we are in different situations with diverse conditions and obligations." (R3, 20180327)*

Therefore, C2s SR for 2017 is structured into four major sustainability areas (1) diversity, equality and non-discrimination, 2) health and safety, 3) anti-corruption and 4) environment) derived from the materiality analysis. The SR provides an overview of the current situation in the four respective areas, describing risks and present a real case from one of their subsidiaries in connection to these areas. In addition, C2 discloses many new KSIs for the focus areas. R3 mentions that they have discussed reporting on other KSIs as well, but this has been curbed by the difficulties to collect necessary data from all group companies. C2 only discloses KSIs containing data from the whole group.

Interestingly, C2 has not applied GRI or any other reporting framework, despite following UNGC and UNPRI. This decision is in line with C1's and C3's practice of adopting a few sustainability principles, but not using any reporting framework. R3 argues that it would be extremely difficult for C2 to adhere to all requirements in all group companies because C2 is a diversified business with many different obligations. However, R3 has experience of GRI reporting from former positions in other companies and does not rule out that C2 might use GRI or something similar for future reports.

4.4.3 Company 3

Not surprisingly, C3 has no significant change in its SR for 2017 compared to their report in 2016, since the company has been working with sustainability issues for many years. For example, R6 said that:

> *"It is not like we are making a completely new concept for our sustainability report. We have already a good basis to stand on, we just adjusted it to make sure that we meet the requirements." (R6, 20180405)*

However, R4 highlighted that the company has tried to increase the quality and relevance of their SR. This ambition is not mainly due to the new legislation, but rather part of an earlier plan to make the SR more relevant and better reflect what they are doing. This is evidenced by the appointment of R4 in 2017 to be the sustainability manager, which is a completely new role in the company. R5 pointed out that they have added more references in the SR to other sections of the annual report such as the business model section, risk management section and disclosure of a few new KSIs. The following was put forward by R6:

> *"There are some numbers that we have added this year, including references we made to different parts of our annual report, especially the part about gender balance and the employee." (R6, 20180405)*

R4 argued that since C3's greatest contribution to sustainability is through the services to customers, the SR should reflect that and be integrated with the annual report instead of separated as opposed to the practice of some of their competitors. In order to create high customer value, it is important that C3's employees are thriving. Therefore, it is not as relevant for C3 to quantify different kinds of tables or environmental footprint (R4). Rather, for C3 it is more pressing to report the progress of their flagship programme to reach gender balance among the employees and diversify the workforce. However, C3 updated their quality and sustainability policy during the last year, a step that was mainly driven by the need to become more relevant rather than adhering to the new Swedish law (R4). Similar to C1, R6 mentioned that some shareholders have their own guidelines for how companies should work with sustainability, to be eligible for investment, and the content of documents such as code of conducts are important in this respect.

4.4.4 Company 4

C4 has a history of disclosing some sustainability information in their annual reports since 2011 (the latest year with available annual report), which mostly have been focused on employees, production and suppliers. This is the first year that C4 has published a SR and they decided to integrate it with the annual report for 2017. Thus, the company has conducted extensive preparatory work to create a whole new sustainability report and to comply with the new Swedish law. However, R7 explained that this work is also part of C4's strategic decision to make sustainability an integral part of the core business strategy and to improve previous performances in this area. In practical terms, the Swedish law has changed how C4 collects sustainability data from other functions in the company and externally. For example, R7 at C4 said that:

> *"There is much more information that needs to be disclosed today. It is a big change to collect data from the whole group and make it understandable for the reader." (R7, 20180419)*

Regarding what they have done to comply with the law, R7 returned to the change in how they collect data:

> *"I do not think we have to adjust so much to comply with the law. Instead, what we need to do is to collect the data in a more efficient way. Now we have to ask for it and people are not always prepared for that. For next year, we will set up a more structured data collection system and maybe in the future involve digitalization." (R7, 20180419)*

There have also been organizational changes in C4, as they appointed a sustainability manager in 2018, a previously non-existent role in the company. Notably, C4 conducted stakeholder and materiality analysis with the help of consultants during 2017 as a part of their strategy to improve sustainability performance and create a completely new sustainability report. The analyses revealed that they were already acting on many of the stakeholder's concerns, but it was a good way to investigate what the stakeholders care about and if something has changed. In addition, these findings convinced C4 to update the information on its sustainability focus areas including risk and risk management. In response to the materiality analysis, C4 began highlighting main sustainability focus areas, disclosing more KSIs, updating internal governance policies and created a risk matrix. Furthermore, C4 established a KSI about how much revenue that originates from sustainable products (21% in 2017), which can be interpreted as a flagship KSI. Speaking on how paramount KSIs are, R7 at C4 said that:

> *"If the big goal is going to happen in 2030, you have to cut the big elephant into smaller pieces. We measure our targets in KSIs and we will update these sustainability goals every year. We have set up short-term goals to reach our long-term goals." (R7, 20180419)*

At the same time, the package of sustainability related policies have been reviewed to make it more structured and in compliance with the new law. Like C1 and C3, C4 uses references within the sustainability report to connect to other parts of the annual report for 2017. Lastly, C4 did not apply any reporting framework for their new SR in 2017. R7 explained that they were advised by external consultants, who helped them with their preparatory work, not to use GRI this time. Following GRI would require extensive disclosure, which presently is not feasible for C4. However, R7 said that they have been inspired by GRI and the goal is to use it in the future. Also, GRI could serve as an excellent "checklist" (R7).

4.5 Data Display

The empirical findings presented in this chapter are summarized in the table below. The structure of the table is based on the theoretical framework and the conceptual mode over the implementation process of mandatory NFI reporting. Therefore, the table discloses key findings for the four case companies in relations to motivation drivers, reporting practice and how they are implementing the new Swedish law on NFI reporting.

Table 4: Data displays of the key empirical findings.

	C1	C2	C3	C4
1) Drivers				
External drivers				
Legislative pressure	Highlight in SR 2017 that they "are well prepared" for the new EU directive.	Extra important to comply with laws when dealing with foreign countries.	Other laws, then the new Swedish law on NFI reporting, are driving SR.	They would need to work with sustainability and SR despite the new Swedish law on NFI reporting.
Industry pressure and sustainability reporting standards	Benchmarking against competitors and other companies.	Benchmarking against competitors and other companies.	Benchmarking against competitors and other companies.	Sustainability is important in their niche.
Stakeholder pressure	High expectations from big customers and medium pressure from investors.	High expectations from customers on the subsidiaries, but low level of pressure from investors on a group level.	Low stakeholder pressure from investors and customers.	High expectations from all types of customers.
Internal drivers				
The business case	Sustainability as a way to attract and retain employees. A good practice to mitigate operational risks.	Strong business case for many subsidiaries.	Sustainability as a way to attract and retain employees.	Strong business case, also part of the overall corporate strategy.
Internal context and actors	Both operational and management level drive the sustainability work forward.	CEO "set the standard" both on group level and in subsidiaries.	Mostly top management drives the sustainability work.	Top management highly involved.
Internal factors	Several departments involved in preparing the SR.	Finance manager gathers all relevant information from subsidiaries and compile.	Several departments involved in preparing the SR.	Several departments involved in preparing the SR.
2) Reporting practice				
Stakeholder inclusiveness	Involvement with stakeholders through agreements and business transactions.	Primarily involve internal stakeholders such as CFO and management from each subsidiary	Involve business stakeholders mainly the employees through employees' survey. No involvement and dialogue with other stakeholders.	Initial work to pinpoint what we should do and who should we talk to. Conduct interview and workshop with stakeholders within the value chain.
Determining reporting content	No materiality analysis has been done. The focus areas identified through nature of the business and using UNGC as the base.	Screening phase by sending out questionnaire to CFO of each business units and conduct an interview with various management to identify the material sustainability issues.	Materiality analysis has been done a couple of years back through the internal workshop	Value the different inputs and set up risk assessment. Scale the input from stakeholders and range it from important to very important.
Responding to stakeholder concerns	Adopt the sustainability through strategy, code of conducts and various policies. Update different policies to be more structured. Management setting target up to 2020 on its major focus areas.	Look at risk driven and follow up the performance of the material issues by setting up KSIs. Adjust the KSIs according to the relevant situations. Introduce group sustainability policy	Adopt the sustainability through strategy, code of conducts and various policies	Reformulate goals of sustainability as part of corporate strategy. Set up a short-term goal for 2020 and stretch up to 2030.
3) Implementation of the law				
Published SR before/disclosed sustainability information?	Published separate sustainability report and signed the UNGC in 2014	No. Disclosed very briefly about sustainability information in their annual reports for 2015 and 2016.	Disclosed sustainability information since 2008 in one section in the annual report called "Sustainable Business". In 2013, 5 sustainability perspectives were established, which have been used since then.	They have been disclosing some sustainability information since 2011, which primarily have been about employee, production and suppliers.
Recent change in governance and/or personnel structure in relation to sustainability responsibilities?	New whistleblowing policy and anti-corruption policy. Updated major policies such as human resources policy, environmental policy, code of conducts and other policies. Updated plan for 2018-2020 with the same sustainability focus areas as before.	Updated code of conducts and other sustainability related policies both on the group level and in subsidiaries level. The Board of Directors adopts first group sustainability policy in 2017. Described as a milestone in the annual report 2017.	Appointed a sustainability director in 2017. This is a new role and has not existed previously. Updated their sustainability policy in a more structured way.	Appointed a sustainability manager in 2018. This is a new role and has not existed previously. Updated environmental policies and other policies related to sustainability.

