Influence of Sustainability Reporting Regulation on Swedish Financial Companies – An Institutional Perspective

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Abstract

The field of sustainability reporting has been studied for a number of decades but how companies respond to sustainability reporting regulations is still understudied. To lessen the gap, this thesis uses an institutional perspective to analyze how Swedish financial companies respond to the new regulation demanding all larger companies to disclose a sustainability report. The thesis takes a qualitative approach by conducting interviews at seven companies to investigate how institutional elements influences their sustainability disclosure processes. Findings show that the content of the reports is not largely affected due to normative elements providing a higher standard than the regulation demands. The reason for this can to a large extent be explained by the use of accepted frameworks which acts as the norm. The thesis also finds that though the content is not largely affected, the regulation affects the internal processes, requiring companies to examine and evaluate their existing sustainability agendas. The findings provide a complement to existing research that to a large degree consists of quantitative research as it illuminates how companies view their sustainability report and the reasoning for disclosing it. The influence of regulation on sustainability reporting is still an understudied subject and more research is needed to address this gap.

Keywords: Sustainability reporting, Mandatory reporting, Voluntary reporting, Institutional theory, Regulation, Financial companies, GRI
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1. Introduction

The introduction presents the research area of sustainability reporting and gaps recurrent in the field. This is followed by a problem statement, the purpose and concludes by presenting limitations of the thesis.

1.1. Background

Companies reporting their sustainability initiatives have become increasingly common throughout the years. In 2017, 78% of the 250 world’s largest companies integrated their corporate sustainability reporting in their annual reports compared to 44% in 2011. (KPMG 2017) Those who opt for releasing sustainability reports are often in industries that have larger environmental and social impact and thus become more vigorous in their corporate sustainability reporting (CSR) agenda to legitimize their existence. (Kolk 2004) As a result of these agendas, they are able to increase transparency, signal competitiveness, motivate employees and enhance brand- and reputation values. (Hahn & Kühnen 2013; Pedersen et. al. 2013) Therefore, companies that are active in sustainable matters are incentivized to reflect their initiatives in their disclosures as it will contribute to legitimacy and market value. In addition, disclosing information can improve public perception of their sustainability performance (Hummel & Schlick 2016).

More companies have been keen on disclosing information, yet lack of common structures and frameworks are still apparent. Therefore, comparability of information within sustainability reports has been hard to establish. (Eccles et al. 2012) In order to counter this problem, different regulations (Szabó & Sorensen 2016; Zhao 2016) and frameworks (Arena & Azzone 2012; Hahn & Kühnen 2013) have been developed to create transparency and comparability of sustainability reports. These frameworks allow companies to maintain similar disclosures by conceptualizing common sustainable aspects and facilitate what and how to report. (Brown et al. 2009) Some countries have taken steps to increase transparency in CSR with regulations, demanding sustainability reports, though they in most cases come with a possibility to avoid it, such as a “comply or explain” alternative. Meaning that they must justify “why not” if they choose not to comply. (Ioannou & Serafeim 2017) In Sweden, regulations regarding transparency and CSR are instead more enforced and has become increasingly prominent.
In 2017, the Swedish government (based on the EU directive 2014/95/EU\(^1\)) made an attempt in trying to make the companies impact on the environment and their initiatives more transparent and comparable by accepting the proposition 2015/16:193: *Företagens rapportering om hållbarhet och mångfaldspolicy*. (Prop. 2015/16:193) This law requires larger companies, without the possibility to be excused, to produce a sustainability report that will be available to the public, hoping it will raise legitimacy as well as consumer awareness. (Government 2016) The initiative will facilitate stakeholders to gain a more grounded and analytical perspective of operations beyond the financial data. It is estimated to affect 1600 Swedish companies who are required to include a sustainability report in their annual reports or in a separate publication (KPMG 2016; PWC 2016).

1.2. Problem Statement

Mandatory sustainability reporting has been studied for several years but only few studies investigate the response to regulation. (Hahn & Kühnen 2013) With the introduction of mandatory sustainability disclosure directive from the European Commission, Hahn and Kühnen (2013) requested research in regard to its effect. The directive was recently implemented into Swedish law and thus provides an opportunity for researchers to investigate how companies, both new and seasoned reporters, responds and adapts to the regulation.

Previous sustainability reporting studies have been somewhat limited in providing an internal, institutional perspective of how companies perceive their sustainability reporting. Many researchers attempt a more narrow and focused approach and aim to research how certain influences affect certain organizational contexts. (Adams 2002) In addition, these studies mainly use quantitative measures to examine how companies relate to and comply with regulations as well as how effective coercive pressure from regulation is. (See, for example, Criado-Jiménez et al. 2008, Ioannuo & Serafeim 2017, Martínez-Ferrero & García-Sánchez, 2017, Othman et al. 2011 and Pedersen et al. 2013). Studies have questioned this and argues that the reasons behind sustainability reporting are more complex and that researchers should take an internal aspect into account as well. (Bebbington 2008)

In the field of sustainability reporting, previous studies have focused on company size (Brammer & Pavelin 2006; Gallo & Christensen 2011; Nikolaeva & Bicho 2011), connection to financial performance (Kent & Monem 2008; Sotorrio & Sánchez 2010; Stanny & Ely 2008)

and to some level voluntary versus mandatory reporting (Ioannuo & Serafeim 2017; de Villiers & Alexander 2014). Though some studies explore the situation of voluntary versus mandatory reporting, the field of mandatory sustainability reporting is somewhat limited. (Hahn & Kühnen 2013) The reason being, to some extent, that sustainability reporting has not been as regulated as financial disclosures. Pedersen et al. (2013) and Ioannuo and Serafeim (2017) find that regulation encourages benchmarking when constructing sustainability report. Additionally, Criado-Jiménez et al. (2008) and Pedersen et al. (2013) find that the pressure from regulation positively affects the volume and quality of the reports. Though these findings are important for understanding what effect regulation have on companies, they do not aim to provide a deeper understanding into how companies respond to changes connected to sustainability disclosures.

1.3. Research Area
The research area for this thesis is focused on sustainability reporting, and more specifically mandatory sustainability reporting. Though sustainability reporting is closely connected to both legitimacy and stakeholder theory, this thesis will not use these theories to analyze the influence of regulation. Instead, to analyze how mandatory sustainability reporting is influencing companies, we use the lens of institutional theory as it provides with an extensive framework that applies more than one viewpoint. We use an internal perspective, as advocated by Suddaby (2010) and Scott (2008), in order to focus on the processes by which institutional pressures are understood, rather than the products of institutional pressure. (Suddaby 2010) By using institutional theory, the possibility for creating understanding of processes within the companies is increased. (Scott 2008)

1.4. Purpose and Research Question
As stated by Hahn and Kühnen (2013), research regarding the influence of regulation is understudied. They also invite researchers to investigate the influence of this particular EU directive as the development warrants research. (Hahn & Kühnen 2013) To adhere to this call, this thesis will investigate the how the new regulation affects the existing norm among Swedish financial companies.

Specifically, the aim of this thesis is to investigate 1) how regulation influences financial companies and 2) what other elements can mitigate the regulatory influence. By investigating both companies that have previously reported and new reporters, this thesis investigate how the recent regulation influence the established sustainability disclosure process as well as how inexperienced companies are affected.
Based on our problem statement and purpose of this thesis, the research question is as follows:

- How are disclosure processes in Swedish financial companies influenced by sustainability reporting regulation?

