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Master Degree Project in Accounting

Extent and quality of sustainability reporting

A content analysis of sustainability reporting for Swedish large cap and small cap firms under the new EU-directive legislation

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Abstract

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Title: Extent and quality of sustainability reporting - A content analysis of sustainability reporting for Swedish large cap and small cap firms under the new EU-directive legislation.

Background and problem discussion: Sustainability reporting (SR) is a topic which has become increasingly important for organisations over the last thirty years. The quality of SR is an aspect which has been heavily scrutinised and reports have been criticised for lacking balance, reliability and comparability. In 2017, the new EU-directive mandating reporting on sustainability matters (business model, social, environmental and ethical) will be introduced for all larger companies in Sweden. The expectation is that the new directive will provide information that is clear, comparable and decision-useful for stakeholders. Therefore, this study addresses a research gap in the SR literature on how legal pressure affects the quality of SR.

Purpose and research question: The purpose of this study is to see what implications the EU-directive 2014/95/EU has had on the extent and/or quality of large cap and small cap firms listed on Nasdaq OMX Stockholm. Furthermore, the institutional theory is used as a theoretical lens for the analysis of the institutional pressures driving SR for large cap and small cap firms.

How does the new sustainability reporting legislation affect the extent and quality of sustainability reporting?

Methodology: This study examines the quantitative and qualitative impacts of the new EU-directive on reporting practices for 15 large cap and 15 small cap manufacturing firms on Nasdaq OMX Stockholm using a content analysis combining form-oriented and meaning-oriented approaches. The form-oriented approaches applied for measuring the extent of SR is a page count and a sentence count. The meaning-oriented approach applied is a disclosure index developed by Dyduch and Kradusomska (2017) in order to observe the quality of business model, environmental, social and employee and ethical disclosures.

Results and conclusions: This study examines the extent and quality of SR two years prior (2015 and 2016) to the introduction of the new EU-directive and the first year under the new directive (2017). Three traits can be noted for SR of large cap and small cap firms. First, a specific upturn in the extent and quality of SR can be noticed for small cap firms due to the introduction of the new EU-directive. Second, the quality and extent of reporting for large cap firms is at a significant higher level for large cap firms due to the adoption of SR frameworks both prior and after the regulation. Third, a small increase in extent and quality can be noticed for the development of extent and quality of reporting for large cap firms. However, the ”comply or explain” approach of the EU-directive do not obtain similar results as previous studies on country-specific legislations using a ”command and control” approach to SR legislation.

Key words: Sustainability reporting, EU-directive 2014/95/EU, content analysis, institutional theory.

Table of contents

List of tables

1. Introduction

This chapter presents the background and problem discussion which is followed by the purpose, research question and outline of the thesis.

1.1 Background

Since the 1990's, sustainability reporting (SR) has become an increasingly important topic for both businesses and academics (Hahn and Kuhnen, 2013). In 1987, the Brundtland report released by the United Nations defined sustainable development as ”d*evelopment that meets the needs of the present without compromising the ability of future generations to meet their own needs* ” (UN, 1987). Two years later, the first sustainability reports were released and the following years saw a strong positive development of SR with a focus on environmental aspects of sustainability (Herzig and Schaltegger, 2006). Since the mid-1990's SR has also come to include social and economic aspects of sustainability and has become a mainstream voluntary practice for the largest corporations in the world.

Until 2017, SR has predominantly been a voluntary practice for organisations in Sweden, the European Union and other parts of the world. The extent and quality of SR has varied across organisations and two determinant factors of the extent and quality of reporting found in previous research have been the size and media exposure of an organisation (Hahn and Kuhnen, 2013; Dienes et al, 2016). The calls for transparency, especially among larger and multinational corporations, has been a driving force for SR (Kolk, 2010). The possible social and environmental impacts that an organisation can have on the planet and communities demands for them to be transparent and disclose information towards stakeholders. The increased stakeholder pressure on sustainability information from organisations has also influenced regulators around the world which have introduced country-specific legislations on SR in e.g. France, South Africa, Malaysia, China and Denmark (Ioannou and Serafeim, 2017).

Since the introduction of voluntary SR in the 1990's, a wide variety of sustainability reports have been produced by firms thus resulting in large differences when it comes to the scope, length and depth of sustainability disclosures (Fortanier et al, 2011). An attempt to mitigate the diversification in practices and information of SR has been made through international reporting frameworks, most prominently GRI, which standardises the information provided towards stakeholders and improves the quality and comparability of sustainability information. Albeit a positive development of harmonisation of SR for GRI reporters and reporters following other standards of SR, there are still a low number of companies around the world that are producing sustainability disclosures (ACCA, 2004). Thus, the overall extent and quality of SR has yet to be developed into disclosures that provide meaningful and comprehensive reports across all sectors and sizes of companies.

In October 2014, Directive 2014/95/EU amending the Accounting Directive 2013/34/EU was implemented by the European parliament which mandates all larger entities to disclose non-financial information on five areas of sustainability, i.e. environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters (European Union, 2014). The new directive highlights corporate transparency regarding important sustainability issues in the reports and articulates the potential to be an influential factor for companies affected by the directive but also for other companies through the value chain (CSR Europe and GRI, 2017). The expectation is also that the new directive will improve the quality of SR, by supporting companies in producing clear, comparable and decision-useful information, and thus improve the monitoring of sustainability goals for the transition to a more sustainable global economy.

1.2 Problem discussion

In order for companies to be successful in responding to the increased demands of a large set of stakeholders, sustainability reports provides an important channel of communication in order to increase transparency, benchmark against peers, motivate employees but also to improve brand value, signal competitiveness and increase reputation and legitimacy (Hahn and Kuhnen, 2013).

The introduction of the GRI framework has reduced greenwashing tendencies (Laufer, 2003) through its standardising of information which can be used for ranking and benchmarking sustainability reports, and for the routinisation of SR practices (Levy et al, 2010). However, it has not resulted in data which are easily comparable between firms. There has been an increased focus on procedures of SR in comparison with the transparency and comparability of data provided towards investors and other stakeholders. Whereas the annual growth of SR between 1996-2003 fluctuated between 20-40 %, the subsequent years have seen growth numbers around zero or even negative in US and Scandinavia (Laufer, 2003). Although the positive effects of SR for large MNCs in order to protect their brand, the positive effects among smaller corporations have seen a reduction of benefits related to SR and growing costs especially related to external auditing and assurance services. GRI has been criticised as an information tool for investors due to the small amount of reporters and the lack of quantitative information which hinders comparability of firms. Furthermore, differences in the extent and type of reporting has been noticed between countries (Fortanier et al, 2011).

In addition to the comparability concerns over single voluntary international SR frameworks, the wide variation of SR have raised questions with regards to the quality and scope of disclosures (Hess and Dunfee, 2007). Many companies have simply provided statements of environmental and social policies without any data related to environmental and social reporting. The differing nature of voluntary reporting sustainability hampers the possibility of providing information of high quality and comparability across firms, and offers the opportunity for strategic SR. If voluntary, firms will tend to avoid disclosing social and environmental information which could have a negative effect on future cash flows and highlight more positive aspects of their social and environmental impacts. Hence, mandatory disclosures involving the most material issues is a possible solution in order to improve the comparability and quality of reporting.

Previous SR literature have identified the differences in extent and quality of SR based on different institutional environments (Fortanier et al, 2011) but also based on different internal and external factors driving the extent and quality of SR (Hahn and Kuhnen, 2013; Dienes et al, 2016). In their review of SR research in 21st century, Hahn and Kuhnen (2013) identifies two potential areas for future research in the field: research concerning regulation and governance and research concerning reporting quality. The difference in reporting under different regulatory regimes is a topic which has been sparsely examined in previous research. The new directive offers insights into how firms respond with regards to the extent and quality of reporting. Whether SR should be regulated and its potential effects on SR is a topic which has caused discussions in business as well as academia. The current self-governance of SR practices has been heavily scrutinised and criticised in earlier research of social and environmental accounting. Laufer (2003) finds a growing body of literature finding a tendency of deception and posturing in order to maximise the legitimising effects of SR.

Self-governated SR has been criticised for the occurrence of greenwashing, blue washing or a special gloss in sustainability reports (Laufer, 2003). Meanwhile, the well developed voluntary SR frameworks which are already in place in larger corporations all over the world today, a new SR legislation has been questioned as to how effective mandatory SR will be with the risk of SR becoming a check-list activity compared to the innovative potential of other voluntary international SR frameworks (Brown, 2009).

1.3 Purpose and research question

The aim of this thesis is to explore what implications the new legislation has had on the extent and quality of sustainability reporting among Swedish listed firms. A focus of this thesis will be two of the underrepresented streams of SR in the review of Hahn and Kuhnen (2013) i.e. research related to regulation and governance, and research concerning reporting quality. By using a content analysis method, the most widely employed method within SR research, we are able to draw inferences about the extent and quality of sustainability reporting prior and after the introduction of the new EU-directive on sustainability reporting.

How does the new sustainability reporting legislation affect the extent and quality of sustainability reporting?

1.4 Outline

The thesis consists of six chapters. The first chapter presents the background, problem discussion and purpose of this study. The second chapter presents sustainability reporting, international frameworks for SR, regulation of SR in Sweden, a literature review of research related to regulation and quality of SR as well as the institutional theory and the institutional pressures influencing SR. The third chapter presents the methodology of the thesis and a discussion related to this. The fourth chapter consists of the empirical findings of the study. The fifth chapter is an analysis section based on the institutional pressures and qualitative characteristics of SR. In the sixth chapter, the results of the study is discussed based on the theoretical framework. The seventh and last chapter presents the main findings, contributions of the study and suggestions for future research.

2. Theoretical framework

This chapter presents the concepts of sustainability reporting, international frameworks for SR and the regulation of SR in Sweden. Furthermore, a literature review of SR research related to legislation and quality of SR, the institutional theory, institutional pressures driving SR and model for analysis is presented.

2.1 Sustainability reporting

Sustainability reporting (SR) is *"the practice of measuring, disclosing and being accountable to internal and external stakeholders for organisational performance towards the goal of sustainable development"* (GRI, 2011). Since the start of the 1990's, SR has become an increasingly important part of business reporting. The increased stakeholder pressure related to environmental and social scandals through the years have called for companies to be more transparent (Kolk, 2010). SR consists of three main areas of reporting: financial, social and environmental. Financial reporting which has been the mainstream regulated reporting of business was first complemented by social reporting in the 1970's. Due to higher income levels and the negative features of the quantitative aspects of economic growth, several companies in Europe released social reports containing information concerning social goals, activities and impacts of their operations. However, during the latter parts of the 1970's most social reports disappeared from the corporate agenda due to several reasons, one of them being a reduced interest in reports as working conditions were improved at the time.

It was not until the late 1980's and first parts of 1990's when environmental reporting became a part of businesses reporting (Elkington, 2004). An explanation to this development was the increased public awareness of the possible negative implications corporations could have on the environment exemplified through environmental accidents and disasters during the time. The increased stakeholder pressure and legitimising effect this had on corporations at the time increased the extent and quality of SR during the 1990's. Since the mid-1990's, also social sustainability have become an integral part of SR and thus companies have started to report on sustainability according to the three P's: profit, people and planet, i.e. financial, social and environmental sustainability (Kolk, 2010).

2.2 International frameworks for SR

Over the last thirty years several different frameworks and concepts have been introduced with the ambition of harmonising SR practices. The two most prominent frameworks in contemporary SR practices, have been the "Global Reporting Initiative" (GRI) and the "Integrated reporting" (<IR>) frameworks. GRI, introduced in 1997, focuses on complementing financial information provided through mandatory financial reporting practices with social and environmental sustainability information and is the best known framework for SR. In 2013, <IR> was introduced by the IIRC council in 2013 which focuses on integrating social, environmental and financial reporting.

2.2.1 Global Reporting Initiative

Global reporting initiative (GRI) is an independent international organisation and introduced the first global standards of SR in 1997 (GRI, 2018). The aim of GRI, is "*to help organisations around the world, of all sizes and from a range of sectors, to identify, measure, and report on their* *economic, environmental, and social performance*" in order to contribute to a sustainable development. The organisation and its first principles of SR was created when CERES and UNEP started conversations among a large group of organisations and businesses in order to find a global sustainability reporting framework (Thurm, 2006). The framework has subsequently had a large impact on SR practices and is the most common framework for SR (GRI, 2018). In 2017, 83 % of the 250 largest companies in the world are reporting according to the framework (KPMG, 2017).

Over the first 20 years since the introduction of GRI, several generations of guidelines have been released (GRI, 2018). An important part of the evolving process of the guidelines is the interaction with stakeholders. The GRI guidelines have had an aim of creating an accountability mechanism towards investors and other stakeholders (GRI, 2018). In 2013, the fourth set of GRI guidelines (G4) was released which is a requirement for all reporters following the framework (GRI, 2013).

The G4 guidelines consists of two parts (GRI, 2013). The first part of the framework involves the reporting principles and standard disclosures and the second part of the framework is an implementation manual. The reporting principles of the framework are used for achieving transparency in reporting and can be divided into two groups: principles for defining report *content* and principles for defining report *quality*. In total, there are four reporting principles for defining report *content*: materiality, sustainability context, stakeholder inclusiveness and completeness.

Materiality means that the report should cover the areas which reflects the firm's economic, social and environmental impacts of an organisation and areas which substantively influences the assessments and decision-making of stakeholders (GRI, 2013).

Sustainability context refers to that the performance of an organisation is placed into a wider context, e.g. through the limits and demands on sustainability performance sector-wise, locally, regionally or global (GRI, 2013).

Stakeholders inclusiveness concerns the identification of stakeholders and how the organisation have responded to the reasonable expectations and interests (GRI, 2013).

C*ompleteness* refers to that the material topics and indicators are covered and the reporting boundary is sufficient to reflect significant economic, social and environmental impacts and that an assessment of an organisation's performance in the reporting period is feasible (GRI, 2013).

All four principles of reporting are supported by a set of tests and together with the standard disclosures, reporters define the material topics and areas of SR that are of interest to report upon for internal and external stakeholders (GRI, 2013). In addition to the four principles defining the *content* of reporting, there are six principals for the definition of reporting *quality*: accuracy, balance, clarity, comparability, reliability and timeliness.

Accuracy prescribes that the information should be enough accurate and detailed in order for stakeholders to make an assessment of a firm's organisational performance (GRI, 2013).