Companies' views of the new Swedish law on NFI reporting	There is some room for interpretation in the law, but they are used to be regulated in their sector. New legislation has small impact on the company's SR.	Mostly positive toward the law, but concern over adding more administrative work in the organization.	The Law has increased the amount of work and requires more involvement and support from different functions. New legislation has small impact on the company's SR.	Mostly positive towards the Law, but minor concern that it will increase the amount of work.
Primary preparation actions taken	Updated various policies and future plans. They have added a summary of the SR in the annual report, which is new. Gather and collect more quantitative information for Employee and Health & Safety.	Performed a screening phase and materiality analysis for all business units in the Group and at the Group level. Creating a whole SR for the first time at group level.	Tried to increase quality and relevance of the SR. They took a "soft approach".	Performed a stakeholder analysis, materiality analysis, and created a risk matrix. Big change in how to collect data from the whole group to make it understandable in a structured way. Creating a whole SR for the first time at group level.
How SR 2017 differs from previous years' reports?				
Increase/decrease/unchanged amount of information?	Slightly more information and referencing to other parts of the annual report in their SR.	Extensive information in each sustainability focus area. It includes the motivation of why these areas are relevant, risks within the area, and case description from business units.	No significant change in SR 2017 compared to SR 2016 and back to 2013. There are more references in the SR 2017 to other parts in the annual report, such as the business model section and risk section.	Extensive information in key sustainability areas, which is complemented by a risk and risk management matrix. There are more references within SR 2017 to other parts of the annual report.
Separated or integrated sustainability report?	A separate SR and summary of sustainability information in the annual report.	Integrated sustainability report in the annual report.	Integrated sustainability report in the annual report.	Integrated sustainability report in the annual report.
New "sustainability focus areas" and/or goals (KSIs)	Maintain 10 existing KSIs and add one new KSI.	Disclosing more KSIs for each focus area.	No change from previous year.	Highlight the three new main sustainability focus areas. They have added several new KSIs.
The primary focus of SR	Healthy and safety and Employee.	Diversity, equality and non-discrimination; and health and safety.	Employee.	Reduce company's environmental impact in manufacturing and aim for a more sustainable supply chain.
Introduction/retaining of "Flagship programme(s)"	Introduced a specific supply chain program in 2015 and categorize suppliers based on risk levels.	Launched new program in 2016 with the purpose of increasing equality and diversity in the Group. The program aims to improve career opportunities for women.	Introduced a new goal to improve the gender balance in the company. The goal is to reach a 40/60 balance between women and men in 2022.	Disclosed a new KSI that monitor how much of their revenues that comes from sustainable products.
Usage of sustainability reporting guidelines/principles	UNGC and CDP.	UNGC, OECD's guidelines for multinational enterprises, and UNPRI.	UNGC.	Do not use any guidelines or principles.

5. Analysis and Discussion

This chapter covers the analysis of how the case companies have implemented the Swedish law on NFI reporting, which will be discussed in connection with our theoretical framework. The analysis is carried out in accordance with the conceptual model over the implementation of mandatory NFI reporting. From that, we were able to derive four patterns of implementation from the analysis. These patterns will be further explained in terms of characteristics, impact on the sustainability report and legitimacy behavior.

5.1 Implementation Process of Mandatory NFI Reporting

Based on the data display in 4.5, the case companies have taken major implementation steps such as; updating and creating new internal governance policies, conducting materiality analysis, bringing in consultants, changing the sustainability report content and hiring persons with sustainability competence. It is obvious that all of the case companies shared one common feature; they have implemented and adjusted their sustainability reports in a specific way to comply with the Swedish law on NFI reporting. This means that the case companies have applied these major steps and other implementation actions to a different extent with consideration to their core business and related conditions. However, it is unmistakably clear that the two case companies, C2 and C4, have undertaken a greater amount of preparatory work to implement the Swedish law than the other two case companies, C1 and C3.

The text in this section is structured in accordance with our conceptual model of implementation of mandatory NFI reporting. We are going to analyze and discuss the similarities and differences between the case companies in terms of motivation drivers and each company's reporting practice. This will be done from a perspective of institutional, strategic and material legitimacy that has been proposed by Suchman (1995) and Dumay et al (2015).

5.2 Motivational Drivers behind Sustainability Reporting

The motivational drivers behind SR will be categorized into external and internal drivers again as they were in the theoretical framework.

5.2.1 External Drivers

The case companies' views of the Swedish law on NFI reporting could, in general, be described as positive but with some concerns. C2 and C4 said that their workload will increase due to this new law, while C1 and C3 emphasized that the new Swedish law did not have any larger impact on their sustainability reports or way of working with sustainability. This is clearly shown in the lower amount of preparation work they have undertaken in C1 and C3 compared to C2 and C4. Schaltegger and Burritt, (2010) explained that compliance of SR can be concentrated on different aspects, e.g. what has to be complied with and how to use SR to improve sustainability performance. All of the case companies recognized that compliance is vital, especially if you are conducting business with foreign companies or are active in higher risk markets. Interestingly, C1 was the only case company who strongly emphasized, both during the interviews and in the sustainability report and annual report, that "they are well prepared" for the EU directive on NFI reporting (i.e. focus on what has to be complied with). This might be explained by the nature of C1's industry, which is heavily regulated according to R1 and R2 at C1. On the other hand, C2's and C4's implementation process appeared to have been more concentrated on creating a material sustainability report for their stakeholders (i.e. aim to improve their sustainability performance), rather than mainly to comply with the Swedish law.

Beck et al (2015) argued that drivers behind institutional legitimacy emerge from the external environment, which means that organizations adapted to current cultural norms and regulations. They suggest that one way of adapting to current norms and regulations is by applying SR frameworks or principles. As the data display (4.5) shows, the case companies in our study appear to prefer SR principles over SR frameworks. For example, C1, C2 and C3 are all using UNGC which is similar to our discovery from the screening process of Swedish listed industrial companies on the medium and small cap (explained in 3.3.1), i.e. many of them seem to embrace UNGC over other SR principles and SR frameworks. In addition, this is also in line with the findings made by Higgins et al (2014) that isomorphism caused companies to mimic each other to adjust to social and institutional pressure. Likewise; C1, C2 and C3 revealed that they are all benchmarking their SR against competitors and other leading companies. Thus, it is not unexpected that a specific reporting principle/framework dominates over others when it appears to be more institutionalized in the Swedish industrial sector (Bebbington et al, 2012).