1.5. Limitations
Before proceeding, some limitations of the thesis should be addressed. Firstly, previous studies have used other theories to analyze sustainability reporting and reasons for disclosures, e.g. legitimacy-, stakeholder- and political economy theory (Adams 2002). Though the central concepts of these theories are mentioned or treated, this thesis uses the lens of institutional theory to analyze the subject. Secondly, the reports are a central part of this thesis, however, a content analysis has not been used as the purpose is to understand the reasoning behind the sustainability reporting process. Instead, we have read and compared sustainability and annual reports, pre and post regulation, to identify structural content changes as basis for the interview questions. Lastly, the thesis investigates banks and insurance companies in a Swedish environment and the influences related to these particular contexts. This limitation can lessen the possibility for generalization and replicability with other industries and countries.
2. Literature Review

The first part of the chapter reviews the relevant literature for the research area. It provides a theoretical background of the sustainability reporting field and highlights sustainability reporting developments. The second part concerns institutional theory and is summarized in a theoretical framework that the empirical data will be analyzed from.

2.1. Sustainability Reporting

To disclose sustainability information in the form of reports has become common to most large businesses. (Shabana et al. 2017) Accessibility of information, scandals and environmental consciousness have made stakeholders more demanding of firm actions. (Chih et al. 2008) Transparency and communication have therefore become of utmost importance among companies to adhere to these new shifts of compliance. Stakeholders demand that companies provide transparent disclosure regarding environmental, economic and social performance. Company accountability is more important the larger and more influential they are. (Rasche & Esser 2006) Sustainability reporting is an intermediary to efficiently engage and respond to these demands. Disclosure of information between stakeholders and companies is often compiled in reports and serves to nurture the relationship between the actors. (Herremans & Nazari 2016) Sustainability reporting has generally been voluntary and Berthelot et al. (2012) claim that there is a financial incentive to publish as it provides with credibility of their operations and therefore attracts investors. Whereas Deegan (2002) further argue that sustainability reporting will contribute to company legitimacy and allow them to gain social credibility and acceptance. By actively engaging in sustainable matters, the company can attain a more positive perception from the public if they disclose their efforts.

Yet, there is still reluctance among companies to disclose and publish information pertaining to their operations unless there is a strong pressure or obligation for them to do so. The reasons include, but are not limited to, unrealistic expectations about performance, litigation risk and perceived competitive disadvantage. (Eccles et al. 2012) Marquis et al. (2016) further reiterate the notion of uneasiness towards coercive sustainability reporting. The authors claim that companies that have been pressured will provide a “greenwashed” report rather than an authentic disclosure of information. Meaning, they will highlight and exaggerate their positive effects of their operations whilst excluding and dismissing the negative aspects and thus create a false image of compliance. (Marquis et. al. 2016) The feelings of uncertainty in regard to disclosure are mutual between organizations and stakeholders. Stakeholders are more
concerned about the legitimacy, consistency and transparency of sustainability reporting. As a consequence, the requirement of assurance processes has been demanded to mitigate and reduce lack of public trust among stakeholders. (Martinéz-Ferrero & Garcia-Sanchez 2017)

The progressive and persistent nature of CSR and sustainability reporting is partly due to the involvement of government. (Conley & Williams 2005) Through regulatory initiatives ranging from soft values, capacity building and awareness, to hard values, tax incentives and laws, there has been evidence that government has been able to create both an environmental and social awareness/accountability in the business sector. (Albareda et al. 2007) The relationship between government and business has become increasingly integrated due to the co-regulation of corporate social responsibility. Governments have taken more coercive initiatives lately and enforced companies to disclose their environmental and social engagement. (Pedersen et al. 2013)

2.2. Regulative and Voluntary Sustainability Reporting

Publishing sustainability reports can be encouraged or forced through regulatory bodies e.g. government or stakeholders. Whom the company opts to be compliant to will result in differences between structure, content and governance of sustainability reporting. Donaldson and Preston (1995) discuss the irrelevance of regulation as companies often act in accordance with ethical reasons towards the demands of interest groups. Meaning, they will respond and disclose information their stakeholders deem important. Whereas Wiseman (1982) argues that voluntary reports are often fragmented and not an accurate representation of a company's sustainability efforts. Advocates of regulation of sustainability reporting argue that it will bring a minimum standard for companies to follow and lessen the risk of selective disclosure. (Maltby 1997) Regulation can also evolve into standards and norms, as regulation provides a foundation for stakeholders to voice demands not previously considered. (ibid 1997) The stakeholder’s demands can be volatile and confusing thus the law provide certainty by acting as a framework. In accordance with companies being keen on acting as “corporate citizens”, their moral obligations are often influenced by stakeholders. However, stakeholders possess different power over companies and catering to all is difficult. Stakeholders, whether government, competitors or customers, provide different organizational value and relationships are therefore managed differently depending on the outcome of nurturing them. (Logsdon & Lewellyn 2000) Manager’s perception and engagement with stakeholders is dependent upon the critical resources and contribution they bring to the company. From a managerialist perspective, adhering to the pressures of stakeholders can provide organizational benefits in the form of
social license and legitimization. (Phillips, Freeman & Wicks 2005) Regulation can alleviate some of these stakeholder pressures and nurture concurrence. (Maltby 1997) Yet, stakeholder engagement and company compliance can be advantageous as it develops with new circumstances. Hawkins (1984) argue that the relationship between regulator and regulated needs to be similar. There needs to be mutual continuous developments that encourage progress as opposed to rigid enforcement.

Dye (1986) proposed that increased mandatory disclosure also leads to an increased level of voluntary disclosure in regard to substance and extent. One reason why this situation occurs is due to the will to distinguish one’s company from the rest of the market and establish superiority. (Alberti-Alhtaybat et al. 2012) The argument is reinforced by Ioannou and Serafeim (2017) who reached the same conclusion when they examined the effect of regulation on mandatory disclosure of environmental, social and governance information. van Liedekerke and Dubbink (2008) favors government regulated interferences in regard to disclosures. The authors claim that policies, standardization and regulations will encourage optimal truthful disclosure. Mandatory reporting prevents the risk of selective disclosure where companies opt to disclose information they regard important. Thus, running the risk of omitting crucial information when it is unfavorable to them. Voluntary reporting makes comparability more difficult for stakeholders. The authors argue for standardization imposed by authorities but include flexibility for the companies. (Ibid 2008)

Worth noting is that not all laws are perceived as regulative elements due to different reasons. In cases where the law is ambiguous, companies have the possibility to give the law its meaning. (Edelman & Suchman 1997) This is often the case in Sweden, where regulation is imposed first after a number of affected actors, from both the public and the private sector, have submitted their referrals stating suggestions, comments and what effect it is believed to have on the market. This provides a law to have a partial normative influence as the aim is not to control as much as it is to create a common understanding and “legal rationality” that provides guidelines for organizational behavior (Edelman & Suchman 1997). Hess (2007) argues that when mandatory reporting is supported by a strong ability to enforce the regulation, it may encourage higher standards among companies as stakeholders will be able to review their performance. Hess (2008) also discuss the implementation of sustainability reporting regulation and argue that in order for regulation to be effective, it has to follow a certain approach and not obstruct innovation and rationality. The author continues and suggests the regulation should take
consideration to the unique situations of companies and allow them to report on what is relatable for their business, rather than a rigid set of rules.