Balance means that the report should reflect on both positive and negative aspects of a firm's performance in order to for an assessment of the overall performance (GRI, 2013).

C*larity* stipulate that the information should be made available in an understandable and accessible manner for readers of the report (GRI, 2013).

C*omparability* means that issues and information is selected, compiled and reported in a consistent manner. Furthermore, the disclosed information is also expected to be presented in such a manner that it enables stakeholders to make an analysis of changes in a firms performance over time as well as to make a comparison to other organisations (GRI, 2013).

Reliability concerns the information about the processes of documentation, compilation, analysis and presentation of sustainability information with regards to the scrutiny of quality and materiality (GRI, 2013).

Timeliness prescribes that reports are released in accordance with a regular schedule and the information is made available to stakeholder in order for them to make informed decisions (GRI, 2013).

The standard disclosures of the G4 guidelines refers to what information that should be included in the GRI report based on relevance and materiality (GRI, 2013). There are two form of standard disclosures: *general* and *specific*.

General standard disclosures consists of seven categories disclosures: strategy and analysis (G4, 1-2), organisational profile (G4, 3-16), identified material aspects and boundaries (G4, 17-23), stakeholder engagement (G4, 24-27), report profile (G4, 28-33), governance (G4, 34-55) and ethics and integrity (G4,56-58) (GRI, 2013). For companies following the G4 guidelines, there are two options of how to report: ”in accordance”-core or ”in accordance”-comprehensive. A focus of both alternatives of reporting is on materiality and meeting stakeholder's informational needs in all aspects of SR, i.e. social, environmental and economic sustainability. Whereas companies following the core framework are not required to follow disclosures G4-34 to G4-55 and G4-57 to G4-58, an explanation for the omission of any of these disclosures are required for comprehensive reporters.

Specific standard disclosures consists of two parts: disclosures on management approach (DMA) and indicators (GRI, 2013). DMA consists of three main categories according to the three dimensions of SR, i.e. social, environmental and economic. Furthermore, the social disclosures contains four sub-categories of disclosures: labor practices, decent work, human rights and society and product responsibility. All of the four categories of social reporting, and the categories of environmental and economic are reported on based on a number of aspects related to each category. Depending on the materiality of the different aspects in a category, reporters are able to disclose on the aspects which influences the decision-making of stakeholders and are significant for the organisations social, environmental and economic impact. DMA are narrative information concerning: a) why the aspect is material and what impact makes it material, b) how the organisation manages the material aspects or it impacts, and c) the evaluation of the management approach (mechanisms for evaluating the effectiveness of the MA, results of the evaluation of the MA and any related adjustments to the MA).

2.2.2 Integrated reporting

In 2013, the Integrated International Reporting Council (IIRC) introduced the first set of guidelines for the international integrated reporting framework (<IR>). The aim of the framework was to promote more cohesive and efficient forms of corporate reporting and improve the quality of information in order for financial capital providers to make more informed decisions and enhance efficient capital allocation (IIRC, 2013). The long term visions set up by IIRC is for integrated thinking of an organisations value creation to become a mainstream practice for businesses in both private and public sectors.

Based on a principles-based approach, the integrated report aims to provide stakeholder with information concerning how the reporting entity creates value over time (IIRC, 2013). In comparison to the GRI framework, there are no specific requirements on specific disclosures, KPIs or measurement methods. A focus of the reporting is on striking a balance between flexibility and prescription in order to maintain the individual characteristics of the reporting of the firm meanwhile meeting the informational needs for comparability between firms.

The IR framework are structured according to three general concepts (IIRC, 2013). The guiding principles, content elements and fundamental concepts. There are seven guiding principles and eight content elements which refers to the content of the report and how it should be presented:

Guiding principles

- Strategic focus and future orientation
- Connectivity of information
- Stakeholder relationships
- Materiality
- Conciseness
- Reliability and completeness
- Consistency and comparability

Content elements

- Organisational overview and external environment
- Governance
- Business model
- Risks and opportunities
- Strategy and resource allocation
- Performance
- Outlook
- Basis of presentation

The fundamental concepts which underpin the guiding principles and content elements of reporting are the ”*resources and relationships used and affected by an organisation*” and the <IR> framework have identified them as ”capitals” (IIRC, 2013). There are six capitals in the <IR> framework: financial, manufactured, intellectual, human, social and relationship, and natural. The capitals are seen as stocks of value which are affected through the activities and outputs of the reporting entity. Albeit no requirements is made regarding reporting according to the fundamental concepts of reporting, the value creation on capitals on the short, medium and long-term makes the basis for the presentation of reports which are governed through the guiding principles and content elements.

2.3 Regulation of SR in Sweden

2.3.1 Sustainability reporting legislation for state-owned corporations

In 2007, Sweden became the first country in the world to mandate state-owned firms to release sustainability reports according to the GRI guidelines (GRI, 2010). Thus, it became obligatory for state-owned companies to report on social, environmental and financial sustainability information. The new regulation, which came into action in 2008, was introduced to further improve the sustainability work already in place at state-owned corporations but also to follow up on the boards responsibility according to the ownership policy for state-owned corporations of being a fugleman within social and environmental responsibility (Borglund et al, 2010).

2.3.2 Directive 2014/95/EU

In October 2014, the European parliament amended directive 2013/34/EU concerning disclosures of non-financial and diversity information by certain large undertakings and groups (European Union, 2014). In 2011 the Commission had identified the need of reaching a consistently high level of transparency across the Member countries related to social and environmental information which caused the development of a new a legislative proposal. The ultimate aim of the new directive and legislation was to facilitate the analysability of reports and increase the trust for companies with the background of previous social and environmental scandals (KPMG, 2016).

Directive 2014/95/EU mandates large undertakings or groups with an average number of 500 employees during the reporting year to include a non-financial statement consisting of information necessary for an understanding of the reporting entity’s development, performance, position and impact of its activity, related to: Environmental, social, employee matter, respect for human rights and anti-corruption and bribery matters (European Union, 2014).

The statement should include:
1) A brief description of the reporting entity’s business model.
2) A description of the policies pursued by the reporting entity in relation to the non-financial matters, including due diligence processes implemented.
3) The outcome of those policies.
4) The principal risks related to those matters linked to the reporting entity’s operations including where relevant proportionate: its business relationships, products or services which are likely to cause adverse impact in those areas, and how the reporting entity manages those risks.
5) Non-financial key performance indicators relevant to the particular business.

If the reporting entity does not pursue policies related to any of the five areas of reporting, a clear and reasoned explanation for the reasons behind not doing so shall be included (European Union, 2014). The non-financial statement shall also include references and explanations related to the amount reported in the annual financial statement. The report can be presented in, a) the management report, or b) through a separate report alongside the management report or through the reporting entity’s website with a reference made in the management report, and is to be released within a half-year from the balance sheet date.

In order for the new Directive 2014/95/EU to be effective, the directive have allowed state-specific requirements to incorporate the different business practices in the EU member states (CSR Europe, 2017). Two of the main differences found across EU is: 1. the definition of a large undertaking, and 2. the consideration of organisations to be PIEs. The directive also allows member states to decide whether: 1. reports must be verified by an independent assurance services provider, and 2. if any penalties will be imposed upon organisations which fail to report adequately. In addition to this, a call has been made towards member states in order to expand the company scope of large undertakings and PIEs in the directive which have been responded by in several nations.

In comparison to the original EU-directive, several differences can be noted (CSR Europe, 2017). Under Swedish legislation which also comprises other companies than PIEs, there are three criteria for SR under the EU-directive:

- Average number of employees > 250
- Balance sheet total > 175 MSEK
- Net turnover > 350 MSEK

If a company fulfils at least two of the criteria, it is required to report on sustainability matters at a minimum according to the legislative requirements (CSR Europe, 2017). In addition to the five requirements of the statement in the original directive, an explanation of sums in the financial statement which are relevant to CSR should be provided. If SR is missing according to the new legislation which have been included in the Swedish Annual Accounts Act, fines will be handed out as if any other part of the annual report had been missing.

2.4 Literature review

In their review of SR research since the turn of the century, Hahn and Kuhnen (2013) identified two underrepresented streams of SR research: regulation of SR and quality of SR. First, in order to identify studies reflecting on both areas of SR research, a review of studies on the impacts on the extent and quality of reporting for country-specific legislations are presented. Second, a review of studies on the quality of SR and how quality has been defined in previous research is presented.

Studies of regulation of SR

Four countries which previously have introduced national legislations on SR around the world are France, South Africa, China and Denmark. Morris and Badache (2012) identifies four different approaches to SR legislation in the four different countries based on four characteristics of reporting, i.e. targeted or comprehensive and guided or prescriptive. China and Denmark have introduced a targeted form of SR legislation, where the Chinese legislation targets economic reporting and the Danish legislation targets social reporting. Two countries which, similar to the new EU-directive, have implemented a comprehensive approach to SR legislation reflecting on all three dimensions of SR is South Africa and France. The South-African legislation, introduced in March 2010, requires all listed companies to release an integrated report with a third party assurance according to a ”comply or explain” approach where the mandatory information should be presented or explained if it is not presented. An alternative to this approach, which also has been used in the new EU-directive, is the French law on SR, introduced in December 2011, which is a prescriptive law using a ”command and control” approach to legislation where all firms of a minimum size of 500 employees and 100 million euros in revenue are forced to report upon 42 indicators of social, environmental and economic sustainability.

Due to the introduction of comprehensive SR legislations in France and South Africa, several studies can be found reflecting on the implications of new SR regulations in both countries. A study of Setia et al (2015) examines how the new SR legislation are able to fulfil the aim of an integrated report, i.e. the ability of an organisation to create and sustain value. A content analysis is used for the top 25 listed firms on the ”Johannesburg Stock Exchange” for the two years prior (2009/2010) and subsequent (2011/2012) to the introduction of the regulated integrated reporting. The study looks at the extent of reporting company-wise but also the extent of reporting related to the capitals of the Integrated reporting framework (IIRC). The results show that the extent of reporting have increased, and with reference to the capitals of the IR framework, the extent of reporting on human, social and relational, natural and intellectual capital increased after the introduction of the legislation.

A study which examines the effects of SR legislations in South Africa, China, Denmark and Malaysia concerning the extent of disclosures is provided by Ioannou and Serafiem (2017). Ex ante to the introduction of a SR legislation, the authors identifies two possible implications of the legislation. First, mandatory laws and regulation which introduces increased transparency could incentivise firms to improve social and environmental performance. Second, in order for firms with superior disclosures to distinguish themselves, greater efforts and higher costs of producing reports could produce negative externalities and potentially destroy shareholder value. The study examines the impact of the mandatory legislations which were introduced prior to 2011 have had on the level of transparency. A second imperative of the study was also to examine how legislation have impacted organisational practices and firm valuation. In comparison to a world-wide and a U.S. control group, the extent of reporting increased due to new mandatory legislations on SR in the four countries. Additionally, firms seek to improve the credibility and comparability of disclosures, e.g. through an increase in assurance on environmental and social disclosures and a higher extent of firms reporting according to the GRI.

Fatima et al (2015) examines the effects of a mandatory SR legislation on the quality of SR for public-listed firms in environmentally sensitive industries in Malaysia. In comparison to the ”comply or explain” approach introduced in South Africa and Europe under the EU-directive, the Malaysian legislation uses a ”command and control” approach similar to the French legislation. A disclosure index is used for evaluating the quality of disclosures two years prior and two years after the introduction of mandatory reporting. The study compares the quality of environmental disclosures in general, in each category of disclosures, for each industry as well as looking for significant increases in the number of companies disclosing environmental information. The results of the study concerning quality of SR which was assessed through a disclosure index indicates that the quantitative information of disclosures have increased over the four-year period which also have led to an increase in quality of disclosures.

A study reflecting the effects of mandatory reporting regulations on SR transparency in France is provided through the study of Kuhn et al (2014). A qualitative content analysis based on the GRI framework is used in order to reflect on transparency and accountability towards stakeholders and thus earning legitimacy. A sample of 24 corporations on the CAC40 index indicates that SR on environmental aspects have improved whereas no major improvements of transparent information on social and economic information was found, mainly due to the construction of the French SR legislation. Another study examining the effects of the SR legislation in France in the CAC40 index using a content analysis for a sample of 26 firms is provided by Chelli et al (2014). This study finds an increase in both quality and extent of reporting in France for annual reports of the first year of mandatory reporting in 2002.

In order to contribute to the previous body of literature, this study focuses on the implications of the new EU-directive in Sweden and its effects on extent and quality of disclosures in Sweden. A qualitative content analysis which not only focuses on the extent of disclosures, but also introduces a quality assessment similar to disclosure indices used in previous studies is able to reflect on not only the extent of disclosures but also the meaning of a text (Beck et al, 2010). The next section describes the development of content analysis studies in the field of SR research.

Previous studies of quality of SR

As a response to the increase of voluntary SR over the last twenty years, it has also become a common practice for academics (Hahn and Kuhnen, 2013). The most common form of SR research during this time frame has been content analysis which is a method used for assessing the quality of sustainability disclosures through the media of annual reports or sustainability reports released by firms. The traditional measure of quality in SR research has been to count the frequencies or volumes of reporting related to sustainability information (Michelon et al, 2014). More contemporary studies in the subject, though, have highlighted the need for content analysis studies looking beyond the quantification of reports and involve more meaningful measures of disclosure quality (Beck et al, 2010; Michelon, 2014; Guthrie, 2006).

Discussion of the quality of non-financial information can be traced back to 1970s. Two of the earlier studies focusing on the environmental disclosures that contributed to shaping modern content analysis methods related to quality of SR are the Ernst and Ernst (1977) and Wiseman (1982) studies. In order to comprehend more dimensions of reporting quality in addition to the extent of reporting, environmental disclosures were assessed according to a disclosure index reflecting on different important dimensions of environmental reporting. More specifically, disclosures involving quantitative information were seen as disclosures of higher quality compared to narrative information due to the objectivity of information presented in numbers. Ernst and Ernst (1977) states that ”*quantification of disclosure improves its quality by specifying the effort of a company in a specific area of social responsibility*”. Quantified disclosures are hard for competitors to imitate but are also more likely to provide information that is more accurate and represents the actual circumstances of a firm’s operations (Beattie, 2007). In addition to this, disclosures of only narrative nature are cheaper to produce and can thus influence the results obtained from standard content analysis methods used in SR research (Toms, 2010). Hence, quantified disclosures that are specific and verifiable are seen as disclosures of higher quality compared to disclosures only providing narrative information towards stakeholders.