However, it is striking how reluctant the case companies are towards GRI, despite its prominence and being highlighted as a suitable framework to use when implementing the new Swedish law on NFI reporting (Levy et al, 2010; FEE, 2016; GRI, 2017). The GRI organization pledged that their framework will bring many benefits in term of enhancing comparability, verifiability and general acceptance of SR (Willis, 2003), and helped organizations to align their mission with sustainable development (Massa et al, 2015). Still, scholars have already identified several challenges and problems with using GRI (Arena and Azzone, 2012). In our case study, we have discovered that Swedish listed industrial SMEs think GRI brings too high costs for the business and requires too much time (C1). Also, C2 argued that GRI is challenging to apply because to disclose aggregated information for all GRI indicators, you need a large amount of data from within the organization (C2 and C4). That is a problem if you are a diversified industrial group of companies with many different obligations (C2). Yet, all respondents are aware of GRI, and as R7 at C4 explained, it can serve as an inspirational source for companies. Lastly, our findings that GRI has not been applied by the case companies to implement the Swedish law on NFI reporting support previous findings made by Borglund et al (2010), who concluded that many Swedish state-owned companies felt it was difficult to use GRI when they had to publish mandatory NFI reports for the first time.

Unlike the noticeable concordant findings for the legislative and industry pressure on the case companies, stakeholder pressure seems to be mixed and varied. Notably, investors turned out to have low interest in how the case companies are working with sustainability and SR. As R8 and R9 at Svenskt Näringsliv explained, investors usually send out questionnaires about sustainability to companies, because they do not have time to read all the reports. Still, no questionnaires appear to have been sent out to the case companies, which is a surprise since the Swedish law is supposed to increase transparency and enable investors to make more comprehensive investment decisions. However, our results pointed to the opposite, namely that investors have not become more interested in sustainability performance than before. In fact, it is rather evident that the accountability situation has not changed between companies and their stakeholders as R9 argued. Nevertheless, the industrial sector has been identified as one of the most environmentally sensitive industries there are (Deegan and Gordon, 1996), but investors might be satisfied with earlier sustainability performance in the case companies.

In contrast to the absence of investor interest, all of the case companies are exposed to high pressure from their customers. Sarbutts (2003) stressed that CSR activities, such as SR, should be viewed as risk management custom to avoid losing important stakeholders and destroying their brand value. All case companies appeared to be anxious about this, which is understandable considering the high demands that Nordic customers set on them (e.g. address social issues, reduce environmental impact and improve the supply chain). Therefore, it is not so strange that the case companies started to actively work with sustainability early, which the majority of Swedish SMEs do not (Tillväxtverket, 2014). Correspondingly, C1 and C3 have both published sustainability reports voluntarily for a couple of years, while C2 and C4 have briefly disclosed sustainability information in their annual reports. To conclude this section about external drivers, the case companies do not appear to lack external incentives and drivers to produce a sustainability report; yet, the external motives vary in strength for them.

5.2.2 Internal Drivers

Salzmann et al (2005) explained that companies can increase their wealth and profits by working with sustainability activities and reporting. In fact, it appears that all case companies have realized that working with sustainability and SR is beneficial for them, both in the short and long-term (Carter and Burritt, 2007). Still, the business case is not only about wealth and profits, it is also about risk and opportunities, and a means for companies to differentiate themselves (Gunningham, 2007; Schaltegger and Burritt, 2010). Correspondingly, the case companies are emphasizing different aspects stronger of the business case to why they are working with sustainability. Notably, the respondents at C2 and C4 stressed during the interviews that they have taken strategic decisions to improve their sustainability performance. In fact, sustainability has become an essential part of C4's corporate strategy and their sustainability report a tool to communicate with stakeholders, while C2's subsidiaries are using sustainability to strategically differentiate themselves from competitors.

Conversely, C1 and C3 emphasized the risk and opportunity side of the business case. The CFO at C1 underscored how important it is for them to have a safe working environment for their "field workers" to avoid fatal incidents and have a low sick leave. In comparison with C2 and C4, it appears as C1 is anxious about losing money on sustainability issues, while C2 and C4 have implicit realized that they can become more profitable by working with sustainability. From an outside perspective, this is rational when considering that C1 is hefty regulated and exposed to higher working environmental risks than C2 and C4. At the same time, C1 and C3 have understood that working with sustainability is a hygiene factor to attract and retain top talents in their industry.

As discussed above, it is evident that C2 and C4 are driven by strategic reasons to work with sustainability and SR. Likewise, C1 and C3 are also strategically aware of the benefits of working with sustainability. However, the case companies are exploiting sustainability to achieve different goals, which means that they diverge in their attempts to gain, maintain and repair legitimacy (Suchman, 1995). In particular, it appears as the case companies' management teams are "looking out" by deploying pragmatic, moral and cognitive legitimacy to different breadth (Beck et al, 2015).

For instance, we argue that C1 and C3 are applying more pragmatic legitimacy than C2 and C4, because their primary focus is to maintain legitimacy and to preserve its social contract (Cho, 2009). Thus, C1 and C3 are focusing on their core resources, i.e. their employees, to assure other stakeholders that they are trustworthy and a "good corporate citizen". Whereas, C2 and C4 have taken actions to a greater extent that could be argued as morally "the right thing to do" (Aldrich and Fiol, 1994; Suchman, 1995). C2 has, for example, launched a program to increase equality and diversity.

Different from the business case, the case companies share more similarities than differences when it comes to the internal context and actors. Previous studies have found that CEO, management team and board of directors influence the content in SR (Campbell, 2000; O'Dwyer, 2005). Similarly, R10 at CSR Sweden, argued that CSR people within organizations usually lack the power to promote sustainability as they could do. Therefore, it is crucial that key personnel points with the hand and make sustainability a priority for the organization (R10). Thus, it is gratifying that all case companies seem to take sustainability issues seriously. On the contrary to Tillväxtverket (2014) finding that Swedish SMEs mainly are concentrated on selling more sustainable products and solutions, while our case companies are addressing several sustainability challenges such as improve equality and diversity, reduce their environmental impact and support suppliers to become more sustainable. However, one difference between the case companies is that C2 permit their subsidiaries to go further than the minimum requirement level set at the group level. In fact, C2 allow their subsidiaries to make own sustainability reports to better meet stakeholders' information demands.

Apart from the fact that top management in all case companies is highly involved with their sustainability work and SR, we have also observed that two companies, C2 and C4, have appointed a sustainability manager for the first time. Even though the sustainability managers at C2 and C4 (R4 and R7) claimed that their appointments were not a result of the Swedish law, we do not believe that the timing was a coincidence. As a matter of fact, all case companies revealed during the interviews that they have to collect more NFI from the whole organization due to the new Swedish law. They also have to present a more structured sustainability report than before.

Adams and McNicholas (2007) discovered that leading internal actors of SRP lack the knowledge to involve stakeholders. Similarly, we were told by the case companies that they have used consultants to support them in implementing the Swedish law and to carry out the materiality analysis (C2 and C4), which are congruent with the findings made by (O'Dwyer, 2001; Frostenson et al, 2013). Other challenges that the case companies have encountered during the implementation work are limited resources of time and money, and insufficient information systems. As Burns and Scapens (2000) state, it is difficult for organizations to change their internal processes and the case companies are not an exception. In fact, they are continuing with the separation of responsibilities between CFO and sustainability manager when it comes to SR (besides C2). Thus, as it has been pointed out before, SMEs are exposed to internal shortcomings when working with SR (Johnson and Schaltegger, 2016). Our case companies, which are considerably bigger than the average SME, are not an exception. This raises the question if private held SMEs ever will be able to produce mandatory NFI reports in the future when listed companies need support from consultants

5.3 Reporting Practice

The reporting practices of the four case companies are analyzed and discussed from the perspective of stakeholder engagement guidelines. By using inclusiveness, materiality and the responsiveness to observe how the case companies engaged with their stakeholders, it was possible to analyze how the stakeholders' perspectives were reflected in their SRP.