In lieu of increasing legal requirements within sustainability reporting, Pedersen et al. (2013) investigated the effect of sustainability regulation in Denmark by analyzing 142 annual reports and conducting interviews with 16 companies. The authors empirical findings indicated that certain companies were not able to document any direct impacts or differences in systematic approach based on new regulations. However, as companies’ operations become more exposed to the public, board members and managers increase their involvement with their CSR efforts to accurately reflect their actions with their claims. To continue, Pedersen et al. (2013) found that regulation encourages benchmarking through inspiration from other companies, standards and guidelines. Benchmarking is hypothesized and proven to be most recurrent among new reporters though a majority of the companies in the study found inspiration from other companies. Pedersen et al. (2013) also found that companies see few benefits from sustainability reporting and view it as a means of systematization rather than a driver of growth or competitive advantage. Herremans and Nazari (2016) conducted a qualitative study on oil and gas companies in Canada, using institutional theory, and concluded that the sustainability reporting differs depending on what institutional elements affect them (concept explained in section 2.6). Companies most influenced by regulative elements had the least established processes for sustainability reporting. The ones influenced by normative elements were keen on benchmarking peers for best-practices and went beyond the regulative requirements. They also used frameworks to adhere to the accepted standard of reporting. The cultural-cognitive companies were found to use two-way communication with stakeholders to a higher degree as well as acting towards improving practices and frameworks. (Herremans & Nazari 2016)

2.3. Leaders and Followers of Sustainability Reporting

Higgins and Larringa (2015) claim that companies who operate in larger scale and publish sustainability reports sets precedence on how and what to report. As a consequence, their best practice creates a directive on industry peers and a global harmonization of sustainability reporting. This is further reiterated by Dagiliene (2014) who claim that non-governmental organizations (NGOs) serve as an educational function when they promote corporate accountability and socially responsible operations. By actively engaging in standardization of sustainability reporting, and the need to harmonize both financial and non-financial information, NGOs have been able to create improved guidelines and methodologies thus establishing norms on how to proceed with similar matters. (Dagiliene 2014) Larrinaga-
Gonzalez et al. (2001) performed 15 semi-structured interviews with nine companies and their findings indicated that companies who are keener on releasing extensive and complete environmental report wants to set precedence in national environmental agendas and attain an exemplary environmental performance perception. However, though the company's purpose were robust, the organizational change remained relatively unchanged. (Ibid 2001)

Benchmarking delves into replication of other proven and successful practices from companies to set a framework in times of uncertainty when goals and concepts are ambiguous and difficult to comprehend. By mimeting others, solutions can be gained at a low cost. (DiMaggio & Powell 1983) By imitating leading companies’ social practices, companies may aim to legitimize their own strategy to mitigate the risk of bad publicity. (Martinéz-Ferrero & García-Sánchez 2017) One way to do this can be by adopting formal systems that replicate those of industry leaders. (Maroun & van Zijl 2016) Joseph and Taplin (2012) continues and analyzes deeper into benchmarking and its influence on corporate structure. The concept of mimetic in regard to sustainability development becomes more applicable when directives and regulations are incomplete or vague thus supporting Pedersen et al. (2013) claim. Benchmarking is used to develop sustainability through knowledge sharing and cost reduction. Thus, the influence goes beyond determining how and what to report on respective companies but also encourages improvement and richer substance to sustainability reporting. Companies opt to mimic peers that are slightly superior but similar in nature rather than those who are too advanced and dissimilar. (Joseph & Taplin 2012)

Companies face several problems when developing a sustainability report for the first time. The primary impediment being a lack of knowledge and experience. (Adams & McNicholas 2007) Some of the problems found by Adams and McNicholas (2007) are lack of understanding of how to integrate sustainability goals, lack of knowledge regarding best practices and lacking the involvement of stakeholders in the reporting process. Despite the problems connected to the development, the study found that it was a learning experience for the people involved. (Adams & McNicholas 2007)

2.4. Contextual Influences in Sustainability Reporting
There are variations in the level of disclosure in both voluntary and mandatory reporting. Researchers have tried to define what variables affects this variation using firm characteristics such as size, managerial performance and ownership although none have as of yet been free of critique. (Alberti-Alhtaybat et al. 2012) The rigidness and involvement from companies in
regard to CSR and sustainability reporting are influenced by the context and conditions in which they are applied. Three interesting conditions related to disclosure are country of origin, industry and firm characteristics. These conditions could further illuminate the nature of certain reports and why they are more extensive and complete than others.

Country of origin’s effect can be illustrated in different perspectives. Gray (1995) argues that certain countries have a “worldwide image” and are therefore under more pressure and influences. The author continues and uses the legislative environment in USA in contrast to the UK and highlights that responses from both countries will be different due to their contexts. To continue, Gray (1995) argues that countries’ legislative, political and social aspects are different and will therefore reflect differently in sustainability reports. According to the environmental performance index (EPI), Sweden is currently ranked fifth among 180 countries. In this particular index, they research how consistent countries are in reaching different sustainability goals while also nurturing and investing in resources that will encourage sustainable ecosystems. (EPI 2018) Sweden is also ranked sixth in Transparency International’s Corruption Perception Index. (Transparency international 2018) Therefore, Sweden may set a precedent for other countries as how to proceed with environmental matters and are taking more rigorous actions to become more environmentally friendly.

Industry is connected to the more immediate area which the company operates in. Adams (2002) delves into how certain events and time periods forces companies to disclose more information to further legitimate their operations and subsequently address concerns from stakeholders. The author uses the “Exxon Valdez” oil spill incident to describe how companies in the petroleum industry were keener on publishing and improving their environmental disclosure. Similar connections could be made to the financial crisis of 2007-2008. (Avgouleas 2009)

Firm characteristics concern the structure and features of a business. Cowen et al. (1987) examines how a corporate social responsibility committee may influence a company’s disclosure. The author found that the existence and involvement of committees has an impact on disclosures. More specifically, the process behind disclosure is more rigorous as it remains a priority in committee’s who are dedicated towards a company social responsibility. As a consequence, publishing social information in their annual reports becomes more warranted and legitimized.
Company accountability is more important the larger and more influential the company is. (Rasche & Esser 2006). Hahn and Kühnen (2013) claim that larger companies (defined by number of employees, total assets and market capitalization) are under greater stakeholder scrutiny due to their greater impact and consequently visibility. The authors argue that larger companies will therefore opt for a more extensive sustainability report. A number of studies confirm this by finding that company size effect the extent, quality and the use of sustainability reports (See for example Hahn & Kühnen 2013). This was also hypothesized and proven by Trotman and Bradley (1981) who also found that the companies that provide sustainability information place a greater emphasis on the long-term effects of decisions than other companies. The authors also found a positive connection between the amount disclosed and the length of the company's decision horizon. (Trotman & Bradley 1981)

To continue, Adams (2002) found that internal contextual variables affect sustainability reporting. The author reported that both the attitude towards reporting and the procedure behind sustainability reporting will have a strong correlation to the quality, quantity and completeness of the report. The finished product is a summary of interdependence between functions and individuals in a company and is influenced by the corporate culture, communication and relationship.

2.5. Sustainability Reporting Frameworks and Regulations

2.5.1. Global Reporting Initiative (GRI)
Sustainability reporting has mostly been a voluntary initiative for companies. Thus, several guidelines have been developed to create a standardization between the reports; the Social Accountability 8000 standard, ISO 14000 series and Global Reporting Initiative (Hahn and Kühnen 2013).