2.5 Institutional theory

A theory used for explaining the motives of SR practices (Hahn and Kuhnen, 2013) which also will be used as a lens for explaining and analysing the results of this study is the institutional theory. It challenges the ideas of the economical rational actors and regards the choices of an actor to be dependent upon the norms, values and habits in the social setting (Katsikas et al, 2017). Furthermore, the theory looks into how the processes involved in developing the social setting of structures, rules, routines and norms is institutionalised and established among actors. In comparison to the ideas of rational actors where efficiency and competition is the cornerstones of decision-making of organisations, early institutional theory researchers identified that the motives of structural change in organisations seemed to be less driven by the need of efficiency or competition and a common identified motive in structural change was the choices of organisations to follow the actions of their peers (DiMaggio and Powell, 1983). For structured organisational fields it was noticed that the rational way of dealing with uncertainty resulted in homogeneity in output, structure and culture and not in a decision based on pure rationality or efficiency.

In SR research, institutional theory has become an explanatory factor to the development of reporting practices (Higgins and Larrinaga, 2014). The institutional theory explains how firms are following the ”taken for granted” assumptions of how to act in the institutional environments in which they operate. The institutional environment and the expectations which are created for organisations active in similar fields tends to develop similar practices in order to meet those expectations upon organisations. The old institutional theory identifies various institutional pressures that shapes the actions of organisations and organisations become more similar through three mechanisms of isomorphism, or homogenisation: *coercive*, *mimetic* and *normative* isomorphism. The coercive isomorphism concerns actions that companies are being forced to, mimetic refers to the isomorphic processes look to copy each other and normative isomorphism concerns the professionalisation of norms (Villiers and Alexander, 2014).

Coercive isomorphism is an effect of the formal and informal pressures that are put on organisations by other organisations as well as the cultural expectations in society (DiMaggio and Powell, 1983). The coercive mechanism, the regulative pillar of institutional theory, concerns the rules, monitoring, recompense and punishment within a field (Higgins and Larrinaga, 2014). For the SR field and this study, coercive mechanisms are primarily exerted through the requirements of the new legislation on SR but also by rules and monitoring of professional or industry bodies. Through the mimicking of the coercive mechanisms of professional requirements or laws, firms are able to gain legitimacy and comply to these requirements which tends to create isomorphic tendencies.

Mimetic isomorphism, the cognitive institutional mechanisms, refers to the cognitive dimensions of institutions based on the ideas of symbols and meanings in social actions and values which creates homogeneity effects of organisations operating in uncertainty (Higgins and Larrinaga, 2014). In times of uncertainty, organisations can model themselves towards other organisations in order to find a viable solution to little expense (DiMaggio and Powell, 1983). A common dominator for organisations exercising mimetic isomorphism is to mimic organisations which they perceive to be more legitimate or successful. For the field of SR and this study, the mimetic mechanisms can be identified through the replication of the practices of firms that are seen as environmentally and socially responsible, e.g. through following more established reporting frameworks such as the GRI and <IR>, firms are able to symbol their intent on sustainability matters.

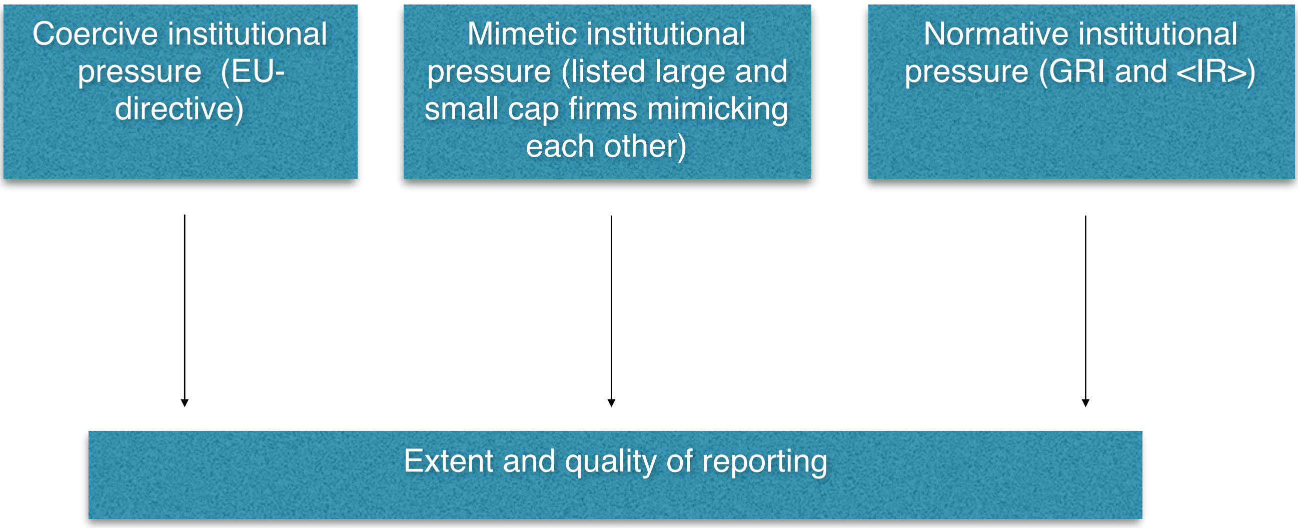
Normative isomorphism, the normative pillars of institutional theory, refers to the values and norms within an institutional field (Higgins and Larrinaga, 2014). Normative mechanisms are created when organisations are following the perceived expectations on the right thing to do. Furthermore, the normative isomorphism can be explained through the organisational change driven by professionalisation (DiMaggio and Powell, 1983). Two aspects of professionalisation can be noted. One is the isomorphic effects driven by formal education whereas the second is the development of professional networks. The two aspects of normative isomorphism creates an environment where managers and organisations becomes similar due to the homogeneity of educational backgrounds as well as the development of similar practices through cooperation in professional networks. For the field of SR and this study, the normative mechanisms can be identified through the ideas that firms are disclosing sustainability information although it may not be a rational option based on economic premises (Higgins and Larrinaga, 2014).

The three pillars of isomorphism explains how institutional pressures stabilises and converges practices within an institutional field. However, it has also been criticised for not reflecting upon change (Higgins and Larrinaga, 2014). Institutional theory explains how organisations are able to survive through the adjustment to the values within the institutional environment and have thus enlightened the stability, access to resources and legitimacy of an organisation's activities (Ball and Craig, 2010). It also has the potential of describing the broader institutional environment as opposed to a tendency of describing social and environmental accounting on an individual organisational level. The theory has not commonly been seen as a theory of change but rather a theory of similarity and stability within a certain field. However, several studies have identified how organisations act with regards to institutions and institutional change (Ball and Craig, 2010; Lounsbury, 1997).

For this thesis, the institutional theory is used as the theoretical lens for analysing the results from the content analysis of SR prior and post the introduction of the new EU-directive for Swedish large cap and small cap listed firms. Especially, the isomorphic processes of the institutional theory which explains how the reporting of SR becomes similar due to the the institutional pressures of the institutional environment is examined. First, the coercive isomorphism which refers to the isomorphic tendencies created by rules, laws or standards, will provide a basis for analysis of how SR converges due to the new EU-directive. Second, the mimetic isomorphism of SR based on how organisations mimics other firms that are seen as legitimate or successful in their institutional environment is analysed. Third, the normative isomorphism in this study can be identified by the different norms for SR, e.g. GRI and IR, and how it impacts the SR within the large cap and small cap segment. The emphasis on the analysis of isomorphism will be on the isomorphic change related to SR.

Model for analysis

Based on the three pillars of institutional theory a model for analysis have been developed for this thesis. The first section contains an analysis of the coercive, mimetic and normative institutional pressures that have impacted the extent and quality of reporting of the listed firms. Furthermore, the qualitative implications of the new legislation is analysed based on the qualitative characteristics that are a part of both GRI and IR frameworks, i.e. materiality, balance, clarity, comparability, reliability and completeness, accuracy and timeliness (for definitions, see section 2.2.1).


Coercive institutional pressure (EU-directive)
Mimetic institutional pressure (listed large and small cap firms mimicking each other)
Normative institutional pressure (GRI and <IR>)
Extent and quality of reporting

3. Methodology

This chapter presents the methodology of the thesis involving information about the sample selection, content analysis, data collection, data analysis, reliability and validity.

3.1 Sample selection

The sample in this thesis consists of large cap and small cap companies on Nasdaq OMX Stockholm in order to see the impacts on the extent and quality on SR based on the new EU-directive and the institutional pressures driving SR in two different segment of listed firms. Prior to mandatory reporting on sustainability for larger entities in Sweden, SR has predominantly been a practice for large cap and multinational corporations who are under great public scrutiny and pressure from stakeholders. In previous research on SR, size has been identified as the most important determinant of SR but also other aspects which makes firms vulnerable to public scrutiny (Hahn and Kuhnen, 2013), e.g. media coverage, which are more common for multinational and large cap firms.

At the Nasdaq OMX Stockholm Exchange, there are 90 large cap firms and 91 small cap firms. In order to reduce the total sample of firms suitable for a qualitative content analysis study, both sets of firms were categorised into firms in environmentally-sensitive industries and non environmentally-sensitive industries. The criteria used for categorising the public interest entities into the two categories was the definition of manufacturing firms as environmentally-sensitive and service businesses as non environmentally-sensitive. In the large cap segment, 33 manufacturing firms were found, whereas the small cap segment consisted of 35 manufacturing firms. Furthermore, a random sample of 15 firms from each group was collected in order to produce a total sample of 30 firms similar to previous studies using a combined approach to content analysis. However, firms with a late release of annual/sustainability/integrated reports or fiscal years spanning over two calendar years were omitted from participation in the study.

3.2 Content analysis

Background

The method employed in this thesis is content analysis which is the most common form of research within the field of SR (Dienes et al, 2016; Gray et al, 1995). Content analysis is a method used for quantifying qualitative data and reduces the data into manageable amount for analysis (Collis and Hussey, 2014). Content analysis codifies qualitative and quantitative information into categories of disclosures in order to find patterns of the presentation and reporting of disclosures (Guthrie, 2006).

Two types of content analysis methods have been identified in SR research: form-oriented and meaning-oriented approaches (Beck et al, 2010; Hooks and Van Staden, 2011) For form-oriented content analysis the qualitative data provided through texts in annual or sustainability reports are converted to volumes or frequencies in order for analysis. Word counts, sentence counts, page proportions or frequency of disclosures are common indicators of reporting quality of disclosures in sustainability, integrated or annual reports. This predominant form of reporting within SR research have faced criticism due to the lack of capturing of underlying meaning or themes of a text. Thus, a second form of content analysis has been developed: meaning-oriented content analysis. This form of text analysis tries to identify the underlying themes of a text. In comparison to form-oriented content analysis, it revolves around the qualitative aspects of SR. It is a form of text analysis which to a higher degree strives to capture the underlying meaning and the information communicated in a text.

The limitations identified in earlier content analysis in the 1980's and 1990's is the focus that have been on measuring the quantity of disclosures without and the lack of focus on quantitative aspects of communicated information (Beck et al, 2010). A potential problem with form-oriented form-oriented content analysis is the lack of understanding of the underlying text (Collis and Hussey, 2014). In order to find a better method of capturing the meaning of a text but also involve the quantitative aspects of SR, contemporary studies have applied a combined approach to content analysis (Beck et al, 2010; Hooks and Van Staden 2011). The form-oriented approach concerning the extent of reporting have been combined with meaning-oriented approaches to find a greater understanding of a text. Both Beck et al (2010) and Hooks and Van Staden (2011) as well as other studies in the field have applied a disclosure index to capture the meaning of disclosures in SR. As a response to this development, this thesis will use a combined approach to content analysis, involving both a form-oriented approach and meaning-oriented approach.

Form-oriented approach

The extent of SR will be assessed through a sentence count and page count of social and environmental reporting. Annual reports, sustainability reports or integrated reports, i.e. the main media used for communicating sustainability performance, will be analysed by extracting the reports from websites of the listed firms on the Nasdaq OMX Stockholm. The sentence count, which refers to the number of sentences related to social and environmental reporting, has been the preferred method of measuring the extent of disclosures by several researchers in the field. In comparison to the word count, which involves the measuring of the total number of words in social and environmental reporting, it involves a higher degree of meaning because individual words lack meaning without the context of a sentence (Hooks and Van Staden, 2011). The page count, which refers to the total number of pages dedicated to social and environmental reporting in annual reports, is also a commonly used method for assessing the extent of disclosures. The total number of pages dedicated to sustainability information, compared to the other quantitative metrics of the annual report, is seen as an indicator of the priority which is given to a certain topic due to the limited space given to annual reports or other communicatory documents.

Meaning-oriented approach

In order to assess the quality of sustainability reports several disclosure indices have been used in previous research. One of the earlier studies using a combined approach of form-oriented, e.g. page and sentence counts, and meaning-oriented, e.g. a disclosure index, was Wiseman (1982). Later studies using similar disclosure indices have been Beck et al (2010) and Hooks and van Staden (2011). Wiseman (1982) used a disclosure index consisting of four scales of disclosures, Hooks and Van Staden (2011) used five scales in their disclosure index and Beck et al (2010) had a disclosure consisting of six scales. The quality of environmental disclosures in the different disclosure indices have been evaluated upon based on the degree of specificity or completeness in order to evaluate the quality of social and environmental information.

In this paper, a disclosure index which previously has been used in the evaluation the quality of disclosures under the new EU-directive in Poland and Rumania developed by Dumitru et al (2017) but also used in latter studies by Dyduch and Kradusomska (2017) will be used. A common critique concerning results obtained from content analysis studies is the lack of replicability in the research which has contributed to diverse findings (Hooks and Van Staden, 2011). Thus, this approach can contribute to the literature by using an already established disclosure index similar to those used in previous studies of the implications of the new EU-directive and other content analysis studies on SR.

The sustainability disclosures is ranked according to a four-graded scale where a zero is given if neither narrative or numerical information is provided, a one is given for narrative presentation, a two is given for KPIs or other numerical presentation and a three is given for disclosures where both narrative and numerical information is presented. Each category of disclosure can thus achieve a score between 0-45.