5.3.1 Stakeholder Inclusiveness: Stakeholder Identification and Engagements

In the initial stage of the SRP, stakeholders need to be identified by using appropriate forms of stakeholder dialogue (AccountAbility, 2015). The empirical findings showed that all case companies identified their primary stakeholders based on direct relationship such as customers, suppliers, employees and shareholders, which corresponds to the definition of stakeholder defined by Phillips (2003). Moreover, the decision to involve stakeholders in the reporting process varied among the case companies. However, we discovered one common characteristic; they are all highly involved with customers because of their contractual relationships (moral obligation) (Donaldson and Preston, 1995). Thus, it seems that the case companies identified the stakeholders primarily based on their business relationship. Whereas, other stakeholders (i.e trade union, government, local authority) were not actively mentioned. This might be a weakness in the stakeholder identification, since R10 at CSR Sweden stressed that companies need to know who their "true stakeholders" are and by only focusing on business relationships, the case companies might neglect some of their "true stakeholders".

From our review of the case companies' annual report 2017, only C4 disclosed a list of both internal and external stakeholders. Phillips (2003) explained that when an organization discloses a list of stakeholder groups, this signals to whom the organization direct more attention. Unlike C4, the other case companies have not disclosed a list of identified stakeholders, rather they are talking about specific stakeholders in different parts of the annual report and sustainability report. Hence, the stakeholder identification is not clearly explained in C1's and C3's SR. Zadek and Raynard (2002) stated that companies that do not publish a list of stakeholders in SR indicate that stakeholder dialogue was less used. However, this was not the case in C2. Although, C2 neither revealed a list of stakeholder groups, R3 explained in the interview that their stakeholder dialogue is partially carried out through questionnaires and workshops with internal stakeholders.

Manetti (2011) discovered that when the law requires companies to publish a mandatory NFI report, they started to get more involved with their stakeholders than before. Interestingly, this is similar to the case of C2 and C4, who seems to be more involved with stakeholders now to identify their material sustainability issues than before the Swedish law of NFI reporting was introduced. From a legitimacy point of view, it appears that C2 and C4 have considered their social contract to incorporate the interest of more stakeholders than previously (Laplume et al, 2008; Cho, 2009)

As stated in the empirical chapter, C2 had the shortest experience of disclosing sustainability related information among the case companies. To create their first sustainability report at the group level, C2 decided to perform a materiality analysis to determine what material sustainability issues should be reported. The fact that C2 decided to only involve internal stakeholders (e.g. CEOs and CFOs in the subsidiaries) and seldom identified or involved external stakeholders and normative/derivative stakeholders (trade unions, local authority, or medias) (Mitchell et al., 1997;

Phillips, 2003), indicated that C2 is taking a narrow approach to stakeholder identification (i.e. not including all stakeholders). In comparison, C4 took a broader approach to stakeholder identification during their materiality analysis, because they involved both internal and external stakeholders. Despite the fact that C4 had a broader approach on stakeholder identification, they have not actually disclosed how their stakeholders are identified and what kind of stakeholder dialogue was used in the annual report, rather we only got that explanation during the interview with R7. Zadek and Raynard (2002) stated that an effective stakeholder dialogue requires evidence of how stakeholders participate and contribute to the company's decision making. Moreover, GRI (2014) explained that stakeholder dialogue allows a high level of interaction to get insight information from stakeholders. Thus, it makes us wonder how useful the stakeholder dialogue is for the case companies.

On the other hand, C1 and C3 took a "soft approach" in the implementation of the Swedish law, which means that the involvement and engagement with stakeholders were primarily carried out through business activities. That is probably why C1's and C3's materiality sustainability issues have been defined and decided by their management team. However, numerous authors have argued that stakeholders' perspectives could assist the companies in what kind of sustainability information they should collect (Green and Hunton-Clarke, 2003; Phillips, 2003). To summarize, the soft approach to implementation consists of deciding material sustainability issues with less involvement from external stakeholders, which means low usage of stakeholder dialogue.

5.3.2 Determining Report Content: Materiality Analysis

Engaging stakeholders is essential to carry out the materiality analysis, which enables companies to identify their own most relevant sustainability aspects (Parker, 2005). Yet, the existing guidelines (e.g. GRI and UNGC) do no advice how SMEs can get stakeholders engaged in a good way (Levy et al, 2010; Arena and Azzone, 2012). As the empirical chapter showed, C2 and C4 published their first comprehensive sustainability report in 2017 which means, they had not performed a sustainability materiality analysis before. Still, during our interviews, they did not mention any difficulties when conducting a materiality analysis for the first time last year, which notably is a complex and judgmental process, (GRI, 2013; AccountAbility, 2015). One reason to why C2 and C4 did not encounter any difficulties might be that they engaged with third party experts to assist conducting the sustainability materiality analysis. It is common for SMEs to rely on experts when implementing SR for the first time (Arena and Azzone, 2012; Muñoz-Torres et al, 2012). C2 and C4 identified the primary sustainability concerns from their stakeholders' perspectives which facilitated them to report on the most material issues. By addressing stakeholders' sustainability concerns, it is possible to achieve material legitimacy, which means that companies can "blend what is important to the organization (strategic legitimacy) with the primary concerns of its major stakeholders (institutional legitimacy)" (Dumay et al, 2015). Furthermore, Eccles and Serafeim (2013) claimed that companies are considered accountable when they are strategically focusing on the material issues.

As we could observe from table 3, the sustainability material issues vary between the case companies. It can be analyzed that several organizational factors could explain the decision-making leading to differences in SR. Internal determinants, among others, are the company's size (Hahn and Kühnen, 2013), the reporting experience and the reporting guidelines adopted (Moratis and

Brandt, 2017). However, existing studies have found that larger companies cause greater impacts, become more visible, and therefore, face greater stakeholder scrutiny, while smaller companies have higher marginal costs of disclosure (Gallo and Christensen, 2011). In this study, however, reporting experience in reporting does not seem to affect stakeholder-related disclosure either: C1 and C3 have longer experience in SR, but they still are not disclosing how they identified stakeholders nor engage with them to define the material issues. Nevertheless, the reporting maturity does not mean that the company followed the sustainability reporting standards like GRI (Moratis and Brandt, 2017), but that these companies considered how information is most relevant to them.

All the case companies mentioned that GRI is not suitable and not helping them to identify the reporting content. These findings are similar to other studies (Brown et al, 2009; Levy et al, 2010; and Johnson and Schaltegger, 2016) which discovered that SMEs find it troublesome to implement SR by using GRI. Moreover, the mandatory disclosing of NFI is contended to help companies to improve risk management (GRI, 2016). In the case of C4, the company has constructed a comprehensive risk matrix and risk management schedule that measure the risk of each focus area and the action to be targeted as well as the target goals. These similar findings were also found by Eccles et al (2015).

5.3.3 Responsiveness: Responding to Stakeholder Concerns

The case companies took different approaches to respond to stakeholder concerns. C2 and C4 took an extensive approach compared to C1 and C3. C4 reformulated its goal on sustainability as part of the corporate strategy. For example, R7 at C4 claimed that the company try to promote sustainable products and have developed short term goals for 2020 and long-term goals for 2030. When the responsiveness is linked to corporate strategy, as it is in the case of C4, it leads to high transparency in sustainability communication with stakeholders (David et al, 2007; AccountAbility, 2015; Guix et al, 2017).