The GRI (Global Reporting Initiative) remains the most popular framework to establish voluntary sustainability reporting. (KPMG 2017) The initiative was established in 1997 and highlights guidelines that should be included in sustainability reports released by businesses, whether governmental or non-governmental, to develop more rigorous and accurate reporting of environmental-, financial- and social performance. (Hedberg & Malmborg 2003) It has also been found to be used by Swedish companies to create legitimacy for their sustainability initiatives and as a way to structure and communicate the initiatives both internally and externally. (Ibid 2003) The actual framework is divided into modules and standards where each category describes the context that needs to be identified and highlighted. These categories are
further divided into three series: environmental, economic and social. Within each series, there are clear instructions how companies should report their approach, analysis and response to potential impacts. To ensure comparability, the GRI has provided with a narrative and set of concrete guidelines which includes how, what and when to report. Companies must abide to a common language and structure that is easily understood and communicated to encourage increased transparency and accountability. (GRI Standard 101) Fortanier et al. (2011) proved that frameworks and global standards, such as the GRI, provides a higher level of reporting and cross-country comparability. This finding is argued to lessen the need for national legislation when frameworks are used. The findings were supported even in the countries with the highest regulative pressure.

2.5.2. The Sustainability Reporting Law: SFS (2016:947)
Following a change in the Swedish Annual Act (Årsredovisningslagen), to comply with EU directive 2014/95/EU, larger companies need to publish a sustainability report, either as a part of the management report in the annual report or as a separate report. What constitutes as a “large company” is dependent on how many of three criteria that are met. If more than one criterion is met, the company is considered large and have to comply with the law. The criteria are as follows (SFS (2016:947)):

- Average number of employees under each of the last two financial years have been more than 250,
- The company’s assets for each of the last two financial years have been more than 175 million Swedish crowns,
- The company’s net sales for each of the last two financial years have been more than 350 million Swedish crowns.

However, there is an exception to the rule; if a company that met enough criteria is part of a group that publish a sustainability report for the whole group, the individual subsidiaries do not have to produce one. (Ibid 2016)

The sustainability report needs to include information regarding several aspects to create an understanding of the company’s development, position and results as well as the consequences of their business. This includes information of environmental, social and employee aspects, information regarding human rights and how the company counteracts corruption. The consequences should among other things disclose the company’s sustainability policy and the
results of the policy, essential risks and how they are managed, and central result indicators that are of relevance to the company. If the company do not adhere to a certain policy, the reasons for this should be clearly stated. (Ibid 2016)

2.6. New Institutional Theory
According to new institutional theory, human behavior is considerably influenced by different social contexts. Humans are not completely independent and autonomous but rather shaped by values, routines and other similar institutions. (Oliver 1991) Institutionalization is composed of definitions that individuals set as a common framework to understand a social reality. These definitions are indifferent and independent of respective individual’s views but more an accumulated effort into setting a “the way things are” attitude. Conforming to these social constructs is not purely based on pressure but rather due to the legitimacy, survival capabilities and resources they provide (Scott 1987).

DiMaggio and Powell's (1983) laid some of the foundation for new institutionalism by highlighting three institutional pressures; coercive, mimetic and normative isomorphism to explain the homogeneity in behavior that is recurrent in organizational fields. A key feature of coercive, mimetic and normative isomorphism is that they frequently function concurrently, influencing how organizations and institutions react and conform to changes in their environments. (DiMaggio & Powell 1983)

In contrast to the external perspective taken by DiMaggio and Powell, some researchers take an internal approach to investigate how the pressures mentioned above interact to shape and affect the practices and decision-making within a company. (Scott 2008) To illustrate this, Scott (1995) introduced “the three pillars of institutions”. Scott argue that change comes from regulative (have to change), normative (ought to change) or cognitive culture elements (wants to change). These three pillars provide stability and meaning to the social life of institutions. (Scott 2008) These are, in contrast to DiMaggio and Powell’s view, aimed to understand divergences and disruptions rather than coherence. (Scott 2010) According to Scott (2008), institutional elements operate on various levels of analysis, an interpersonal to a transnational level. The author argues that the elements, over time, forms the company as they provide cognitive schema, normative guidance and rules that constrain and empowers social behavior. This is an important difference compared to the view of DiMaggio and Powell (1983) who argues that institutional pressure is mostly external and therefore not fully addresses the question of organizational elements such as norms and rules.
To clarify, Scott do not oppose of DiMaggio and Powell’s view that there are external pressures, but he approaches them with an internal view rather than an external view. In the following text, this thesis will therefore use the terminology of both theories, to a certain degree, depending on the context. For instance, the law itself provides a coercive, external pressure onto the company. How it is interpreted by the actors within the organization is instead as a regulative element.

2.6.1. Three Pillars of Institutions
To gain an understanding of what and how institutional elements influence companies, we will use the framework created by Scott (2008). Table 2.1 illustrates the three pillars of institutions and its dimensions. In this section, the three pillars and their dimensions will be explained as they provide the lens for which our analysis will be based.

Table 2.1

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Regulative</th>
<th>Normative</th>
<th>Cultural-Cognitive</th>
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<td>Basis of Compliance</td>
<td>Expedience</td>
<td>Social obligation</td>
<td>Taken-for-grantedness</td>
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<td>Shared understanding</td>
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<td>Basis of Order</td>
<td>Regulative rules</td>
<td>Binding expectations</td>
<td>Constitutive schema</td>
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<td>Accreditation</td>
<td>Isomorohism</td>
</tr>
<tr>
<td></td>
<td>Sanctions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Affect</td>
<td>Fear guilt / Innocence</td>
<td>Shame / Honor</td>
<td>Confusion / Certainty</td>
</tr>
<tr>
<td>Basis of legitimacy</td>
<td>Legally sanctioned</td>
<td>Morally governed</td>
<td>Comprehensible</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Recognizable</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Culturally supported</td>
</tr>
</tbody>
</table>

Regulative elements are formal controls that aim to constrain or control behavior through rules, monitoring actions and the use of punishment or reward. (Scott 2008) All companies are affected by regulative elements to some degree, as laws and regulations demands certain behavior. With the external view of DiMaggio and Powell (1983), the regulative elements occur when formal or informal pressure stems from external organizations, often from government- and public authorities or similar bodies that are in possession of critical resources and influence. As a result, practices that have been generally accepted and legitimized can be a form of coercive pressure. (Maroun & van Zijl 2016) Strong stakeholders can therefore be an agent of coercive pressure if the stakeholder demands that certain information is provided or that certain practices are applied. Companies driven by regulatory elements will act accordingly in order to
avoid repercussions and with the knowledge that complying provides legitimacy. The regulative pillar can be summarized as how one have to act (Palthe 2014).