I. Business model, policies, risks related to CSR issues:

1. Business model — brief description
2. Policies related to environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters
3. Principal risks related to environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters
4. Non-financial KPIs

II. Environmental matters:

1. Impacts on the environment
2. Impacts on health and safety
3. Use of renewable energy
4. Use of non-renewable energy
5. GHG emissions
6. Water use
7. Air pollution

III. Social and employee related matters:

1. Actions taken to ensure gender equality
2. Implementation of fundamental conventions of the International Labour Organisation or UN Global principles
3. Working conditions
4. Respect for the right of workers to be informed and consulted
5. Respect for trade union rights
6. Health and safety at work
7. The dialogue with local communities
8. Actions taken to ensure the protection and the development of the local communities

IV. Ethical matters:

Prevention of human rights abuses, instruments in place to fight corruption and bribery.

3.3 Data collection

The first part of the data collection process for this thesis is the collection of the official documents for sustainability reporting. The sustainability, integrated or annual report are retrieved based on what media companies used for disclosing sustainability information. The second part of the data collection process is the search for sustainability disclosures in reports. All segments which contains information on sustainability is marked and copied into a separate document. An assessment is then made of the number of pages and number of sentences on SR. The number of pages and sentences is counted through the text, tables, graphs and figures similar to previous content analysis studies on SR (Hooks and Van Staden, 2011). Pictures and empty pages are removed from the page counts in order to obtain a better proxy of the actual number of pages disclosed by the firms in the study on SR. The quality of information is assessed based on the 20 categories of business model, environmental, social and employee and ethical disclosures. All pages are searched in order to determine the quality score (0-3) for all categories of SR.

3.4 Data analysis

For the data analysis, the extent and quality of reporting are divided in two separate parts. The results which are presented on an aggregate level for large cap and small cap firms are divided into two parts. The first part, the extent of reporting, are summarised into tables of aggregate average and total scores of pages and sentences in order to find developments within the two sample of firms concerning the number of pages or sentences disclosed. The second part, the quality of reporting, are summarised into aggregate tables of the number of firms disclosing type 0 until type 3 disclosures in order to identify the development of reporting within the sample. Furthermore, the results are analysed through the lens of institutional pressures and qualitative characteristics and discussed with reference to previous research on SR, international frameworks for SR and legislations on SR to find the impacts of legal pressure and institutional factors on SR.

3.5 Reliability and validity

Three forms of reliability can be identified for content analysis studies: stability, reproducibility and accuracy (Krippendorf, 1980). Stability is the ability of a process to remain unchanged over time in order for the coding instrument to achieve the same results if it is replicated. Reproducibility, also named intercoder reliability, concerns the ability of a process to be replicated by different researchers. Accuracy is the ability of a process the performance is compared to a set of standards set by previous studies or researchers. Meanwhile, the validity concerns the ability to measure what it is intended to measure (Milne and Adler, 1996).

Concerning the reliability and validity, several points can be noted for the content analysis employed in this paper. The collection, coding and classification of a large quantity of data First, the documents of social and environmental information are reviewed in order to secure reliable data. Second, a disclosure index with three categories of sustainability disclosures (narrative, numerical and combined) are used in order to simplify the process of allocating disclosure scores for firms in the study. Third, another similar disclosure index had been employed previously by the researcher before the start of this research process.

4. Results

This chapter presents the results of this study in two parts. First, the extent of reporting for 2015-2017 is presented through the sentence counts and page counts of large cap and small cap firms in the study. Second, the quality of reporting is presented through the results provided by the disclosure index for business model, environmental, social and ethical reporting.

4.1 Extent of reporting

In order to present the development of extent of reporting a presentation is made in two parts. First, the development and trends for the extent of reporting for large cap firms is presented through sentence counts and page counts which is subsequently followed by the presentation of the development of extent of reporting for small cap firms in the same manner.

4.1.1 Large Cap

The sentence count for large cap firms has increased by 7 % over the last three years. In 2017, the average reporter in the segment reports 731 sentences on sustainability matters compared to 683 sentences in 2015. Also, in 2016 the average reporter were disclosing 799 sentences on sustainability thus indicating that the extent of reporting has decreased from 2016 to 2017. Hence, no significant increases in the extent of reporting among large cap firms can be noted for the first year under the new EU-directive although a general positive trend can be noted in relation to the sentence counts of large cap firms.

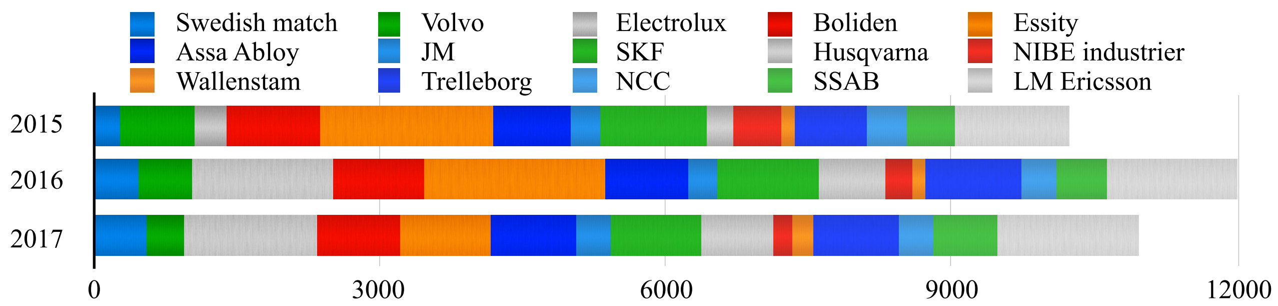


Table 1. Sentence count, large cap.

In total, nine of the fifteen large cap firms have increased its sentence count over the last two years whereas six firms have decreased its total sentence count. A trend for the larger reporters in the study, e.g. Essity, SKF, Volvo and Boliden representing four of the top six reporters in the study, is that the extent of reporting has decreased from 2015 to 2017 which can be derived to the transition from disclosing separate sustainability reports into integrating sustainability information in annual reports where less information is provided in accordance with the principles of the <IR> framework but also due to the limited space which is left for SR in annual reports. At the other end of the spectrum the five smallest reporters in the study in 2015, i.e. Wallenstam, Husqvarna, Swedish Match, JM and Electrolux have increased its extent of reporting over the last three years which can be explained by moving from disclosing smaller sections on sustainability in annual reports into releasing separate sustainability reports. Thus, two trends can be noted. First, companies disclosing separate sustainability reports increases the extent of reporting, and an especially strong positive development can be noted where firms move from disclosing social and environmental information in annual reports into releasing separate sustainability reports. Second, companies using integrated reports over several years or companies moving from separate sustainability reports into integrated reporting reduces the extent of reporting.

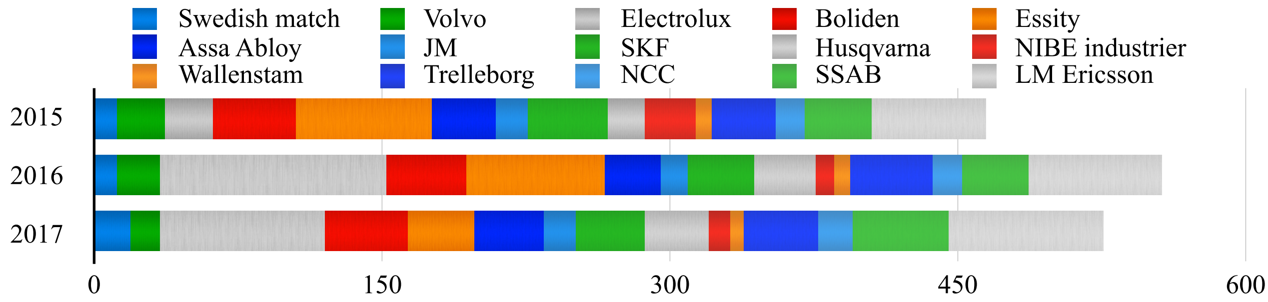


Table 2. Page count, large cap.

The page count has, similar to the sentence count, increased over the three-year period. The average length of reporting in 2017 is 35 pages compared to 37 pages in 2016 and 30,9 pages in 2015 which is a 14 % increase of the page count. In total, nine companies have increased its extent of pages, five companies have decreased its page count and for one company the page count has remained stable. Similar to the development described for the sentence count of large cap firms two different streams in reporting can be identified: firms disclosing separate sustainability reports increases the extent of pages whereas firms disclosing integrated reports decreases the extent of pages. Two companies, disclosing separate sustainability reports, where the extent of pages has had a significant positive development from 2015 to 2017, is Husqvarna with an increase from 20 pages to 34,5 pages and Electrolux with an increase from 25 pages to 87 pages. Also, other firms using separate sustainability reports have increased the extent of pages albeit not as expansive as Husqvarna and Electrolux. Meanwhile, all five firms using integrated reporting have decreased the extent of reporting.

4.1.2 Small Cap

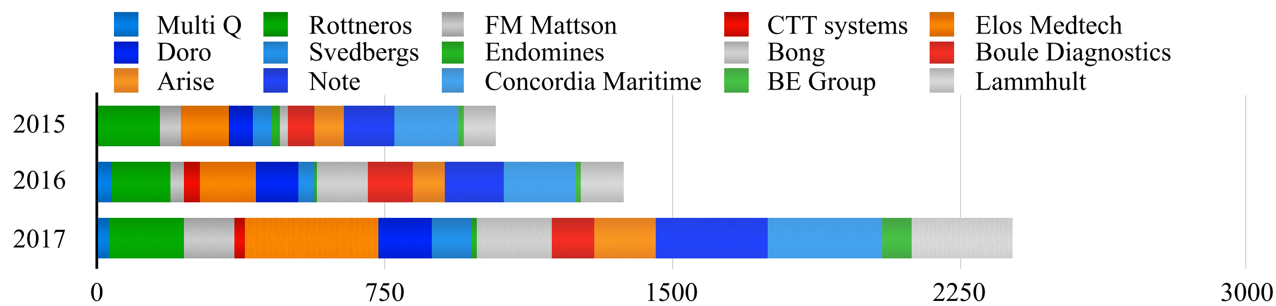


Table 3. Sentence count, small cap.

The sentence count for small cap firms has increased from 2015 to 2017. From an average sentence count of 69 sentences in 2015 to an average sentence count of 159 sentences in 2017 means that the extent of sentences has increased by 129 %. Especially, a large increase during the three-year period can be noticed for sustainability information disclosed by firms in the first year of the new directive, 2017. Four out of fifteen firms are reporting more than 100 sentences in 2015 whereas the minimum reporter in the large cap segment are reporting 137 sentences. Thus, there is a major difference related to the extent of reporting between the two samples of firms. The reporting among small cap firms is also significantly lower after the introduction of the new EU-directive compared to large cap firms. However, the development of the sentence count among small cap firms has an upward trajectory where most reporters, both large reporters and small reporters, are increasing the sentence count. In 2017, only five out of fifteen reporters are disclosing less than 100 sentences. Hence, the development of SR among small cap firms has almost solely been positive with only one firm decreasing the total extent of sentences and many firms increasing the sentence count manifolds.

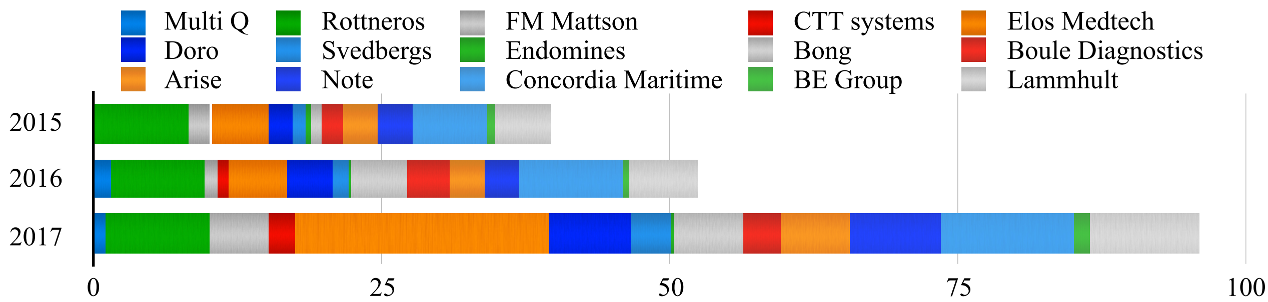


Table 4. Page count, small cap.

The page count for the small cap firms has, similar to the sentence count, had a positive development where the extent of reporting has more than doubled from 2015 to 2017. The average extent of pages in the sample has increased from 2,6 pages to 6,4 pages. The overall development over the three years can be explained by the fact that 7 out of 15 firms in the study have more than doubled the extent of pages whereas no company decreased its page count. Whereas the general development of the larger firms in the large cap segment was that the reporting decreased due to the move from separate reporting into integrated reporting, most companies in the small cap segment does not disclose in accordance with any recognised frameworks on SR and do not release any separate sustainability reports. The common practice found among small cap firms is to dedicate a couple of pages to social and environmental information in the annual report. One firm that moved from reporting on sustainability in the annual report into releasing a separate environmental report was Elos Medtech. In 2015 and 2016 the company disclosed five pages of social and environmental information, compared to the separate sustainability report in 2017 of 22 pages. A general trend for the upward trajectory of the extent of reporting which can be identified is that the reporting remains stable from 2015 to 2016 in order to increase significantly in 2017. 7 out of 15 firms in the study have a similar page count in 2015 and 2016 in order to more than double the reporting in 2017. This is also displayed in table 4 where the average extent of reporting increases by 0,9 pages in 2016 and 3,1 pages in 2017.

4.2 Quality of reporting

In order to present the impacts of the new EU-directive on the quality of reporting for large cap and small cap firms, a presentation is made in four parts in accordance with the structure of the disclosure index presented in section 3.2. First, the business model, policies and risks related to CSR, also labelled ”business model reporting” henceforth, is presented through accumulative numbers of disclosure scores for the large cap and small cap segments. Furthermore, the development of the quality of environmental, social and employee and ethical disclosures for large cap and small cap firms is presented.

4.2.1 Business model, policies and risks related to CSR

The business model reporting consists of four categories of sustainability disclosures, i.e. business model, policies, risks and non-financial KPIs. In comparison to the other three segments of reporting, the business model reporting does not address reporting on specific topics of sustainability but instead explains how an organisation works towards sustainability in a broader context through explaining the business model, policies, risks and non-financial KPIs set in place for achieving sustainability. The development of business model reporting disclosures for large cap firms is presented in table 5 which is followed by the development of business model reporting for small cap firms in table 6.