Similar to C4, C2 identified the risk driven the material issues as discussed earlier within its annual report and communication to stakeholders. For example, R3 at C2 argued that they identified the most material sustainability issues for the group level, because some issues might be very relevant to one business unit, but not on the group level. This is similar to the finding by Bundy et al (2013), the company's responsiveness to stakeholders' concern was interpreted and decided by the management which they think are worthy of a response.

This responsiveness from the case companies is also commonly seen through using different KSIs for each focus areas to follow up performance. However, C1 and C2 pointed out that adjustment to relevant KSIs is needed when circumstances are changing. Ultimately, it was found that producing a sustainability report is not a static activity and there is always the possibility that the influence of stakeholder engagement has changed over time due to different circumstances (Greco et al, 2015). Thus, the legitimacy dynamics might evolve over time shifting from strategic to institutional legitimacy and vice versa (Ahmed Haji and Anifowose, 2017). This is the case for C1 and C3, they have both disclosed sustainability information and sustainability reports for a longer period of time than C2 and C4. In the implementation of the new Swedish law, both C1 and C3's response to stakeholder concerns have been executed through updating different policies, make referencing in different parts of the annual report and appointing a sustainability director to take responsibility for SR in a more proper and structured way.

Overall, no matter how much work the case companies have done to implement the new Swedish law, the common responsiveness is realized through the company's governance (appoint new sustainability staff), formulate business strategy in terms of being more sustainable, update code of conducts and other policies together with monitoring its performance by KSIs and communicate through annual report to stakeholders. This practice was also found in a similar way by Cooper and Owen (2007).

5.4 Four Patterns of Implementation

Based on our analysis and discussion in section 5.1, we have discovered that there is a relationship between motivational drivers and reporting practices. This means that the case companies have been shaped by their internal and external motivational drivers to implement the Swedish law in a certain way. From this deduction, we have constructed a matrix of implementation patterns of non-financial reporting (NFR) and categorized it into four different implementation patterns with different characteristics. Moreover, the matrix is measured by the degree of internal and external motivational drivers, which is derived from the interviews and the review of the case companies' SR and annual reports.

However, for the purpose of simplification, the degree of internal and external motivational drivers is assumed to range from high to low. We have sorted out our four case companies into these different patterns of implementation in figure 3 below. The positioning of the case companies in the matrix has been conducted after careful consideration based on the interviews and their annual and sustainability report for 2017. Notably, all case companies have been positioned as having high internal motivational drivers or close to the boundary of having high internal motivational drivers to implement NFI reporting. This is a result of the case companies' insights that there is a strong business case for sustainability. However, the current positions of the case company are not static (Greco et al, 2015). For example, if the motivational drivers change within the company, the legitimacy need of the company evolves or new NFI reporting requirements are enforced, there might be movement in the matrix and the company enters a new pattern of implementation. Thus, there is no pattern of implementation that is better than the others.

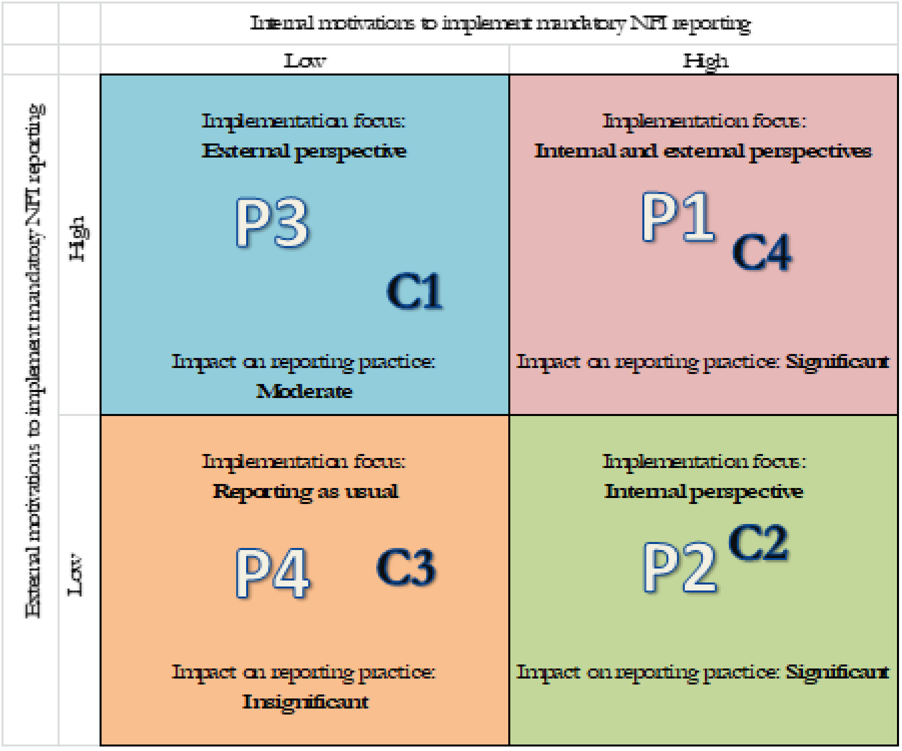

Figure 3: Matrix of implementation patterns of mandatory NFI reporting developed by the authors.

5.4.1 Pattern 1: Implementation Focus on both Internal and External Perspectives

The implementation of mandatory NFI reporting of C4 represents a good example of pattern 1 (P1), where a high degree of internal and external motivation shaped the implementation of NFI reporting. For instance, C4 is strongly driven by the business case, internal context and actors, and stakeholder pressure (primarily from their customers) to work with sustainability and to communicate with their stakeholders through their sustainability report. As stated before, C4 performed a stakeholder and materiality analysis that involved both internal and external stakeholders, which led to a significant change in their sustainability report and a great amount of preparation work. This has resulted in C4 disclosing new key sustainability focus areas, new and more KSIs, creating a risk and risk management matrix, development of short and long-term goals for the sustainability and updating policies. Unlike the findings made by Ahmed Haji and Anifowose (2017), C4 actually increased the amount of NFI and disclosed information about new sustainability areas in the latest sustainability report.

C4 made a strategic decision to incorporate sustainability into their core business strategy because their customers expect them to reduce the environmental impact and develop products that save water. Thus, the focus in this pattern of implementation is to gain legitimacy by reporting the material sustainability issues for both internal and external stakeholders (Suchman, 1995). In other words, C4 is trying to achieve material legitimacy by creating "win-win situations" for themselves and their stakeholders (Dumay et al, 2015). To accomplish that, C4 is relying on moral and cognitive legitimacy which we see through the wide range of sustainability focus areas C4 are addressing. Notably, C4 is emphasizing that they are trying to save water and working exhaustively to reduce their environmental impact. In addition, C4 disclosed a KSI about how much revenues that are derived from sustainable products. We argue that this should be considered as a strategic flagship KSI with the sole purpose to reach the win-win situation mentioned earlier. It is difficult to imagine that people would object companies to earn money from sustainable products (moral legitimacy) that also are beneficial for customers (pragmatic legitimacy).

On top of C4's ambition to construct win-win situations, they have also engaged in a strategic restructuring of governance policies and personnel structures. On the contrary to the case of Pfarrer et al (2008), C4 has not used these actions to repair legitimacy. Instead, C4 has used it to accelerate the pace of gaining legitimacy. According to Suchman (1995), legitimacy is "*a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions"*. By taking all the implementation steps (mentioned above), performing materiality and stakeholder analysis, and has an extensive approach to responsiveness, C4 has undertaken "desirable and proper actions" to obtain material legitimacy. Therefore, C4 does not need to apply any SR framework or principles, because they already know what the stakeholders' concerns are. As a result, they have been able to align what is important for them and their stakeholders.