The normative pillar is based on norms and values. These elements do not just provide the rules to be followed but also in which way they should be followed. Like the regulative elements, the normative elements put constraints on how to behave and act, though the normative pillar aims to influence the social behavior and also empower social action through responsibility and rights. (Scott 2008) Instead of being influenced by the rules set by an authoritative actor, the normative elements are influencing through their social context. The difference is illustrated in the framework by the differences in institutional logic were the regulative pillar argues for an instrumental logic (acting in accordance with the set conditions) while the normative pillar focuses on the appropriateness of an action. The power of normative elements is thus based in the social interactions within a company. Together, and over time, norms are set and are expected to be followed. Failure to do so would lead to feelings of shame and disgrace. (Scott 2008) The normative pillar can be summarized as how one ought to act. (Palthe 2014)

To simplify the abstract and ample concept of culture, the cultural-cognitive pillar can be interpreted quite literally; elements that influences members of an organization through cultural aspects. The elements provide beliefs and meaning but also symbolic systems that provides the social nature of how to act. These systems are integrated in the routines and institutional logic through attitudes and common values but also through the use of formal documents such as the annual report. (Scott 2008) The framework illustrates the cultural-cognitive elements as actions in congruence to the beliefs and shared understanding within the organization. This also illuminates the difference between the cultural-cognitive pillar and the normative pillar. The basis of order (the rules to follow) in normative pillar are expectations from one’s environment while the cultural-cognitive element affects one’s decision-making through their constitutive schema. This means that the decision-making is not just based on the rules set by others, but rather the internal social context in which they act. To act against the schema is perceived as confusing and strange. (Scott 2008) The cultural-cognitive pillar can be summarized as how one wants to act. (Palthe 2014)

The dimension of mechanisms in Table 2.1 have been omitted in this section as these are connected to external forces rather than internal perceptions. Regarding the regulative (coercive) pressure and the normative (normative) pressure, the difference in meaning is somewhat marginal. With an external view, these pressures will result in a reaction from the
company. (Scott 2008) The cultural-cognitive element, on the other hand, is not subject to external pressure in the same way. Instead, as can be seen from *Table 2.1* it has been given the mechanism *mimetic*. Though this mechanism is only loosely connected to the pillar, it is an important aspect. Mimetic isomorphism occurs when companies benchmark or copy other company’s practices (DiMaggio & Powell 1983).

As seen from the explanation of the three elements above, it is not certain that the institutional elements are consistent and unchanged over time. To connect this to the subject of this thesis, one could theorize that companies that have not yet published sustainability reports may experience regulative elements that creates a will to be compliant and to mimetic other companies as they do not yet act on normative elements. Over time though, norms and routines will be adopted, and normative elements govern their actions as internal standards has been set. Hoffman (1997) (cited in Scott 2008) addresses this as well, stating that the elements are in constant movement from conscious to the unconscious, the legally enforced to taken-for-granted.

The theoretical discussion brings up an important aspect when using institutional theory to examine company behavior; the level of analysis and how elements affect each other has to be taken into account. Since all the pillars to some degree affect the behavior of companies, it is an important and difficult task for the researcher to understand what pressures affect what behavior. (Scott 2008)
3. Research Methodology

The following chapter begins by introducing the research design relevant for the thesis’ aim. This is followed by a presentation and motivation of the data collection process and concludes with how the thesis analyses and reflects upon the empirical data gathered.

3.1. Research Design

As this thesis aims to investigate how regulation influences financial companies and what other elements can mitigate the regulatory influence, this thesis use Scott’s framework when operationalizing our questions as a lens through which variances are explained. According to Yin (2009), a case study is used to research a specific phenomenon within its context. Since the aim of this thesis is concerned with how different companies respond to a new regulation for the first time, we argue that a multiple case study is necessary. This is further motivated by Saunders et al. (2012) who argue that case studies have the ability to generate answers to research questions which are concerned with ‘how?’ and ‘what?’. As the aim is to examine how companies with different institutional influences are affected by the regulation, a multiple case study was deemed most appropriate. This creates the need to investigate more than one company and is connected to what Yin (2009) terms literal replication. Literal replication is concerned with choosing companies who have different contextual factors. In this thesis, the difference in contextual factors include both the difference in size but also by using both seasoned reporters as well as new reporters. The use of multiple case studies is further motivated by Eisenhardt and Graebner (2007) who state that multiple case studies enables a broader exploration of theoretical elaboration. As this thesis uses three institutional elements to explain the data, multiple case studies provide with more variety of information and larger scope to which this can be analyzed.

Furthermore, by using a qualitative approach to the thesis, it allows us to become more familiar with the subjective nature of the sustainability reporting process. This interpretative method is reliant on the human cognition and how they perceive the environment. (Saunders et al. 2012) As this thesis is oriented around the respondent’s perception of how the regulation affects them, this approach allows them to highlight the significance of the law from their perspective. As opposed to a quantitative approach, where measurements, causalities and numerical analysis are main central themes to explore the extent of certain effects, qualitative approaches are keen on allowing subjects produce content for a research and takes a more exploratory stance (Bryman and Bell 2011)
3.2. Data Collection

To allow a more justified data collection for the thesis, we opted to interview and select more than one case-firm. DiCicco-Bloom and Crabtree (2006) argue that perceptions from different sources provides with a more accurate view of the reality. By selecting more companies, respondents and secondary sources (sustainability reports), the data collection in this thesis becomes more valid. Therefore, our sample consist of 1) companies who are different in size, 2) who operate in different industries and 3) respondents with different positions and influential roles in the sustainability reporting process.

3.2.1. Choice of Companies

The selection process of companies was based on which industries are under more scrutiny and public attention. The bank and insurance sector are two industries that are important for the public as they are crucial instruments for the economic stability of society. (Bernal et al. 2014) According to Pedersen et al. (2013) some of the reasons for not complying to sustainability reporting regulation may be connected to a lack of knowledge, a lack of funds or because of practical difficulties. The chosen industries for this thesis are associated with compliance and the companies are also large and knowledgeable enough that publishing the report should not be a problem from either a monetary, or an organizational point of view. A problem with mandatory sustainability reporting has been inadequate enforcement sanction (Brown et al. 2009). This should not be the case in the Swedish context as the effect of non-compliance results in an invalid annual report. Also, as mentioned above, these companies are under the public's eye and would receive severe critique if failing to comply. We therefore argue that banks and insurance companies are appropriate samples to examine the sustainability reporting process. With such attentiveness surrounding their operations by the public, disclosure of information from the companies will provide with more essential data. As our selection includes both new reporters and more seasoned reporters we will have the possibility to investigate if there are differences between the two, as well as how the regulation changes the disclosure process that has been developed prior to the law for the seasoned reporters. The process to compile which banks and insurance companies were affected by the new regulation was a two-step process. The first step involved mapping the Swedish banks and insurance companies. To do this we used *Företagsregistret* which includes all companies under the supervision of the Swedish FSA, *Finansinspektionen*. The search terms used were ‘Bank’ for banks and ’Riksbolag, Livförsäkringar’, ‘Riksbolag, Skadeförsäkringar’ and ‘Större Lokala Försäkringsbolag’ for insurance companies. The second step involved going through their two previous annual reports.
to determine which companies are covered by the regulation based on the criteria presented in section 2.5.2. Further selection criteria among these companies was that they should have their headquarters in Sweden and be of Swedish origin. Another criterion was that the companies should, to the greatest extent possible, be of different sizes. We then contacted the majority of banks and insurance companies in this search and interviewed all companies who agreed to participate. The companies partaking in this thesis can be seen in Table 3.1.