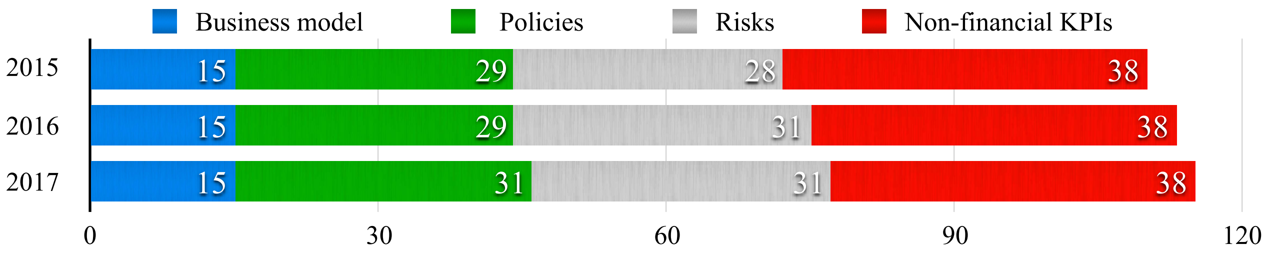


Table 5. Business model reporting, large cap.

The SR of business model, policies, risks and non-financial KPIs has remained stable for large cap firms over the last three years. The only differential that can be noticed over time concerning business model reporting is related to the disclosure of policies and risks related to sustainability. All firms in the study are solely reporting narrative information concerning their business model, thus resulting in a total score of fifteen. Similar to the disclosures of the business model, non-financial KPIs has remained stable at a score of 38 which is derived from twelve firms in the study disclosing type 3 disclosures, one firm disclosing type 2 disclosures and two firms not disclosing the topic at all. The other two categories of business model reporting, i.e. policies and risks on SR receives an average score around 2.0 since 7-8 large cap firms are disclosing type 3 disclosures whereas 7-8 firms are disclosing type 1 disclosures. No specific difference can be noted for any of the categories of disclosures after the introduction of the new EU-directive.

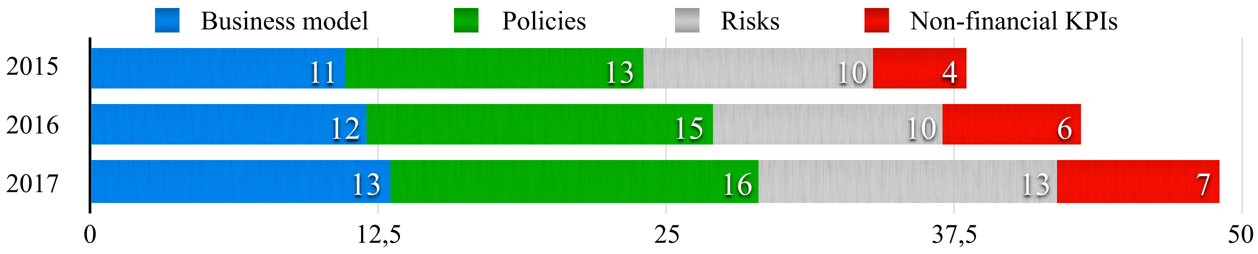


Table 6. Business model reporting, small cap.

The SR related to a firm's business model among small cap firms indicates that the quality of reporting has increased for every category from 2015 to 2017. However, the quality for business model sustainability reporting remains at a low level compared to the large cap segment. Especially, a low level of quality related to non-financial KPIs can be noticed in comparison to the large cap firms and other business model disclosures. 11 out of 15 firms in the small cap segment lacks reporting on any goals related to sustainability. Over the three years, however, one more firm has started reporting type 1 disclosures on non-financial KPIs and one firm has moved from type 1 to type 3 disclosures on the matter explaining the upward shift in the quality of non-financial KPIs disclosures.

For the other three categories of business model reporting, the scores obtained from the study indicates that, on average, the small cap reporter are disclosing type 1 disclosures about its business model, policies and risks related to sustainability. The business model is reported through type 1 disclosures for all years. In 2017, 13 companies are reporting on how they manage sustainability through its business model compared to 11 companies two years earlier. For the reporting on sustainability policy, two more firms have started reporting on policies, e.g. its code of conduct, related to sustainability matters and one firm has started reporting information about its policies through type 2 disclosures which explains the upward shift in quality of reporting on sustainability policies. Also, the quality of reporting related to sustainability risks has increased from 2015 to 2017 where two more firms are reporting on the matter. In total, small upward shifts in the quality of reporting can be noted for all four categories of disclosures.

4.2.2 Environmental matters

The environmental disclosures consists of seven categories of disclosures, i.e. impacts on the environment, impacts on health and safety, use of renewable energy, use of non-renewable energy, GHG emissions, water use and air pollution, in accordance with the disclosure index in section 3.2. The development of quality of disclosures for large cap firms is presented in table 7 which is followed by the development of quality of disclosures for small cap firms in table 8.

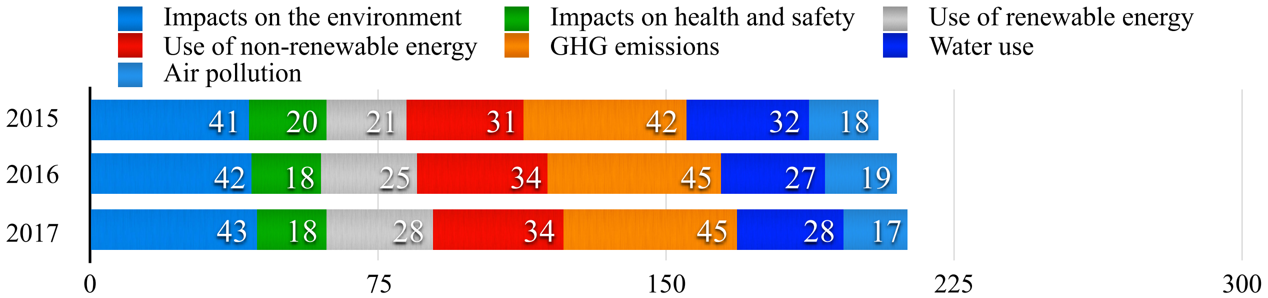


Table 7. Environmental matters, large cap.

The results obtained for disclosures related to environmental matters indicates differing trends related to the informational content and quality of reporting. Two areas where reporting quality has remained very high over all three years is for information of a firm's impacts on the environment and its greenhouse gas emissions. In 2015, thirteen firms are reporting narrative and numerical information related to impacts on the environment and GHG emissions and for the coming two years, fourteen firms are reporting type 3 disclosures on the impacts on environment and all large cap firms are reporting numerical and narrative on greenhouse gas emissions.

For the other categories of environmental reporting, the quality of reporting is varying. The impacts on health and safety is on average disclosed in a narrative manner where eight to nine firms are producing type 1 disclosures and three to four firms are producing type 3 disclosures. Similar to environmental disclosures on health and safety, the disclosure quality related to water use has also decreased over time which can be explained through the decrease of type 3 disclosures from six to five firms. The environmental disclosures where the quality of reporting has increased the most is on energy disclosures. In 2015, five firms are reporting type 3 disclosures on renewable energy and nine firms are reporting type 3 disclosures on non-renewable. In 2017, eight firms are reporting type 3 disclosures on renewable energy whereas eleven firms are reporting type 3 disclosures on non-renewable energy thus explaining the increase of quality on energy disclosures. The seventh and last category of environmental disclosures, air pollution, has decreased where seven firms are reporting information on the topic in 2017 compared to eight firms in 2015. In total, the quality of reporting on environmental matters has remained relatively stable with the exception of a large increase in quality of renewable energy disclosures.

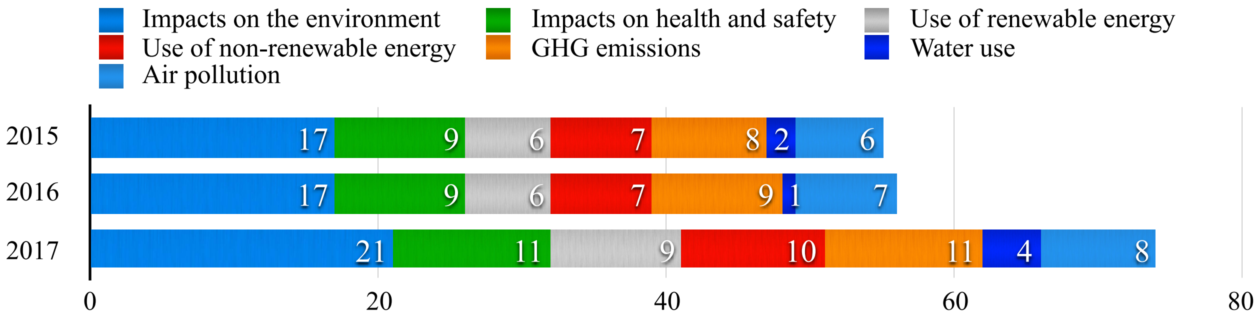


Table 8. Environmental matters, small cap.

Similar to the results obtained for the previous category of business model reporting, the quality of reporting on environmental matters for small cap firms is at a low level compared to large cap firms which can be explained by the limited extent of reporting. However, the quality of reporting has increased for all seven categories of environmental disclosures and particularly an increase in reporting quality can be noticed from 2016 to 2017. Albeit an increase for all categories of disclosures the increase in quality can mainly be explained by one or two companies moving from not reporting into reporting type 1 disclosures, or firms reporting type 1 disclosures in 2015 started reporting type 3 disclosures in 2017. The category with the highest quality of reporting is impacts on the environment where all but four firms in 2015 and two firms in 2017 do not disclose any information concerning the matter. The environmental disclosure category which is the least common for small cap firms to report upon is the disclosure of water use where two to three firms are disclosing type 1 disclosures.

For the other five categories of environmental reporting, similar disclosure disclosure scores between 8-11 can be noted in 2017 and all categories are increasing a couple of points over the three-year period. For health and safety disclosures, there are 7-9 companies not reporting on the matter whereas 10-13 small cap firms are not reporting on the use of renewable and non-renewable energy, GHG emissions and air pollution over the three-year period. Hence, a minority of firms are reporting on the five categories of environmental information. Health and safety information is most commonly reported as type 1 disclosures, by three to four firms in the sample. For renewable and non-renewable energy disclosures, the most common form of reporting is as type 3 disclosures where two to three firms are reporting on energy and all other firms except one do not disclosure on the matter at all. Last, for air pollution disclosures, three to five companies are reporting information as both type 1,2 or 3 disclosures.

4.2.3 Social and employee related matters

The social and employee-related disclosures in the disclosure index consists of eight categories of disclosures, i.e. actions taken to ensure gender equality, implementation of ILO or UN Global Compact, working conditions, employee surveys or consultation of workers, respect for trade union rights, health and safety at work, the dialogue with local communities and actions taken to ensure the protection and development of local communities. The development for the quality of social and employee disclosures for large cap firms is presented in table 9 which is followed by the development for small cap firms in table 10.

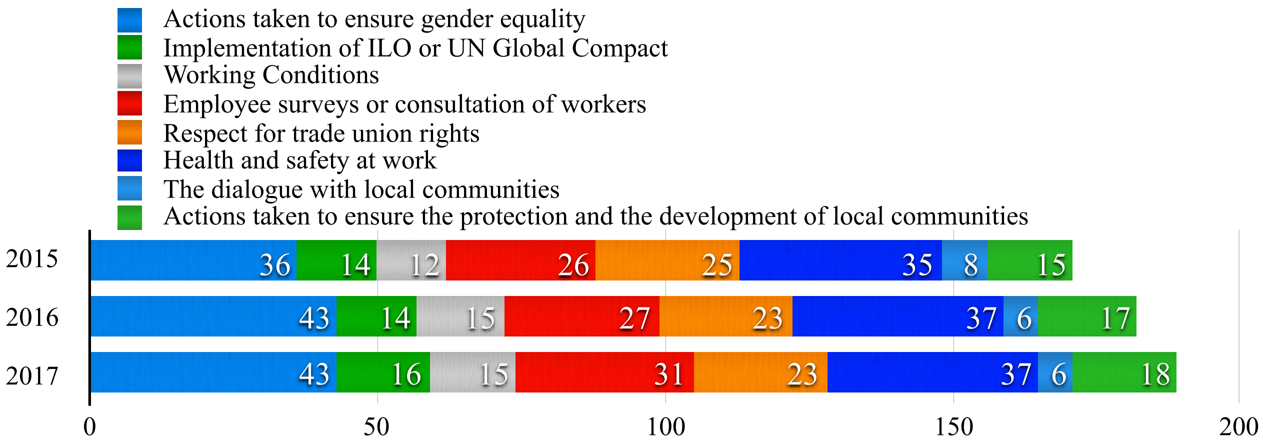


Table 9. Social and employee matters, large cap.

The development of the quality of social and employee related disclosures of large cap firms has, similar to the previous main categories of SR, remained stable after the introduction although some deviations in quality over the three years can be noticed. The category with the highest quality among large cap reporters which also has increased the most from 2015 to 2017 is the matter of gender equality. All large cap firms are reporting on gender equality and it is a prioritised subject for the SR of large cap firms. In 2015, ten firms are reporting type 3 disclosures on gender equality whereas in the subsequent years fourteen companies are reporting both narrative and numerical information on the topic thus resulting in very high quality disclosures of the topic. Two other categories of social and employee matters with an average quality above 2.0 is the respect for workers to be informed and consulted, labelled ”employee surveys or consultation of workers” in this study in order to harmonise with the information contained in SR of Swedish listed firms, and the health and safety at work. Whereas the quality of reporting of health and safety remains relatively stable, an increase can be noted for the information or consultation of workers where two more firms are reporting type 3 disclosures.

The category with the fourth highest quality of reporting is the disclosure of respect for trade union rights. However, from 2015 to 2017 the quality has decreased from 25 to 23 due to one firm moving from type 3 disclosures to type 1 disclosure. The other category which has decreased from 2015 to 2017 and also the least common aspect of social and environmental reporting to report upon among the large cap firms in this study is the dialogue with communities where only narrative disclosures are provided. In 2015, eight firms are disclosing narrative information concerning its dialogue with local communities and for the two subsequent years, six firms are providing narrative disclosures concerning dialogues with local communities.