5.4.2 Pattern 2: Implementation Focus on the Internal Perspective

The implementation of mandatory NFI reporting of C2 illustrates a good example of pattern 2 (P2), where a high degree of internal motivation shaped the implementation of NFR. For example, C2 is mostly driven by the business case and internal context and actors to work with and report on sustainability, so the pressure is not stemming from external stakeholders. In C2, it is the subsidiaries CEOs who decide on their own what ambition level they should strive for in terms of sustainability. Moreover, they can take advantage of sustainability to differentiate themselves from their competitors if desired, but there is a low level of pressure from investors on C2 at the group level to improve sustainability performance.

As discussed before, C2 performed a materiality analysis that engaged only its internal stakeholders (CEO, CFO and other key personnel in different steps), which resulted in significant change in their SR and a great amount of preparatory work. Although, this was the first year C2 published a SR at the group level, we would argue that C2 has been remarkably ambitious in their work to comply with the Swedish law and creation of their first SR, which probably is due to the strong internal involvement (e.g. decisions made by CEOs)

Similar to pattern 1, the primary legitimacy need here is to gain legitimacy, which is demonstrated by the great extent of implementation work C2 undertook. Also, C2 has not published any sustainability report at the group level before, thus there is no legitimacy to maintain or repair (Suchman, 1995; Mobus, 2005). As Dumay et al (2015) argued, to gain legitimacy is closely related with the strategic dimension of legitimacy, which holds true in the case of C2. For example, the board decided to adopt their first group-wide sustainability policy, something they recognized as an important milestone in their annual report for 2017. In addition, C2 launched a new program in 2017 with the purpose of increasing equality and diversity. This could be interpreted as a strategic flagship programme that is concentrated on internal "materiality issues" because it targets internal working conditions (Dumay et al, 2015). Compared to pattern 1, this flagship programme does not provide direct external benefits outside C2. To exemplify this further, the group-wide HR policy that was introduced in 2017, demands all business units to follow it as a minimum requirement.

For instance, all subsidiaries' CEOs are encouraged to initiate a program to ensure that the career paths are more attractive for women within the group.

Despite the robust indications of strategic legitimacy behavior in pattern 2, we can still observe some elements of institutional legitimacy manner in pattern 2. C2 has for example adopted three different sustainability reporting principles (UNGC, OECD's guidelines for multinational companies and UNPRI). Beck et al (2015) explained that adoption of established SR frameworks or principles enables organizations to boost institutional legitimacy. Thus, it is not surprising that a company without earlier SR experience, such as C2, seeks both strategic and institutional legitimacy, while at the same time preferring one of them. Lastly, by using strategic legitimacy, C2 is able to gain legitimacy and by combining that with institutional legitimacy, C2 is prepared for society "looking into" their operations (Suchman, 1995; Beck et al, 2015).

5.4.3 Pattern 3: Implementation Focus on the External Perspective

The implementation of mandatory NFI reporting of C1 demonstrates a good illustration of pattern 3 (P3), where a high degree of external motivation shaped the implementation of mandatory NFI reporting. For example, C1 is mainly influenced by legislative pressure and external stakeholders to work with sustainability and report on that. As discussed earlier, C1 is operating in the Nordic countries and other European countries, hence, they are naturally exposed to different laws and stakeholders in various context. For example, the respondents at C1 explained that their industry is heavily regulated and they are facing high expectation from larger customers. It appears as law compliance is extra important for C1 compared to the other case companies because C1 is the only case company that explicitly states in the annual report that they are "ready for the EU directive".

The former wrongdoings of C1's revenue recognition might have caused stakeholders to be more careful and more eager to scrutinize C1's operations (Ashforth and Gibbs, 1990; Mobus, 2005). Still, C1 has recognized the benefits of working with sustainability and has done so for a couple of years, but they have not stressed that sustainability is a strategic priority in the same way as has been done in pattern 1 and 2.

As mentioned before, C1 did not perform any materiality analysis and their sustainability focus areas were identified based on relevance to their business, which was inspired by the UNGC and benchmarking with competitors within the industry. The result of C1's relatively lower amount of preparation work in comparison to C4 (P1) and C2 (P2) culminated in a moderate change of their SR. C1's implementation work mainly consisted of updating different policies, new and more KSIs, disclosing governance and risk management of sustainability issues, reviewing their new sustainability plan up to 2020, and adding more references to sustainability issues in different parts of the annual report.

Differently to patterns 1 and 2, the dominant legitimacy need in pattern 3 is to maintain legitimacy, but there are also some elements indicating a need to repair it (i.e. the revenue recognition wrongdoings). This ambition is manifested by C1's moderate change of content in their sustainability report, which could be interpreted as an eagerness to be predictable and consistent in their sustainability communication to stakeholders (Mobus, 2005). Compared to C4 (P1) and C2 (P2), C1 has a longer experience of SR, hence, C1 has already gained legitimacy from stakeholders and need to concentrate on maintaining it. By following UNGC and CDP, C1 is able to signal ("evocative symbols" and institutional legitimacy) to stakeholders that they are a reliable company. In addition, C1 is mostly concentrated on pragmatic legitimacy (e.g. ensure health and safety of employees), which make senses because their employees could be seriously injured "in the field" if something goes wrong.

Lastly, similar to pattern 2, we can still observe pieces of the other dimension of legitimacy, i.e. strategic legitimacy for C1. For example, managers at C1 is "looking out" in the organization to prioritize their employees working conditions and are trying to improve that by engaging them through employee surveys and taking action to respond to employee feedback. Interestingly, the strategic flagship programme C1 introduced two years ago, concerning their suppliers, is concentrated on external "materiality issues" (Dumay et al, 2015), which is in accordance with C1's focus on maintaining legitimacy and satisfying large customers.

5.4.4 Pattern 4: Implementation Focus on Reporting as Usual

The implementation of mandatory NFI reporting of C3 serves as a good example of pattern 4 (P4), where a low degree of both internal external motivational drivers shaped the implementation of mandatory NFI reporting. This means that neither external nor internal motivational drivers are prevailing over the other. To exemplify, C3 has the lowest pressure from stakeholders to work and report on sustainability in comparison to C1 (P3), C2 (P2) and C4 (P1), which is illustrated by simultaneously low pressure from shareholders and customers. Yet, C3 aim to be a good corporate citizen and ensures that they comply with the new Swedish law with the help of external consultants to make their SR in a more structured way. At the same time, C3 recognizes the importance of working with sustainability issues to attract and retain talents in the industrial consultancy industry.

Even though C3 has published its SR for a couple of years, which is similar to C1's reporting experience, C3 decided to take a "soft approach" in the implementation of the Swedish law on NFI reporting. This choice has resulted in the least amount of preparatory work in relation to the other case companies. The soft approach of implementation contained primarily updating different internal policies and references to different parts in the annual report from the SR. To conclude, the central ambition in this pattern is to keep "reporting as usual".

Similar to pattern 3, the major legitimacy need is to maintain legitimacy by primarily using pragmatic legitimacy. In line with this ambition, C3 has adopted UNGC to gain institutional legitimacy. It could be argued that C3 could belong to pattern 2 instead as C2 does because C3's strategic flagship programme is about gender balance and internal "materiality issues". However, there was no significant change in their focus sustainability areas in 2017 from the materiality analysis that had been conducted a few years ago. Hence, this supports the findings from Ahmed Haji and Anifowose (2017), who discovered that what used to be strategic SR reporting practice, will be institutionalized within an industry after a period of time. To summarize, the implementation of the Swedish law resulted in few implementation steps and their sustainability report 2017 remained similar to previous years' sustainability reports.

6. CONCLUSION

In the last chapter, we will start by answering the two sub-questions raised in chapter 1. From that, we are able to answer our main research question. Thereafter, our contributions to the research field will be presented and highlighted. The chapter ends with the limitation of the study and our suggestions for future research.