Table 3.1

<table>
<thead>
<tr>
<th>Company</th>
<th>Industry</th>
<th>Average number of employees*</th>
<th>Assets (bn SEK)*</th>
<th>Prior Sustainability Reports</th>
<th>Sustainability Report</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Bank</td>
<td>&gt; 10 000</td>
<td>&gt; 2 000</td>
<td>Yes</td>
<td>Standalone</td>
</tr>
<tr>
<td>B</td>
<td>Bank</td>
<td>&gt; 10 000</td>
<td>&gt; 2 000</td>
<td>Yes</td>
<td>Standalone</td>
</tr>
<tr>
<td>C</td>
<td>Insurance Company</td>
<td>200 &lt; 1 000</td>
<td>400 &lt; 800</td>
<td>Yes</td>
<td>Standalone</td>
</tr>
<tr>
<td>D</td>
<td>Bank</td>
<td>200 &lt; 1 000</td>
<td>400 &lt; 800</td>
<td>Yes</td>
<td>Integrated</td>
</tr>
<tr>
<td>E</td>
<td>Bank</td>
<td>200 &lt; 1 000</td>
<td>&lt; 100</td>
<td>No</td>
<td>Standalone</td>
</tr>
<tr>
<td>F</td>
<td>Insurance Company</td>
<td>&lt; 200</td>
<td>&lt; 100</td>
<td>No</td>
<td>Standalone</td>
</tr>
<tr>
<td>G</td>
<td>Insurance Company</td>
<td>&lt; 200</td>
<td>&lt; 100</td>
<td>No</td>
<td>Integrated</td>
</tr>
</tbody>
</table>

*Data gathered from Annual reports 2017

3.2.2. Choice of Respondents

To gain a deeper understanding of the process, we initially aimed to interview two employees with different positions who were involved in the sustainability report process at each company. The reason for interviewing two employees was to discover and illuminate if there are discrepancies. Yet, the sustainability viewpoint and rational showed to be integrated and this was further reflected in the responses from the respondents of the same company. Relatively few discrepancies could be highlighted and therefore the thesis proceeded to emphasize variety of companies rather than respondents of the same company when pursuing samples. The choice is therefore focused on the most relevant respondents in the disclosure process, namely those who actively worked with the collecting, compiling and writing of the report. By interviewing these respondents, an insight into the process as a whole was gained.

The selection process began by reviewing the sustainability report and identifying the contact person of each company. Sufficient and relevant information needs to be provided between interviewer and interviewee as to reduce wasted time. (Qu and Dumay 2011) The initial contact was therefore made through e-mail which described the topic in question, purpose of our thesis and information regarding the interviews. In addition, a request to interview people relevant in the creation of sustainability reports. A summary of the respondents is presented in Table 3.2.
3.2.3. Interviews

As the thesis is keen on keeping a theme to the questions, the interviews adopted a *semi-structured* approach. The foundation of this approach is mainly to set a narrative and directive in accordance with the research question but allow the interviewers and interviewee to slightly digress from the interview questions if required. (Saunders et al. 2012). As the framework used to analyze our empirical data contains three different institutional perspectives, the interview questions needed to provide the possibility for diverging answers. At the same time, the questions needed to be concrete enough to be able to provide relevant data for our research question. It was therefore important to utilize an approach which encourage discussion and the possibility for clarification and follow-up questions (Qu and Dumay 2011) but at the same time follow the predetermined theme.

The interviews were approximately 40 minutes in length and transcribed. Transcription was further facilitated by recording the interviews with their permission which allowed us the advantage to recognize patterns and structure the empirical data in accordance with our aim. (Bryman and Bell 2011) To ensure comparability between the findings, a similar interview guide was performed in all interviews (*See Appendix 1*). This was then further complemented with firm-specific questions based on their sustainability report and annual report. To continue,
the questions were sent to the respondents prior to the interview in order for them to become more familiar with our research.

The thesis opted for a face-to-face interview based on the convenience of the respondents. Qu and Dumay (2011) argue that interviews require both intensive listening and note taking. Therefore, to encourage both an engaging and informative discussion, one interviewer had a more formal role and posed the questions and maintained the discussion whilst the second interviewer was more attentive of the respondent’s answers in order to take notes and ask relevant follow-up questions. The notes were used to facilitate the data obtained from the transcription. DiCiccio-Bloom and Crabtree (2006) state that transcription from interviews can sometimes distort meaning and not fully convey the message behind information. The notes were therefore used as a supplement to elicit certain contexts and clarifications from the respondent response.

In cases when face-to-face interview were not possible, telephone interviews were conducted. In one case, the reason for the use of telephone interviews was due to the recipients being located too far away to travel there within reasonable time-period. In two other cases, telephone-interviews were conducted on the request of the interviewees. Though there are some critiques of using telephone-interviews for in-depth data, gathering it was necessary due to the limited time-period for which the data collection was possible. As the reports were released sporadically during the writing of this thesis, the time for contacting companies and schedule interviews was limited.

One of the main critiques with telephone interviews is that trust and a personal connection is not established and that the interviewee avoid answering sensitive questions. (Saunders et al. 2012) This aspect should not be of much concern to this thesis for two reasons: 1) we pose questions regarding the processes and their perception of regulation and 2) the purpose of sustainability reporting is increased transparency, to withhold information regarding the process would therefore be contradictory.

3.2.4. Sustainability Reports
The sustainability reports were the thesis’ first point of contact with the companies. The purpose was to 1) examine the content and find information relevant to our research question and 2) examine discrepancies (e.g. change of structure, content or choices of headings) between prior- and current year reports that could be in accordance with the law. The firm-specific questions were then developed based on these two premises. To continue, Qu and Dumay (2011) stress
the importance of adequate preparation. Information that could be obtained from other credible
documentary sources should not be used for the interview questions. In line with the authors' argument, if the thesis’ interview questions had already been answered by sustainability reports, the thesis would use this as a foundation for more in-depth questions on the subject.

3.3. Data Analysis
To ensure that the empirical data is analyzed appropriately, some considerations and precautions have been taken. Lofland and Lofland (1995) (cited in Bryman & Bell (2011)) emphasize that data should be placed into categories and contexts that are in accordance with a research and thus facilitate the theoretical connections. Corbin (2017) continues and argue that it will help visualize relationships between categories as well.

The interview questions (see Appendix 1) were posed to gain an understanding of the institutional elements influencing the companies and how they correspond with existing theory. To be able to analyze what institutional elements influence the companies, this thesis use Scott’s (2008) framework *The Three Pillars of Institutions*. The data collection process began by compiling the transcribed data gathered from the interviews with each company. The data was then structured in accordance with their questions to further facilitate finding patterns, similarities and discrepancies between companies. We then proceeded to highlight the data based on thematic elements to see how it coincides with our research question. These thematic elements were based on the dimensions found in *Table 2.1*. After mapping out the information based on the regulative, normative and cultural-cognitive, the thesis connected relevant sustainability reporting theories with each dimension. This was done to provide the framework with more substance and further justification of our mapping. In addition, variables that were beyond Scotts (2008) framework were used to illuminate other reasons for certain influences or to examine how they could affect certain institutional elements.

3.4. Reflection on Research Quality
Bryman and Bell (2011) posits four different criteria to ensure trustworthiness of a research: credibility, transferability, dependability and confirmability. Koch (2006) provides with two aspects to ensure credibility. 1) Self-awareness of the limitation of author’s knowledge and thesis. 2) Consulting with relevant and experienced parties. This thesis has provided an extensive literature review and arranged interviews with people who are directly involved with the sustainability reporting process. Bryman and Bell (2011) introduces the term transferability to highlight how replicable the research is in other contexts. The *transferability* of this thesis
could be viewed as high due to the fact that the regulation is based on an EU directive and all the companies affected fulfill the same criteria of mandatory sustainability reporting. Worth noting is that the Swedish policy-makers statute lower requirements than the EU directive, making more companies included by the law. According to the EU directive (2014/95/EU) all firms with an average of more than 500 employees are required to publish a sustainability report, while Sweden reduced the number of employees to an average of 250 (See section 2.5.2). This should not affect the ability to replicate this thesis as its focus is the internal institutional elements influencing companies, rather than how firm characteristics coincide with regulation.