The last three categories of disclosures, i.e. implementation of international labor principles, working conditions, respect for trade union rights and the actions taken to ensure the protection and development of local communities, roughly averages the quality of a type 1 disclosure for large cap firms. All four areas of reporting have faced a slight increase in reporting quality from 2015 to 2017. The disclosures of implementation of labor principles is mainly provided through narrative information where fourteen firms are producing type 1 disclosures in 2015 and 2016, and the increase in quality in 2017 is explained by the shift of one firm from type 1 to type 3 disclosures. A similar development is noticed for the disclosure of working conditions where twelve firms are reporting type 1 disclosures and the increase in quality in 2016 is explained by one firm moving from not reporting to type 1 disclosures and one firm moving from type 1 to type 3 disclosures.

Lastly, the disclosure of actions in local communities has increased from nine firms reporting type 1 disclosures and two firms reporting type 3 disclosures in 2015, to nine firms reporting narrative information and three firm reporting narrative and numerical information in 2017. In total, six out of eight categories of social disclosures have increased from 2015 and most increases is allocated to the year prior to the introduction of the new EU-directive, 2016.

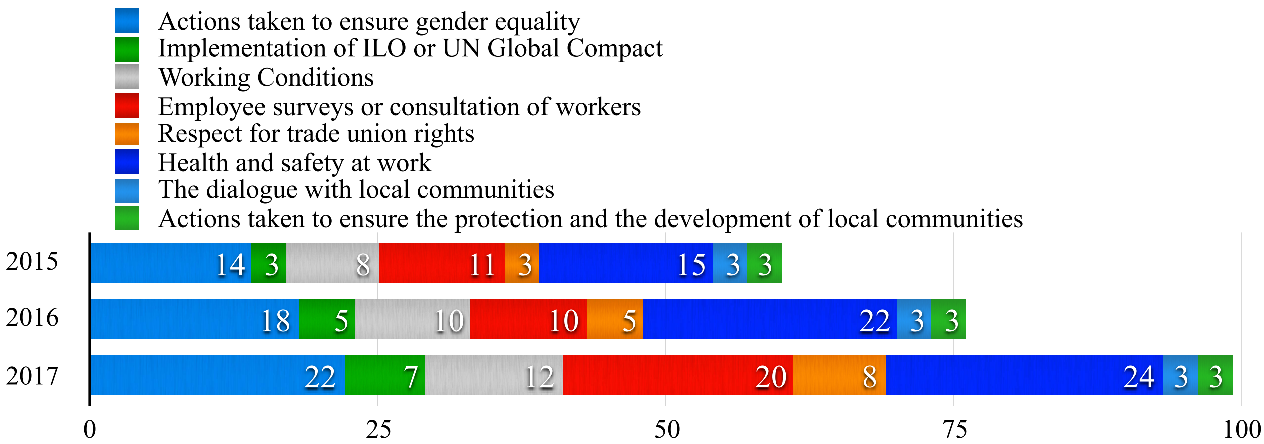


Table 10. Social and employee matters, small cap.

Similar to the previous main areas of SR, the quality of social and employee related matters is lower for small cap firms in this study. The quality of reporting has slightly increased for six out of eight categories from 2015 to 2017, albeit from a significantly lower level compared to the large cap firms. The three categories with the highest quality of reporting among social and employee disclosure among large cap firms is gender equality, employee information and consultation and health and safety at work, similar to the large cap segment. The number of firms not disclosing information on gender equality has decreased from eight companies in 2015 to four companies in 2017 thus explaining the upward shift of reporting quality in the time period. Similar, explaining the relative high quality of disclosures of health and safety at work and the information and consultation for workers for small cap firms between 2015 and 2017, two and three more firms are reporting on the matters in 2017 compared to 2015.

A category of social and employee disclosure which has increased from a low level of quality to roughly averaging a quality of type 1 disclosures is the category of working conditions. In 2015, eight firms were not reporting on working conditions and two years later only four firms does not disclose information on working conditions which explains the increase in reporting quality. A large increase is also noticed for the category of information and consultation of employees, six did not reported on the topic in 2015 compared to three firms in 2017, and three firms have moved from type 1 disclosures to type 3 disclosure thus explaining the large upward shift of quality on disclosures on employee surveys or consultation of workers.

The last four categories with the lowest index of reporting on social and employee matters for small cap firms are the implementation of international labor principles, respect for trade union rights, the dialogue with local communities and actions taken to ensure the protection and development of local communities with an average quality below 1. All of the four areas of reporting are disclosed through narrative information by the small cap firms in this study. Hence, in 2015 three firms were reporting on labor principles and in 2017 another four firms are reporting on the subject through narrative information. Disclosures on trade union rights were provided by three companies in 2015 compared to eight firms reporting type 1 disclosures in 2017. However, the last two categories of dialogues and actions with local communities have remained stable where three firms are reporting on the topic through narrative disclosures.

4.2.4 Ethical matters

The ethical disclosures consists of one category of disclosures, i.e. the prevention of human rights abuses and instruments in place to fight corruption and bribery. The development of ethical disclosures for large cap firms is presented in table 11 which is followed by the development of ethical disclosures for small cap firms in table 12.

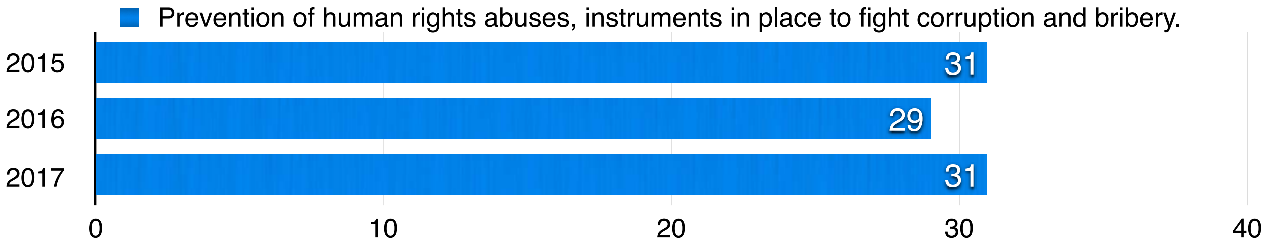


Table 11. Ethical matters, large cap.

The development of disclosures related to the ethical matters of human rights, corruption and bribery for large cap firms has remained stable over the last three years. All of the firms are reporting on human rights, corruption or bribery. The companies can be separated into two main forms of reporting into ethical matters. Seven to eight firms are reporting narrative information regarding the topic, whereas the other half are providing both narrative and numerical information, e.g. through the number of employees who have been educated in the topic or through the number of human rights abuses in the company or among its suppliers.

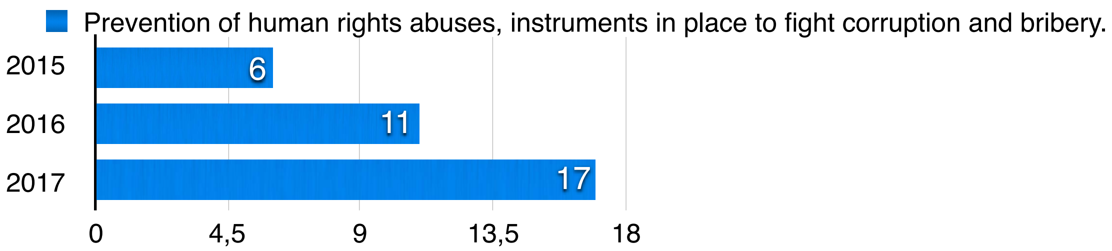


Table 12. Ethical matters, small cap.

The quality of reporting on ethical matters in small cap firms has increased from 2015 to 2017. In 2015, six firms disclosed narrative information related to human rights abuses, corruption or bribery. In 2017, nine firms are reporting type 1 disclosures, one firm is providing type 2 disclosures and two firms are reporting type 3 disclosures. In total, ethical disclosures is the category of disclosures where the quality of reporting has increased the most from an average of 0,4 to an average of 1,33.

5. Analysis and discussion

This chapter presents the analysis and discussion of the results of this study obtained from the content analysis. First, the impacts of the new legislation is analysed based on the three pillars of institutional theory. Second, the qualitative impacts of the legislation is analysed based on the qualitative characteristics of GRI and IR. Third, this chapter involves a discussion of the results of this study with reference to the previous studies, frameworks and regulations on SR and what implications the new legislation has had on SR.

5.1 Institutional pressures

5.1.1 Coercive isomorphism

The coercive institutional pressure that is exerted upon organisations in this study is exemplified by the laws and regulations for large cap and small cap firms. Before the new legislation on SR, it has been a field that has been largely unregulated and no formal rules have existed for larger firms in Sweden with the exception of the law on reporting according to the GRI framework for state-owned corporations (Borglund, 2009). Hence, the new legislation puts coercive institutional pressure on both large cap and small cap firms for disclosures on social and environmental information that previously did not exist.

For large cap firms, the coercive institutional pressure exerted on firms through the new legislation on SR has not had a large influence on the extent and quality of reporting. Albeit a general positive development on the extent of reporting where the extent of for large cap firms has increased from 2015 to 2017 and small increases in the quality of reporting it is not a development which can be derived from the coercive institutional pressure driven by the rules, monitoring, recompense and punishment that creates homogeneity in a field (Higgins and Larrinaga, 2014). During the first year of reporting under the new directive, the extent of reporting for large cap reporters decreased and most of the improvements in quality of reporting can be found in 2016 which tells that there are other motives driving increased extent and quality of reporting than the rules and monitoring of coercive institutional pressure (Higgins and Larrinaga (2014). Furthermore, several large cap reporters have recently decreased the extent of disclosure due to the introduction of integrated reporting. This reduces the extent of reporting and makes it more focused as well as integrating social and environmental value creation with financial value creation and how sustainable value is created (IIRC, 2013). Because the frameworks which large cap reports follow (GRI 2013; IIRC 2013) demands more than the new legislation on SR (European Union, 2014) it has not had a large effect in creating homogeneity in the extent and quality of reporting as the development is better explained with reference to other forms of institutional pressures that creates homogeneity in practices, e.g. GRI and <IR>.

For small cap firms, the coercive institutional pressure has had a larger effect on the extent of reporting. The extent of reporting has increased following the introduction of the new legislation on SR in 2017. In comparison to the extent of reporting for large cap reporters where the development of number of pages reported has stagnated in several companies, the development of SR for small cap reporters is still in its initial development stages and only a couple of firms are reporting in accordance with GRI or <IR> (GRI, 2013; IIRC 2013). One firm, Elos Medtech, has moved from reporting on sustainability in the annual report to a separate sustainability report which partly explains the upward shift in extent of reporting in 2017. However, the extent of reporting has increased heavily over the last two years and the quality of reporting has increased, especially in 2017. This development is explained by several firms, similar to Elos Medtech, moving to releasing separate sustainability reports which also enables improvements in the quality of reporting. In comparison to the extent and quality in SR for large cap firms, the level of reporting is at a noticeable lower level both previous and after the implementation of mandatory requirements of the directive. However, the extent and quality of reporting has increased in 2017 which tells that coercive institutional pressure through the rules and monitoring of SR (Higgins and Larrinaga, 2014) has had an impact for several of the reporters in the field increasing the extent and quality of sustainability disclosures.

Thus, the coercive pressure exemplified by the new directive has had a larger impact on small cap firms which previously did not report on social and environmental information. Because of the limited information contained in reports previous to the new legislation, identifying environmental and social risks in accordance with the new legislation has increased the extent of reporting. Specifically, the large increase in extent of reporting from 2016 to 2017 where the extent of reporting has almost doubled for small cap reporters can explain why coercive institutional pressure is a motive for structural change in the field (Di Maggio and Powell, 1983). Another shift in SR for small cap firms driven by the rules and monitoring (Higgins and Larrinaga, 2014) of social and environmental information for reporters not following SR framework or releasing separate sustainability reports is that the identification of social and environmental risks has increased the extent to which small cap firms report on sustainability. However, the major explanatory factor to the upturn in the extent and quality of reporting is the number of firms moving from disclosing a sustainability section in the annual report into releasing separate sustainability reports. Since the separate sustainability reports is not a direct effect of the legislation because a sustainability report commonly covers more aspects of social and environmental information (GRI 2013; IIRC 2013) than the requirements of the law (European Union 2014) the coercive institutional pressure has not had a direct effect on the level of reporting. However, the impacts of SR under 2017 for small cap firms is evident which means that the pressures created from rules and monitoring (Higgins and Larrinaga, 2014) has caused small cap firms to increase the extent and quality of SR.

5.1.2 Mimetic isomorphism

The mimetic institutional pressure that is put on organisations due to the new legislation on SR refers to how organisations mimic competitors that are seen as more legitimate or successful (Di Maggio and Powell, 1983). Compared to the coercive institutional pressure that is exerted upon organisations through formal rules, mimetic isomorphism are informal rules which puts pressure on organisations that creates homogeneity (Higgins and Larrinaga, 2014).

For large cap firms, several notions of mimetic institutional pressure is found to drive the development and stabilisation (Di Maggio and Powell, 1983) of reporting practices. For large cap reporters, SR frameworks and separate or integrated reporting is a common part of reporting practices which has created mimetic institutional effects in what way reports are produced which creates homogeneity in SR. Especially, GRI reporting and disclosures in accordance with the latest GRI guidelines (GRI, 2013) creates standardised and similarity in SR for large cap firms. A trend which was noticed for the largest reporters in the large cap segment was that their extent of disclosures decreased over the three-year period. Volvo, SKF and Boliden who are companies that since long have been reporting on sustainability have in recent years moved from separate to integrated sustainability reporting in accordance with the <IR> framework (IIRC, 2013) where the extent of social and environmental information has decreased from 2015 to 2017. Furthermore, the most common form for communication of SR from 2015 to 2017 for large cap reporters is through a separate sustainability report which creates a higher level of reporting extent and quality but also homogeneity (Di Maggio and Powell, 1983) in how companies report. A prominent example of this is the extent of disclosures for Husqvarna and Electrolux who are two competitors in the same industry. The development of reporting for the two firms follow a similar trend where the extent has increased largely in 2016 followed by a stabilisation in 2017. Similar, when examining the disclosures of two firms in similar industries and firms that are located in the same city and similar industries, Volvo and SKF have applied <IR> and reduced the extent of reporting whereas the quality of reporting has remained stable. Thus, the mimicking of large and multinational companies in the large cap industry in moving to separate sustainability reports and integrated reporting explains how the reporting practices has been shaped through the years and in the period of this study, 2015-2017, through the symbols and meanings which creates homogeneity (Higgins and Larrinaga, 2014) in practices.