The purpose of this thesis was to examine how listed industrial SMEs in Sweden implement the Swedish law on mandatory NFI reporting. In particular, we have explored how internal and external motivational drivers have influenced implementing decisions. Likewise, we have also looked at how stakeholder engagement has impacted the implementation within the case companies. Scholars have accused SR as being nothing more than a marketing tool (Cerin, 2002; Grogan et al, 2010). However, we discovered that the case companies are using SR for different purposes (e.g. focus on internal or external perspectives), which are shaped by motivational drivers. As a result, four patterns of implementation of mandatory NFI reporting emerged. These patterns have not been visible before in previous research within the area of mandatory SR.

The first sub-question was: *How do the external and internal perspectives impact on implementation decisions made by listed SMEs?*

As stated above, the case companies are using SR for different purposes, which means that they are incentivized to adjust the sustainability report to internal and external needs. In other words, when a company is exposed to strong internal pressure, business case, internal context and actors and internal factors, are all taken into account during implementation of mandatory NFI reporting. This is demonstrated by C2 (P2) who uses sustainability strategically to gain legitimacy from internal stakeholders. In C2, it is the CEO at the subsidiaries who decide what ambition level they strive for in sustainability as a means to increase sales and differentiate from competitors. Naturally, C2's sustainability report is mainly concentrated on internal matters and during the implementation process there is strong involvement of internal stakeholders (i.e materiality analysis was conducted with key internal personnel)

Correspondingly, when a company is exposed to strong external pressure: legislative, industry and stakeholders that is also taken into account during the implementation of mandatory NFI reporting. For instance, C1 (P3) is primarily employing sustainability strategically to maintain legitimacy (i.e the social contract) acquired from external stakeholders. In particular, C1's industry is heavily regulated and big customers have high expectations on how their business partners operate with sustainability. Consequently, C1's sustainability report is mainly focused on external matters and assures external stakeholders that they comply with all the necessary regulations and that it is "business as usual" (Suchman, 1995). Therefore, the implementations decisions are permeated by actions that appear legitimate in the eye of the external viewer.

The second sub-question of this study was: *What are the main steps in the process of implementation?*

We have discovered four patterns of implementation of mandatory NFI reporting. These four patterns are characterized by different implementation steps. Pattern 1 (P1) encompasses stakeholder analysis and materiality analysis involving both internal and external stakeholders, which resulted in the creation of a risk and risk management matrix, establishing new key sustainability focus areas, new KSIs, developing short and long-term goals for sustainability and updating internal policies. Moreover, the stakeholder inclusiveness is broader, the materiality issues better explained in the sustainability report and the responsiveness to stakeholders concerns are more extensive than in other patterns.

Similarly to P1, pattern 2 (P2) is comprised of a materiality analysis (which only involved internal stakeholders), but no stakeholder analysis. The materiality analysis resulted in the identification of their key sustainability focus areas, risks attached to each focus area, new KSIs and creation of a sustainability group-wide policy. Furthermore, the stakeholder inclusiveness is less broad when comparing to P1, because C2 (in P2) mainly involved internal stakeholders and excluded external stakeholders. In fact, the major sustainability focus areas are addressing internal material issues. However, the responsiveness to stakeholders concerns is extensive.

On the other hand, pattern 3 (P3) is comprised of only updating and setting up new KSIs and internal policies. This also involved reviewing the key sustainability focus areas based on relevance and benchmarking with competitors. In addition, the stakeholder inclusiveness is narrow, which only could be observed through business transactions and no materiality analysis has been conducted. Consequently, this led to low stakeholder responsiveness.

Comparable to P3, pattern 4 (P4) could be described as containing few implementation steps. Notably, C3 in P4 took a "soft approach" in the implementation resulting in no significant change in their sustainability report, except updating internal policies and more references to different parts in the annual report. Thus, the stakeholder inclusiveness is limited to business transactions and no materiality or stakeholder analysis has been revised this year. Finally, stakeholder responsiveness appears to be low.

With support from the above sub-questions, we are able to answer the main research question: *How is the Swedish law on non-financial information reporting implemented among listed Swedish industrial SMEs?*

Borglund et al (2010) discovered that many Swedish state-owned companies had problems when implementing mandatory SR for the first time because many of them had not produced a sustainability report before. Consequently, we raised the question in the problem discussion how well-suited SMEs are to implement mandatory NFI reporting. Interestingly, it turned out that the case companies took distinct approaches to implement the Swedish law on NFI reporting. In this thesis, we have revealed four different patterns of implementation, which is the major finding and contribution of our study.

We have discovered that the four patterns of implementation are shaped by their internal and external motivational drivers, which is the reason why the case companies have implemented the Swedish law in a certain way. The four patterns of implementation all consists of similar implementation steps in the stakeholder engagement guidelines, but in varying degrees. To exemplify, P1 and P2 encompass more implementation steps than P3 and P4. For that reason, the case companies in P1 and P2 showed a significant impact on reporting practices compared to P3 and P4, where it was only moderate and insignificant impact. Furthermore, we also observed that stakeholders play a vital role in the reporting practice. In fact, high involvement of both internal and external stakeholders in P1 resulted in more implementation steps. Whereas, in P4 with less involvement from internal and external stakeholders the result was fewer implementation steps. To conclude, this means that companies can rotate around the patterns of implementation since the motivational drivers can change and SR is not static (Greco et al, 2015).

In the patterns of implementation, there are different behaviors of legitimacy (i.e. institutional, strategic and material), but it cannot be clearly identified and separated as it was possible for motivational drivers and the implementation steps. Recently, researchers have found that the different dimensions of legitimacy are not mutually exclusive (Dumay et al, 2015; Ahmed Haji and Anifowose, 2017), which our findings indicate. For example, we were able to identify a mix of strategic and institutional legitimacy behavior in P2, P3 and P4. Implementation with a strategic approach is associated with an ambition to gain legitimacy and more implementation steps, while the institutional approach is about maintaining legitimacy and take implementation steps that ensure stakeholders it is "business as usual".

Lastly, we noticed that the case companies have encountered similar challenges that have been discovered in the literature (Arena and Azzone, 2012; Tillväxtverket, 2014; Johnson and Schaltegger, 2016). The case companies are lacking resources and time to implement the Swedish law on their own, therefore, all of the case companies engaged with external experts to comply with the law and develop the sustainability report. Moreover, no international sustainability standards, such as GRI, have been applied. However, all case companies acknowledge the importance of sustainability. Notably, C3 and C4 have appointed a sustainability manager for the first time. In the future, all case companies need to collect sustainability data in a more structured way, which requires higher sustainability competence, better information systems and better cross-functional collaboration.

6.1 Contributions

We identified two research gaps in the problem discussion. SR research is lacking empirical studies about development of SR in reaction to new regulation (Hahn and Kühnen, 2013) Moreover, there is also a limited understanding how SRs are developed and whose priorities they reflect (Grahovar, 2016). This thesis has contributed to the SR research field in various ways.

Firstly, our major contribution is the discovery of the four patterns of implementation of mandatory NFI reporting, particularly within the industrial sector in Sweden. The patterns of implementation are shaped by internal and external motivational drivers, which is not static over time. Our understanding of this finding has not been observed in previous research. This means, that the knowledge is useful for future research about the mandatory implementation of NFI reporting, where our findings can be compared with future discoveries in the area. In a broader perspective, the Swedish law is one version of the EU directive. Thus, our exploratory case study gives an early experience of the implementation within a Swedish regulatory setting. Secondly, we have applied legitimacy theory in an unconventional way. Usually, legitimacy theory is used to analyze disclosure decisions in SR (Deegan and Rankin, 1996; Cho, 2009), but we have instead studied the implementation of mandatory NFI reporting. Yet, our findings support Dumay et al (2015) and Ahmed Haji and Anifowose (2017) who claimed that strategic and institutional legitimacy are not mutually exclusive since we were able to detect mixed legitimacy behavior in the four patterns of implementation.