Dependability is more concerned with the audit process of a research (Bryman and Bell 2011). To further increase dependability, the interviews were recorded with their permission and to further facilitate the transcription process. Bryman and Bell (2011) argues that recording dialogues is highly important due to the possibility of misinterpretation and distorting the answers. In addition, each approach was presented thoroughly in the thesis to ensure all relevant aspects were considered and to provide further justification for the chosen processes. Although complete objectivity is impossible, the thesis has conducted a semi-structured interview to allow the respondents to share their opinions and views without excessive influence from the interviewers. All citations and empirical data were validated by the respondents to mitigate the risk of misinterpretation or hurting any company. By taking these steps, conformability is also ensured. The concept of conformability exists to ensure that a research has been conducted in good faith and is not overtly subjective (Bryman & Bell 2011).
4. Empirical Data

The following chapter provides a presentation of the findings based on the interviews from the financial companies. The chapter is structured in accordance with the themes of the interviews to illuminate findings concerning sustainability reporting process and company's response to regulation.

4.1. Effect of Law on Sustainability Reporting

Bank A and Bank D explained that the company had an extended experience reporting their sustainability initiatives and had therefore shaped a rigorous structure and habit before the law was implemented. Bank A’s GAP analysis (difference in current and desired performance) illustrated that their efforts already exceed the minimum standards required by the law. In the case of Insurance Company G, who had not previously reported, sustainability was argued to be such an integral part of their business that disclosing it in accordance with the law was less difficult. They did not experience the same regulative pressure as other new reporters. Instead, they saw this as an opportunity to show their sustainability initiatives and transparency. Being locally based, they felt obligated to act responsible as they are owned by their customers and arguing that sustainability is part of their business model. The law merely made the decision for them to report their sustainability efforts. Though feeling in tune with reporting on their initiatives, there were aspects that they had not been addressing enough, which made them adapt to the regulation in certain aspects.

Bank E, who had not previously reported on their sustainability initiatives either, felt compelled by the new law to do so. They were keener on following the guidelines and directives of the law to provide them with a structure for their sustainability report. It also provided them with the opportunity to streamline their operations and increase interdependence between departments in regard to information sharing within sustainability initiatives. The same applied to Insurance Company F, who argued that the law provided an incentive to produce the report and resulted in people within the organization to have an ongoing discussion about sustainability. They also voiced their adamancy in continuing the process consistently throughout the coming year and ensure that they fulfill the goals they have set. In addition, they aim to benchmark more to learn from the larger insurance companies who have more experience.
For both Bank B and Insurance Company C, who are seasoned reporters, the law had a direct influence on their report. They did not disclose more information but added a second, short sustainability report in their management report to be compliant. Insurance Company C stated that they did not have the resources to integrate it, with the requirements of the law, into the existing sustainability report and also argued not wanting to change their existing reporting standard. “For us the product [the sustainability report] is mainly aimed to report to our board and owners and other stakeholders, we do not use it as market communication” (Sustainability Officer, Insurance Company C.) The change in Bank B resulted in a short sustainability report in the management report as well as a sustainability overview. The sustainability report was argued to ensure compliance, while the overview is aimed at those who wants more detailed information. Their reason for being compliant to the recent law is that once established and conducted thoroughly, consequent years will open room for them to develop and change the structure while still adhering to the regulation.

4.2. Perception of Law

Although the law did not have explicit effects on all companies, it provided with an opportunity for all companies to examine their operations in a new perspective. The directives would highlight areas that required more development and areas that they excelled at. Prior to the law, they had the ability to be more selective of the initiatives and information they wanted to highlight. Insurance Company C emphasized this sentiment and proceeded to explain how the law required them to evaluate their whole value chain. “Yes, I think risk management is something it [the law] emphasizes. It points out, for example, human rights as an area to be looked at and even the entire value chain which is positive. It is clearer in that way than GRI.” (Sustainability Officer, Insurance Company C). Insurance Company G proceeded with a similar argument and argued that the sense of urgency to improve aspects of their operations became more immediate as a consequence of the law. Although previously aware of these aspects, it had now come to fruition by taking active actions and inform the top management about different ways of improving their operations.

Bank A and Bank D stated that the new law will provide the sustainability reports with more legitimacy as there is now regulative requirements to publish it. Their report will therefore become increasingly valid and carry more weight. Furthermore, that it has triggered a movement and awareness of sustainability in the society. However, the most beneficial aspect of the law for Bank A was that some of their customer organizations also becomes obliged to release sustainability reports. As sustainability is one of the evaluation criteria when performing
credit assessments on their customers, it will facilitate the process and provide them with a greater insight into their operations. The legal directives will provide support for the customers on what to disclose and subsequently generate relevant information for Bank A to evaluate.

The increase of legitimacy with the new law is also reflected inside Bank D. As regulations are now involved in the process, more internal components become more participative and relevant e.g. their board of directors and management. They accentuate how the content is more closely evaluated by different parties and that sustainability questions and issues become increasingly important. The law facilitated Bank D to communicate and more accurately reflect their sustainable aspects in their sustainability reports and ensure that their efforts fairly corresponds with their reporting. Insurance Company F continues in a similar argument and stated that the law had elevated the importance of sustainability issues among employees. This was further reflected in the company’s recent events e.g. focus on sustainability in their latest conference. The respondent claimed that this is in accordance with the law and the recent increase of attention.

Furthermore, the implementation of the new law encourages standardization among sustainability reporting. Most companies argue that it will further provide with comparability between companies and Bank D continued and claimed that certain challenges can become more comprehensible when there are more parties involved in similar processes. Yet, Bank E stated that the law must continue and developed accordingly every year. A simple, continuous standardization will not encourage improvement among companies. There must be indicators or requirements from the law that illustrate differences and developments between each year so companies actively progress in sustainability efforts. Insurance Company G had a similar statement and argued that a law that requires more information about the process and outline behind certain initiatives rather than “headlines” will help illuminate companies core activities.

When question about the implicitness of the law, all companies unanimously appreciated that the directives were not explicit. Insurance Company F argued that it has served as a starting point for them and that it has put them in the “right track”. Explicit directives would prove difficult and counterintuitive of the laws purpose. Insurance Company C continued and claimed that due to the implicitness, they could opt to illustrate indications that they deem important. Due to the differences between industries affected, amount of companies included and how circumstantial they are, both Bank A and Bank B argued that detailed directives would become too difficult. Bank B proceeded by arguing that it will eventually facilitate benchmarking as the
implicitness will encourage variances. This is further reiterated by Bank D who emphasized that each industry and company are unique and that the directives leeway is therefore appreciated.

4.3. Influence and Inspiration
All companies were examining their peers’ sustainability reports for either inspiration or reassurance. These influences would result in what content to include, which framework is most useful and how to structure the information.