For small cap firms, mimetic institutional pressure that drives a high level of extent and quality of SR can not be found in a similar manner as it has created homogeneity (Higgins and Larrinaga, 2014) for large cap firms. The social and environmental information disclosed by small cap reporters is usually limited to a couple of pages or less and there are are a minority of a couple of firms which are following large standardised frameworks for SR. Whereas all the large cap reporters are disclosing social and environmental information according to international frameworks which creates homogeneity and improves comparability of social and environmental information, the practices for disclosing on sustainability among small cap firms differ. However, the fact that reporting on sustainability for small cap firms usually is limited to a couple of pages suggests that there are mimicking tendencies which creates homogeneity (Higgins and Larrinaga, 2014) in practices for small cap firms. Thus, although no major institutional change can be explained through mimetic isomorphism, the lack of development of separate sustainability reporting or integrated reporting which increases the extent and quality of SR due to the comprehensiveness of such reports could be lacking for most firms in the study because of the lack of mimetic pressure for change. However, there is a noticeable difference in the levels of reporting for large cap and small cap firms. Whereas GRI (GRI, 2013) has become institutionalised and there are signs of <IR> (IIRC, 2013) becoming institutionalised for large cap reporters who have reported on sustainability for a long time, some of the firms in the small cap segment are also looking to develop its SR in a similar fashion which causes an impact on reporting extent and quality. However, there are still institutional differences between large cap firms that are well-known on a global scale and the less known small cap firms in an international context which explains the different institutional contexts for the two segments of firms. The different symbols and meanings influencing the actions and values driving reporting practices (Higgins and Larrinaga, 2014) explains the homogeneity in practices within the two sets of firms. Whereas the institutional mimicking of SR in large cap firms is characterised through the reporting in accordance with GRI or <IR> frameworks, such frameworks have been lacking in the reporting of small cap firms which explains the difference in reporting extent and quality.

5.1.3 Normative isomorphism

The normative isomorphism which refers to how firms should act with reference to a certain topic, i.e. the right thing to do, concerns the norms and values which creates similarities in corporate practices (Higgins and Larrinaga, 2014). In SR, the normative pressures are exemplified by the different norms that have been developed through frameworks on SR, e.g. GRI and <IR>.

For large cap firms, the international reporting frameworks of GRI and <IR> have created homogeneity in reporting practices. Since all firms report according to the GRI framework (GRI, 2013) it enables comparability between different organisations due to the similarity of the social and environmental disclosures which are provided in accordance with the framework. However, as indicated by the results of this study no noticeable development can be seen in this area due to the new directive. Albeit a positive development in page and sentence counts, the number of firms reporting according to GRI has remained stable over the three years and no specific isomorphic change can be found with regards to how the professionalisation (Di Maggio and Powell, 1983) has developed under the mandatory reporting legislation.

For reporters following the <IR> framework, no isomorphic change can be referred to the introduction of the new directive through the results of this study. The general development for <IR> reporters, who commonly are companies that have disclosed on sustainability for a long time and are firms in highly environmentally-sensitive industries, e.g. Volvo, SKF and Boliden, have reduced the extent of reporting in the recent two years. However, the development of norms such as GRI and <IR> have had a large impact in creating professionalisation of corporate SR in the field. Since the introduction in 2013 it has had an effect on reporters who are integrating the previous separate sustainability reports into annual reports and where the extent of reporting has reduced whereas the quality of reporting has remained stable. Similar to the discussion of the institutionalisation of GRI and <IR> in the way it has influenced how firms develop their SR, institutionalisation of professional norms via normative pressure (Di Maggio and Powell, 1983) is evident for the two frameworks in the development of reporting extent and quality to a higher degree than the introduction of mandatory reporting legislation for large cap and small cap firms in Sweden.

In addition to the two most common frameworks for SR, another concept for reporting on sustainability which has been developed for most large cap reporters and a minority of small cap reporters is to report upon the sustainability development goals (SDGs) which the firm is affecting through its operations. Since 2015, when the SDGs was introduced, it has had a large impact on reporting practices for large cap firms and some small cap firms in this study. However, similar to the previous frameworks within SR, this development can be derived to the introduction of the IR framework and SDG reporting over the last few years which have had a partial homogeneity effect on the SR practices of large cap firms.

For small cap firms, the isomorphic tendencies with regards to the norms of how firms are expected to report on sustainability the homogeneity effects (Di Maggio and Powell, 1983) on SR is much less evident. In comparison to the large cap segment where almost all companies have reported according to GRI, the SR practices with reference to the frameworks implemented is much more diversified. This is also reflected in the extent of reporting where some firms are disclosing less than a page on sustainability and a couple of firms are releasing separate sustainability reports which are extensive. Albeit a strong positive development with regards to the extent of disclosures, the reporting is still scarce in comparison to the reporting of large cap firms. Thus, for some firms in the small cap segment the institutional pressure with regards to the pressure on implementing international frameworks on SR is at a lower level which explains the lack of SR. The development in the extent of reporting can rather more be referred to other institutional pressures, i.e. coercive and mimetic. In total, the adoption to normative institutional pressure is more evident for large cap firms to small cap firms where only a couple of firms have adopted established SR frameworks. Thus, the development and institutionalisation of reporting practices in the small cap segment from 2015 to 2017 is better explained through coercive and mimetic institutional pressure.

5.2 Qualitative characteristics

In order to analyse the development of the quality of SR before and after the introduction of the directive the qualitative principles (see section 2.2) of the two most common frameworks for SR, GRI and Integrated reporting, will be analysed for the two segments of firms based on the results obtained from the content analysis.

5.2.1 Materiality

One of the most influential qualitative characteristics in the development of sustainability reports consisting of high quality is the identification of material matters which is made transparent towards stakeholders through a materiality analysis (GRI 2013; IIRC 2013). The materiality analysis is a common part of established SR in accordance with GRI and <IR> which explains how material topics are identified. In order to identify the quality of materiality analysis, or risk assessment, of firms in this study, the risk identification process is included as a part of the business model reporting in the first part of the disclosure index.

In the large cap segment, all firms provides a materiality analysis which identifies specific social, economic and environmental risks (GRI, 2013) to their business. The quality of these risk assessments has remained relatively stable before and after the introduction of the legislation although a slight increase in the quality of materiality analysis disclosures was identified. The materiality analysis of large cap firms can be divided into two major streams. The first, representing approximately half of the large cap firms, identifies the social and environmental risks but no further quantitative analysis of how the material risks have been identified is included which thus reduces the ability to ”substantively influence the assessments and decisions of stakeholders” in accordance with the G4 guidelines of the GRI framework (GRI, 2013). The second stream of reporters in the large cap segment identifies areas of sustainability risks through dialogues with stakeholders in order to identify the importance of different sustainability matters for the most important stakeholder groups using a quantitative assessment tool. For the small cap segment, only one reporter quantifies its materiality analysis albeit most of the firms are identifying sustainability risks. After the introduction of the legislation three more firms are reporting on the areas of risks related to sustainability although none of the reporters have started making a more advanced quantitative materiality analysis. Thus, the materiality analysis of large cap firms is much more detailed in comparison to small cap firms and are to a higher extent able to influence the assessments and decisions of stakeholders which are one of the two criteria in the GRI framework concerning SR (GRI, 2013).

Another aspect of materiality, in addition to the materiality analysis discussed above, is what different topics that firms disclose on in order to ”reflect the organisation’s significant economic, social and environmental impacts” (GRI, 2013). The different areas of SR in the content analysis of this study are identified as environmental, social and employee, and ethical matters in accordance with the new directive (European Union, 2014). Through the results obtained from the content analysis, it is noticed that certain disclosures are more common for companies to report upon and thus produces disclosures of higher quality. For environmental disclosures, the impacts on environment is a starting point for the environmental reporting of all firms and a high quality of disclosures of environmental impact indicates that it has been material for firms in describing their sustainability impacts. At the other end of the spectrum, water use is a disclosure which is not common for companies with a limited quality of such disclosures in sustainability reports. For small cap firms, water use is barely mentioned whereas for the large cap segment it is more common due to the water use being one of the indicators to report upon in the GRI framework (GRI, 2013). For all other categories of environmental reporting no specific differences can be noted between the two segments or due to the new legislation. A topic which has become more common for both segments to report upon in order to reflect their environmental impact (GRI, 2013) since the introduction of the new legislation is energy disclosures. Whereas small differences can be noticed for other parts of environmental disclosures, the renewable energy disclosures of especially large cap firms is a topic which has become more material from 2015 to 2017.

For social and employee matters, three material topics are identified in SR. Gender diversity, information and consultation of workers and health and safety. The least common is the dialogue with local communities. It can thus be noticed that a larger emphasis is put on certain employee-related matters in comparison to wider social matters. One explanation for this is that also small cap firms do disclose a section on employee-related matters even though the extent of SR in other areas is not as comprehensive as for large cap firms following GRI or <IR> (GRI 2013, IIRC 2013). Employee-related matter is overall a material topic for small cap firms in this study although some aspects of employee reporting, e.g. the implementation of labor principles or working conditions, are not common to report upon through higher quality disclosure, i.e. quantitive disclosures, which reduces the quality of reporting for these two factors. For the ethical matters of SR, it can be noticed that the fight against corruption, bribery and child-labor is a topic that is reflected upon (GRI, 2013) to a higher extent after the directive whereas the materiality of these topics for large have remained stable from 2015 to 2017 indicating that there are no impacts of the new directive to the materiality of ethical disclosures.

5.2.2 Balance

The balance of a sustainability report refers to the balance between positive and negative aspects of a firm's social and environmental impacts (GRI, 2013). The content analysis of this study measures the balance of SR through three forms of disclosures: type 1 disclosures involving narrative information, type 2 disclosures involving quantitative information and type 3 disclosures of both narrative and quantitative information. In order for companies to reach a higher level of balance between positive and negative aspects, more objective and balanced data is provided through type 2 or type 3 disclosures which consists of numerical information and is harder for competitors to imitate (Beattie, 2007). Furthermore, following international SR frameworks which standardises information reduces the potential of biased information due to the adherence of reporters to principles of high-quality and the framework determining the content of reporting thus mitigating the potential strategic disclosures (Hess and Dunfee, 2007).

Due to the limited extent of reporting for several small cap firms in the study compared to large cap firms, there is a tendency for these reports to focus on the most material matters of sustainability information. The total amount of information provided makes it more focused towards the most material matters of social and environmental sustainability. As an example, employee-related matters was an important topic of disclosures for small cap firms which was exemplified by a high level of reporting quality.

Although the information provided by small cap firms is more focused on the most material matters the extent of disclosures is still limited which hinders the total balance of information for social, environmental and ethical disclosures. When the extent of disclosures increase to a level where it is sufficient to provide information on all three different categories of disclosures and it is disclosed in narrative and especially in a quantitative manner it will improve the balance between different types of disclosures to reflect on both positive and negative aspects of an organisations performance (GRI, 2013). The quality of SR for large cap firms is noticeably higher due to a higher level of type 2 or type 3 disclosures and through communicating numerical information it increases the balance of information provided together with the adherence to SR frameworks. In order to produce a higher level of balance in reporting it is required for small cap firms to produce a higher extent of reporting because even after the new legislation there are large differences in the extent of reporting which also hinder the quality and balance of information to reflect on both positive and negative aspects (GRI, 2013) towards stakeholders.

For large cap firms, a higher quality of information also signalises a higher balance of information due to a higher number of firms producing type 2 or type 3 disclosures comprising numerical information which reduces potential bias (GRI, 2013) of sustainability reports. However, because the quality of reporting has remained stable also after the legislation no impacts can be referred to the mandatory reporting on sustainability matters. A category for social and employee-related matters which could be exposed to the possibility of producing positive and unbiased disclosures is the actions companies make in local communities. As identified by Laufer (2003) SR could, on occasions, be seen as a marketing tool if the information provided is unbalanced and of poor quality. However, whereas small cap firms only provide narrative disclosures on its different projects in local communities, several large cap firms are disclosing numerical disclosures on the topic. This reduces the risks of any potential bias of sustainability reports being seen as a marketing tool (Diouf and Boiral, 2017).

5.2.3 Clarity

The qualitative characteristic clarity refers to that the information should be made available in order be understood and accessed for stakeholders of the report (GRI, 2013). One aspect which improves the clarity of information is thus if it easily retrievable for stakeholders. Since the annual reports commonly contains more financial information in comparison to social and environmental, an inclusion of the social and environmental in annual reports could be a potential distraction with regards to the clarity of information. For small cap firms, the information is commonly disclosed in smaller social and environmental sections into annual reports which limits the clarity of information.

The clarity of information provided by large cap firms is at a higher level compared to small cap firms partly due to the fact that most reporters release separate sustainability reports where a higher extent and quality of sustainability information is communicated which makes the information more understandable and easily accessed (GRI, 2013) for stakeholders. A development which could potentially reduce the clarity of information provided is the number of firms moving to integrated reports. Albeit the inclusion of SR into financial reports could make the information more concise and efficient for readers of the report (IIRC, 2013), the identification process of finding information on sustainability could become more time-consuming in comparison to separate sustainability reports. Meanwhile, as noticed of the results of this study the integrated reporting has showed signs of SR becoming less comprehensive and still maintaining a similar level of quality among integrated reporters. Thus, certain other aspects could be improved, e.g. the conciseness, comparability and timeliness of information, that comes with integrated reporting (IIRC, 2013). A shift which has increased the accessibility (GRI, 2013) of disclosures for small cap firms in this study under the new directive is firms that have released separate sustainability reports and firms disclosing very limited information on sustainability in accordance with the regulation in the annual report which makes the reporting understandable and accessible in a manner that was not common before the new legislation. However, the general clarity of information for both segments of firms has remained stable even after the legislation and is more driven by firms adhering to SR frameworks.