Thirdly, we urge policymakers to consider the fact that GRI or other similar SR frameworks are not employed in the case companies to implement the Swedish law. The case companies explained that it is challenging to apply GRI because it is time and resource consuming and not completely applicable. In contrast, it has been argued that applying GRI will make it easier to implement the EU directive (FEE, 2016; La Torre et al, 2018). However, that is not the case within this study. Lastly, our study has shown that it is not only about implementing mandatory NFI reporting, but rather that companies need to reflect upon the purpose and motivational drivers they have for SR, which determines the implementation steps that must be undertaken.

To conclude, this study has reduced the two research gaps by discovering the patterns of implementation of mandatory NFI reporting, which is a clear response to regulations and a result of motivational drivers for SR. Through analyzing the legitimacy needs in the case companies, we were able to understand the patterns of implementation and why the case companies took certain implementation steps.

6.2 Limitations and Suggestions for Future Research

This study revealed four patterns of implementation of mandatory NFI reporting. Our study was carried out with four listed industrial SME companies in Sweden. Our findings are limited to a specific industry and country setting, but it would be interesting for future studies to investigate if the patterns of implementation and legitimacy behavior hold true for similarly sized companies in other industries and European countries. This could be accomplished through examining a specific industry and country or a cross-sectoral study. Another limitation of our study is the low sample size of companies. One can extend the sample sizes by including more companies, which would increase transferability of the patterns. By increasing the sample size, it would be easier to measure the accurate position of a company within our matrix over the patterns of implementation. However, that would require a quantitative research method such as sending out questionnaires to participating companies.

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APPENDIX 1

Interview Questions to Case Companies

1. General

1.1 Can you briefly tell us about your company?
1.2. What is your current role at your company?
1.3 When did your company start reporting and why?
1.4 Why and how do you use UN Global compact for sustainability report?
1.5 What are your motivations to publish a sustainability report?

2. Your sustainability reporting process

2.1 How do you work with your sustainability report during the year?

- Who inside the company are involved with sustainability reporting?
- How do these people work with sustainability reporting?

2.2 Would you characterize this work as a "top-down or bottom-up process"?
2.3 Which tools and resources do you use when preparing the sustainability report?

3. Stakeholder identification and stakeholder engagement

3.1 How have you identified your stakeholders?

- How and when do you communicate with your stakeholders?
- What is the challenge when identifying who the stakeholders are and how do you deal with it?

3.2 How do the stakeholders participate in the sustainability reporting process?

- Can you give examples of when you involved stakeholders in your sustainability reporting process?

3.3 In what way does your company take action from the stakeholders' concerns in sustainability issues?

3.4 How does your company build and sustain relationship with different stakeholders when it comes to sustainability issues?

4. Reporting content

4.1 How does your company decide which aspects that are material and should be included or excluded in the sustainability report?
4.2 Can you describe the process of major sustainability issues assessment/identification?
4.3 What do different stakeholders consider are the material sustainability issues?

- How do you include that in reporting process?

4.4 How has the content of the report evolved over time, in terms of reported aspects?
4.5 We noticed in your sustainability report that you use 10 different key figures and that you have added new ones during the years.

- Why have you identified them as key figures? Why have you changed your key figures?

5. New Swedish law: disclosure of non-financial information

5.1 What are, in your opinion, the positive and negative impacts of new Swedish law on sustainability reporting within your company? Can you give examples?

5.2 How has the new Swedish law affected your work with the sustainability report and the content of it?

- Have you changed the way you are preparing the sustainability report?

5.3 How have you implemented the requirements from the law into your sustainability report?

- Who have been involved with adopting your report to the legislation?
- How have your stakeholders' reaction been? Have they been involved somehow in your work to comply with this law?
- Have you developed new policies or changed your key figures as a result of this legislation?

5.4 How have this legislation impacted your content in the coming sustainability report? For example, quantity, focus etc.

5.5 Which of the 5 mandatory areas in the law have been most challenging for you (in relation to what you have disclosed and prioritized before)?

Interview Questions to External Organizations

1. General

1.1 Can you briefly tell us about your organization?

1.2. What is your current role at the organization?

1.3 What is the organizational and your role within the sustainability reporting field?

1.4 In general, what is the motivation behind companies' decision to publish sustainability reports?

2. The sustainability reporting practices within the industrial sector

2.1 In your opinion, what do you think about the sustainability reporting practice among listed mid and small cap companies? For example: strengths and development, challenges etc.

- What about the sustainability reporting practices within listed mid and small cap industrial companies in particular?

2.2 From your experience, which roles within companies are most involved in the work with the sustainability report?

2.3 In general, which sustainability reporting framework are the most commonly adopted among the listed mid and small cap industrial companies? Why?

2.4 How has the sustainability reporting evolved over time, in terms of quality and quantity?

3. Stakeholder engagement

3.1 Who do you think are the companies' primary and secondary stakeholders when it comes to sustainability reporting?

3.2 How do you think companies' stakeholders can contribute to the sustainability reporting process? In what way?

3.3 On a sector level, what do industrial companies' stakeholders consider are the most important sustainability issues?

3.4 In what way do you think that companies respond to the stakeholders' concerns in sustainability issues?

4. The New Swedish law: disclosure of non-financial information

4.1 What is your opinion of the new Swedish law about disclosure of non-financial information?

- Positive and negative aspects.
- What do the stakeholders of industrial companies think about this new legislation?

4.2 How have the industrial companies implemented the requirements from the law into their sustainability report?

- Who have been involved with adopting their sustainability report to the legislation?
- Have their stakeholders been involved somehow in their work to comply with thislaw?
- Have they developed new policies or changed their key figures/KPIs as a result of this legislation?

4.3 Which of the 5 mandatory topics in the law have been the most challenging for industrial companies (in relation to what they have disclosed and prioritized before)?

4.4 After the implementation of this new law, in your opinion, do you think that companies are going to be more accountable and transparent in their reporting?

APPENDIX 2

Tentative Project Schedule

Tentative project schedule (Johan Nyström & Sovuthy Oum)

Activities / Date	Jan				Jan/Feb	Feb			Feb/Mar	Mar			Mar/Apr	Apr				Apr/May	May			May/Jun	Jun		
	W1	W2	W3	W4	W5	W6	W7	W8	W9	W10	W11	W12	W13	W14	W15	W16	W17	W18	W19	W20	W21	W22	w23	w24	w25
Submission of research topics and state of the art literatures																									
Revision of research topics and state of the art literatures																									
Seminar I: proposal presentation and discussion (31/1)																									
Feedback to be planned																									
Phase I: Tasks thesis writing																									
-Introduction																									
-Literature reviews																									
-Research designs																									
Submission of developed plan of thesis and 1st draft report (introduction, method, and frame of reference)																									
Revision of 1st draft report																									
Phase II: Emprical work																									
-Companies search and contacting																									
-Interviews and review documents																									
Seminar II: mid-report presentation (Mar)																									
Feedback to be planned																									
Phase III: Task thesis writing																									
-Empirical findings																									
-Analsysis																									
Submission of 2nd draft report (introduction, method, frame of reference, empirical findings, and analysis)																									
Revision of 2nd draft report																									
Seminar III: mid-report presentation (Apr/May)																									
Feedback to be planned																									
Phase IV: Task thesis writing																									
-Conclusion and discussion																									
-Future research																									
-Revision of introduction and write abstract																									
-References checking and other admin works																									
Submission of 3rd draft (introduction, method, frame of reference, empirical findings, analysis, conclusion and discussion, and future research)																									
Revision of 3rd draft report																									
Submission of final draft report (Full report) (20/5, 23.59)																									
Annoucement of Seminar IV (21/5, 12.00)																									
Feedback to be planned																									
Seminar IV: final presentation and discussion (24-25/5)																									
Supplementary work finished (3/6, 23.59)																									
Graduation ceremony (13/6)																									
Submission of final thesis to the GS Administration (19/6, 12.00)																									