5.2.4 Comparability

The qualitative characteristic of comparability refers to if the information is selected, compiled and presented in a consist manner and thus makes it possible to compare an organisation over time and relative to other firms (GRI, 2013). Because the new legislation (European Union, 2014) is not as specific on the content requirement of a sustainability report where it is possible for companies to report upon their identified or explain why information is lacking and due to more comprehensive requirements of international SR frameworks (GRI, 2013; IIRC, 2013) no special effects have been noticed for large cap firms. Since the identified risks for for every firm under the new directive is individual, the comparability of information in accordance with the legislative requirements (EU, 2014) does not enable comparability in a similar manner as SR frameworks where reporters are mandated to report in accordance with the requirements of the framework (GRI, 2013; IIRC, 2013).

For small cap firms, where the extent before the introduction of the new legislation was limited and the number of reporters following SR frameworks was limited as well, the new legislation offers the opportunity of producing information about the selection, compilation and reporting of information in a consist manner (GRI, 2013) which increases the comparability of information. As can be noticed for both social and environmental information the quality of reporting has increased. A higher level of quality related to different social and environmental matters also offers the opportunity to compare different organisations to each other but also to compare individual organisations over time. Hence, the new legislation has increased the extent and quality of information which improves the possibility to compare firms. However, a lack of comparability can be referred to the new legislation as it does not provide stakeholders with information that is comparable between firms since no specific areas of social and environmental reporting are mandated (European Union, 2014). Also, no specific requirements on quantitative disclosures are made which hinders the comparability both between firms and for firms over time. Although a major deficiency especially can be noted concerning the comparability between firms and regarding quantitative information of disclosures the comparability for firms over time through narrative information is improved due to the higher level of extent and quality of SR provided by small cap firms.

Overall, a higher level of quality also enables better comparisons of a firm’s performance over time and against peers. The quality of reporting for large cap firms has remained at a similarly high level over the three years although small increases in reporting quality can be noticed. Since the quality of these firms which have had a similar high level of quality concerning SR is at a high level, it also enables an analysis for stakeholders of the sustainability performance of an organisation over time (GRI, 2013) in comparison to small cap firms which produce a limited extent and quality of SR. However, by following the requirements of the new law which is evident for several of the small cap reporters, comparability of reporting if the reporter are disclosing information on sustainability matters in all five areas of mandatory reporting (European Union, 2014) could improve comparability in future reports if the information also is presented consistently.

5.2.5 Reliability

The reliability of SR means that *”the organisation should gather, record, compile, analyse and disclose information and processes used in the preparation of a report in a way that they can be subject to examination and that establishes the quality and materiality of the information”* (GRI, 2013). An important part of the process is how well companies are transparent with their processes of identifying the material topics which are discussed in their SR. An important determinant factor of reliable SR is thus how the disclosures concerning materiality in SR frameworks (GRI, 2013; IIRC, 2013) and the identification of risks under the new directive (European Union, 2014) are presented. This is identified in the business model reporting part of the disclosure index used in this study, similar to the materiality of disclosures discussed previously. For large cap reporters, a materiality analysis section with a detailed description of how the different topics discussed in the annual or sustainability report have been identified through dialogues with different stakeholder groups is presented which improves the reliability. Furthermore, a higher extent and quality of reporting also signalises a higher degree of reliability of the communicated information from large cap firms in the study. Overall, due to that the new directive has not had a major effect on the quality of reporting or risks disclosures for either the large or small cap firms it indicates that the reliability of sustainability information has remained stable.

5.2.6 Accuracy

The qualitative characteristic accuracy prescribes that the information should be as detailed and correct to make it available for stakeholders to assess an organisations results for their decision-making (GRI, 2013). A vital part of this process is thus for firms to provide information that is of high quality in order to enable an assessment of the sustainability performance. The easiest ways for stakeholders to compare the accomplishments of different firms with regards to this study is to produce numerical information on the social, environmental and ethical impacts. Since the focus of the new legislation is on the identification of social and environmental risks (European parliament, 2014) and no specific requirements can be noticed for the accuracy of the information provided there are also no specific impacts of the new legislation in this area.

Albeit the focus of identified areas of risks on social and environmental matters, another area which is important in providing information that is detailed and correct is the non-financial KPIs (European parliament, 2004) which are identified by reporting firms. The disclosures of non-financial goals have, however, remained at a low level for small cap reporters with an average disclosure score of approximately 0,5 compared to an average disclosure score of approximately 2,5 for large cap reporters. This major difference in the quality of reporting on non-financial KPIs also summarises a significant difference in the level of reporting by the two segments. Albeit a small increase from a score of four to seven can be noticed, the possibility for stakeholders to assess results is limited to the opportunity of comparing the results of large cap reporters where most non-financial KPIs are disclosed both through narrative and quantitative information.

5.2.7 Timeliness

The qualitative characteristic timeliness signifies that reports should be released in accordance with a set time schedule and be available in time for stakeholder to take it into consideration for decision-making (GRI, 2013). For both large and small cap reporters included in this study, the sustainability reports, integrated reports or annual reports were made public in March or April. Thus, the information is made available in order for it to be up-to-date in the decision-making process. The release dates have also remained stable since the introduction and no effects can be referred to the legislation with regards to the actuality of the information disclosed. Also, no effects can be referred to if the information is released through a separate environmental report or annual reports. Although there is a lack of restriction concerning the release of separate environmental reports they are commonly released at the same time as the annual report which makes the information timely to be a part of stakeholder's decision-making processes.

5.3 Summary discussion of results with reference to previous studies

Similar to previous studies on the implementation of mandatory reporting this study finds that the extent and quality of reporting among listed firms have increased since the introduction of the EU-directive. However, the positive development of reporting extent and quality for large cap firms is limited and better explained through the development of international SR frameworks.

Since the new directive is the first mandatory legislation on SR applied by multiple countries no previous studies had highlighted the issue of such legislations but instead focused on country-specific legislations (Ioannou and Serafeim, 2017). In comparison to the ”command and control” approach used in previous country-specific legislations, exemplified through the French legislation where firms are mandated to report upon 42 indicators of social and environmental information (Chelli et al, 2014), the EU-directive uses a ”comply or explain” approach to SR legislation which leaves room for organisations to either disclose information or explain why they have not reported on a topic (European parliament, 2014).

Similar to Hooks and Van Staden (2013) who finds a correlation between the extent and quality of SR, this study finds similar traits of SR in a Swedish context with large cap firms covering more areas of SR that is enabled through a sufficient extent of reporting to cover all areas under the new directive, i.e. business model, environmental social and employee, and ethical reporting.

A common trait in previous country-specific legislations is the use of different SR frameworks. In South Africa, <IR> is used for mandatory reporting and in France social and environmental indicators similar to the GRI framework is used for the legislation on SR. In comparison to the French legislation which is much more specific on what to disclose by using a ”descriptive” approach to SR legislation as identified by Morris and Badache (2012), the new EU-directive uses a ”guided” approach which does not prescribe the specific social and environmental disclosures to report upon, but rather more leaves room for organisations and national legislations to further more define what companies should report upon. Since the already existing frameworks of SR (GRI, 2013; IIRC, 2013) is more specific and comprehensive than the new EU-directive regarding the extent of sustainability disclosures, the reporting of large cap firms has remained less affected in terms of extent and quality of reporting compared to previous studies by Fatima (2015) in Malaysia and Setia et al (2015) in South Africa for legislations under a ”command and control” approach. The increase in extent and quality, albeit positive, is still very limited and could be explained by other institutional factors than the coercive isomorphism through rules and monitoring (Higgins and Larrinaga, 2014) of the new legislation on SR.

The development of SR practices is better explained through the institutional pressures of mimetic and normative isomorphism. For large cap firms, the level of extent and quality of reporting was high before the introduction and have remained so after the introduction of the EU-directive. Furthermore, the analysis in this study of the quality of reporting according to characteristics of GRI indicates that reporting quality in most parts has remained relatively unchanged after the introduction of mandatory reporting. Although the extent and quality of reporting have increased for small cap reporters it remains at a noticeable lower level than for large cap firms following SR frameworks (GRI, 2013; IIRC, 2013) and adhering to the principles of these frameworks. Both mimetic isomorphism and normative isomorphism have been evident for the development of SR for large cap firms, and small cap firms, in this study. The normative isomorphism of large cap reporters is exemplified by the fact that firms are following similar frameworks on SR and the mimetic isomorphism is exemplified by similar trends in reporting noticed for <IR> reporters among large cap firms decreasing their extent of disclosures and small cap reporters increasing reporting when moving from reporting on sustainability in annual reports to releasing separate sustainability reports. Furthermore, the similarities of the development of reporting of peers in the same industry (Husqvarna and Electrolux) or firms allocated in the same location in similar industries (Volvo and SKF) suggests that there are mimicking pressures, i.e. mimicking firms which are seen as more legitimate or successful (Higgins and Larringa, 2014) in a sustainability context driving the development of reporting practices.

Similar, the development of reporting of small cap firms can be explained by the homogeneity of practices due to mimetic isomorphism. In comparison to the reporting of large cap firms, the extent and quality of reporting is significantly lower for small cap firms. Thus, the lack of change prior to the new legislation can be explained by mimetic forces. Also, as discussed in the analysis of qualitative characteristics and mentioned by Hahn and Kuhnen (2013), the lack of potential benefits of SR could influence the extent and quality of disclosures. The mimetic forces of isomorphism could explain the lack of reporting extent and quality in comparison to large cap firms. That is, if the peers does not report on sustainability and the potential benefits for the reporting firm is low it means that the extent or quality of reporting remains unaffected. Because of the new directive but also because of a general positive development of SR from 2015-2017, change can be noticed mainly concerning the extent but also in the quality of disclosures for small cap firms. However, due to the low level of requirements of SR in the new EU-directive in comparison to the well established SR frameworks, a large improvement in reporting extent and quality is commonly driven by normative institutional pressure of SR frameworks rather than the coercive institutional pressure of the new legislation. In total, the quality of reporting for small cap firms adjusting to the EU-directive is still noticeably lower than for large firms following established SR frameworks.

Thus, institutional change in SR practices is primarily driven by normative and mimetic isomorphism. The informal rules through norms and values (Higgins and Larrinaga, 2014) have had a larger effect on reporting practices than the formal rules of coercive pressure exemplified by the new EU-directive on SR. However, similar to the description of Hess (2007) that the development of legislations could raise the bar on SR, and therefore influence change in SR for reporters following SR frameworks it could also have an impact on the number of firms disclosing according to these frameworks which historically have steered the development of SR reporting practices and the quality of SR. Although the disclosures provided by the ”apply or explain” approach does not in itself drive the extent and quality of SR it could indirectly raise the bar of the mimetic and institutional pressure of firms. The norms, values and habits is valuable explanations of why firms report on SR and isomorphic tendencies can be noted for both large cap and small cap firms. The large cap firms, which since long have been characterised by reporting in accordance with SR frameworks, have had similar practices for a long time following the GRI framework and the reporting have evolved in accordance with the development of these frameworks.

Since 2013, integrated reporting (IIRC, 2013) has become a common complement to the GRI reporting framework with several of the firms reporting in accordance with both frameworks. This explains the decrease in extent of reporting of several large reporters due to the integrated reporting framework while at the same time maintaining a high level of transparency and quality of SR in accordance with the GRI framework. The arguments of Ioannou and Serafeim (2017) that a legislation could incentivise companies to adopt SR framework such as GRI and improve its social and environmental performance could be the long-term effects of the study. However, in the short run no such increase can be derived from the results of this study where the reporting of large cap and small cap reporting practices still differ due to the differing development of practices explained by the adoption, or non-adoption, of SR frameworks.

6. Conclusions

This chapter presents the main findings and contribution of the study, and suggestions for future research.

6.1 Main findings

The aim of this thesis was to see what impact the new EU-directive in response to Hahn and Kuhnen's (2013) call for future studies to examine how legal pressure affects the quality of SR. The aim of the thesis was performed through a content analysis based on a combined approach of form-oriented, which measures the extent of information, and meaning-oriented approaches, which measures the quality of information.

The results of this study show that the extent and quality of SR for listed firms have increased for the first year of the EU-directive legislation. For the large cap firms which previous to the implementation of the new EU-directive reported on a high level of extent and quality of information, no major increases can be noticed. For the small cap firms, where extent and quality was at a low level prior to the new EU-directive, the extent of reporting and the quality of reporting for specific disclosures have increased.

This study also suggests that the drivers of a higher quality and extent of disclosures is not driven by the institutional pressures of the new legislation, i.e. coercive isomorphism, but rather more the institutional change of SR practices can be referred to the informal rules, i.e. normative and mimetic isomorphism, which creates homogeneity among practitioners and organisations. Based on the ideas of institutional theory and ideas of institutional change, the development of extent and quality of SR is driven by normative isomorphism through international SR frameworks which creates a higher level of extent and quality of disclosures in comparison to the legislative requirements of the EU-directive.

6.2 Contribution

First, the contribution to previous literature is what impacts the new EU-directive has had on the extent and quality of SR practices for listed firms in Sweden. It has added to the research gap of regulation and governance and quality of SR through the lens of the institutional theory. Furthermore, it has further strengthen the links between the extent and quality of reporting and the link between firm size and extent and quality of reporting identified in previous studies. This study will be of interest for researchers looking for developments in SR under mandatory reporting as well as researchers examining the development of extent and quality in SR.

Second, the practical implications and contributions of this study is relevant for regulators to see the impacts of the new regulation on SR practices, practitioners or the profession for knowledge about the development and drivers of development of SR.

Third, the methodological contribution of this study is the methodology of a combined approach of content analysis to see the impacts of extent and quality of reporting under the new EU-directive in a Swedish context. It also adds to the institutional theory and SR literature.

6.3 Suggestions for future research

Since this thesis looks at the short-term effects of the new EU-directive a suggestion for future research would be to look at the long-term effects reflected over several years of the new directive. Also, an identified trend of the leading organisations within the SR sphere was the reduced extent of reporting for large cap firms following the Integrated reporting. A future study could examine the possible link between the extent and quality of reporting for <IR> reporters in comparison to GRI reporters.

Furthermore, the drivers of SR for small cap reporters can be further researched by a case study of an individual firm which has increased its extent of disclosures the last few years in order to find the examine the drivers and motivations of the individual firm in disclosing on sustainability, using the institutional theory as a theoretical lens.

Lastly, an alternative to the content analysis employed in this study would also be to perform statistical tests based on numerical data obtained from form-oriented and meaning-oriented approaches to identify determinants of what drives the extent and quality of SR.

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