Bank E conducted a thorough benchmarking on larger banks, such as Nordea, SEB, Swedbank and Handelsbanken, to guide their first sustainability report. In addition, benchmarked a large company in their conglomerate, who has been active in sustainable matters and released reports pertaining to it for many years. Benchmarking was a consistent theme in creating Bank E’s report and facilitated them on what topics to include. Insurance Company F, similar to Bank E, did research on large companies in their industry and what they included in their sustainability reports. Insurance Company F found inspiration from organizations outside of insurance companies as well to benchmark e.g. industrial companies and more personal interaction with sustainability officers. These inspirations were subsequently one of the reasons why the company opted for their frameworks. Bank A, who have released sustainability reports for about a decade, was also keen on benchmarking their peers. In this particular case, they chose to examine what indicators (e.g. the GRI directives) current environmental and social issues their peers included in comparison to their own. As a result, they were able to see how their peers disclose text in their reports and how to communicate their initiatives. “It is exciting to see what indications other companies use and evaluate what they include, what we include, why do we not we have them etcetera. Of course, how to present different things.” (Group Sustainability Controller, Bank A).

In comparison to Bank A and Bank E, Bank B and Insurance Company C were less inclined to look at their peers for inspiration regarding the structure of sustainability reports. Insurance Company C was more interested in the actual content from their peers and how they can further improve their sustainability efforts. The inspiration for sustainability reporting shifts from structure to facts. They also claimed they are quite adamant in sustaining their current format. Bank B shared the same sentiment as Insurance Company C and viewed their peers to examine what they include in their sustainability work in general. In addition, Bank B was keen on examining foreign banks. As there are contextual differences, there are certain strengths more
apparent in certain countries. Bank B therefore opted to benchmark and draw inspiration from foreign companies’ best practices in regard to both the sustainability work and report.

Throughout the empirical findings, there were strong indications that relevant parties in the companies had attended workshops, seminars and similar functions to exchange and gain knowledge regarding sustainability reporting and the law. There was less competition between peers and information-sharing was encouraged. This was further elaborated by Bank D who had numerous seminars to discuss sustainability and relevant topics that they would eventually consider. Bank E was further facilitated by law firms, auditors and seminars on how and what to report in regard to their first sustainability report and compliance with the law. Insurance Company G was keener on searching internally among their group for inspiration about the process and what is more relevant to include but hired a consultant firm to facilitate with the law and ensure they have met the requirements.

4.4. Stakeholder Influence and Management

While some of our respondents had a strong customer-oriented focus for their sustainability reporting, others used it to present to their more professional and authorized stakeholders e.g. government, owners, suppliers and media. Bank A, for example, was keen on listening and adhering to the customers’ demands for their sustainability efforts and reporting. "Nowadays it is the consumers who drives the questions on Facebook, Instagram and other social media, saying “I do not want to place my savings in something that is not sustainable”." (Group Sustainability Controller, Bank A.)

They continue and argue that customer perception is important for them and that “image” is strongly correlated with sustainability. The sustainability report has therefore become more communicative and comprehensible as opposed to previously where there was only a strong emphasis on being informative and factual. This change facilitated Bank A to become clearer towards their stakeholders and allow them to have a more transparent insight into their operations. Yet, the informative aspect of reporting is still included for the stakeholders that are keener on the statistics and numbers. In the sustainability reporting field, these two aspects are conceptualized and divided into a “frontend” and “backend”. The change in Bank B resulted in a short sustainability report in the management report as well as a sustainability overview. The sustainability report was argued to ensure compliance, while the overview was aimed to give an overview of the sustainability work and provide highlights from the precedent year. Bank B argued that in this particular year, they had strong obligations to their board of directors to
illustrate that they are being compliant with the law, and that they reported in accordance to the new directive. As the board of directors for the first time was responsible for the sustainability report, the bank had to perform a thorough due diligence of the law even though they stated that there was minimal risk of them not fulfilling the directives.

Bank E used directives from the law to guide the information and structure of their sustainability reporting. “(...) everything contained in the EU directive will be included in our sustainability report. It is our starting point. And then we looked at what we report today, and that’s quite a lot. But then we get to patch and fill in what we have not done.” (HR and Communication Officer, Bank E) However, they also emphasized that their strong obligation to the directives were to ensure that they fulfill the requirements. All other relevant disclosures of information were mostly for their employees and less customer-oriented. To continue, as they mostly interact through digital channels with their customers, Bank E did not perceive pressure to work in accordance with their expectations.

4.5. Corporate Governance and Sustainability Reporting

The corporate governance pertaining to sustainability was established to examine correlation with how it is structured and the extent, content and completeness of sustainability reporting. Some companies have a specific department dedicated to sustainability whereas it is more dispersed throughout the organization in others.

All larger companies (A-D) of our samples had a dedicated sustainability department in their operations. The department mostly consisted of representatives from different parts of the company whose main responsibility included discussing relevant sustainability information pertaining policies, regulations and materiality analysis. The department proceed to supply the information to top management who would arrange formal directives the company will pursue. Bank B, however, has various levels of sustainability responsibility. The governance structure includes a sustainability committee with a sustainability management as a sub-team. The former consists essentially of members of the executive management. The latter is comprised of representatives from the business division and people on sustainability group level. The executive management takes the formal decisions pertaining to sustainability whereas the strategy, information and knowledge is discussed, prepared and provided from both the sustainability committee and the management team. Due to the recent regulation the Board of

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2 Materiality analysis is a process where interviews and surveys are conducted with stakeholders to abide with their interests in the company’s strategies. (Global Reporting n.d.)
Directors, for the first time, signed off on the sustainability report. Bank B produced a separate document in accordance with the law for the Board of Directors to review. This was done to facilitate top management’s examination of the law requirements and how their operations in line with the directive. Bank A has a similar corporate governance pertaining to sustainability as Bank B. Their department includes a sustainability forum where policies and referrals are conducted. The forum, together with the governance department of Bank A, pursues the directives and guidelines whereas the board of directors takes the formal decision. In line with the law, the sustainability officer was now included among the top management as opposed to previously when the CFO and CEO were only present.

As opposed to the larger companies, some of our samples who are smaller in size (E, F) delegated the responsibility of compiling sustainability information to different departments and compiled it afterwards. Due to either lack of resources, time or experience they were not able to centralize their sustainability work. Insurance Company F’s sustainability responsibility is dispersed throughout the organization as opposed to a central department. The policies and directives of the company is resolved and discussed among the top management. These include, but are not limited to CEO, CFO and HR Officer. The board of directors’ responsibilities involves a continuous discussion pertaining sustainability and establish both policies and directives with this aspect into consideration when implementing different strategies. These are then enforced and used as a foundation by the top management in the creation of the sustainability report. In addition, employees’ opinions and participation have received a larger influential role and internal processes pertaining sustainability has increased in accordance with the law. Although smaller companies were less likely on having a sustainability department, Insurance Company G was an exception. Similar to the larger companies, they had influential representatives in their department who discussed strategic decisions pertaining sustainability.

4.6. Frameworks
Frameworks, especially the Global Reporting Initiatives (GRI), is a renowned option for companies to structure their sustainability report and used by all larger companies (A-D). Due to the longevity and relevance, many companies have developed and become accustomed to the framework. Both Bank A and Bank D were keen on remaining the frontrunners in sustainability reporting and adopted advanced framework (GRI Standard) in their current reports. The GRI Standard will become the new standard next year for all organizations who
opt for the GRI framework (previously G4 Core\(^3\)). The companies argued that implementing it before it becomes mandatory will allow them to set a precedence when peers in their industry adopts it. The GRI framework was followed heavily integrated in their sustainability reporting, especially for Bank A, as the respondent voiced the importance of ensuring the accuracy and that requirements of indicators are met. Insurance Company G was also in favor of the GRI framework and argued that it is practical, especially in terms of comparability. “The GRI is a framework that compares apples with apples. It was not developed to make things harder, but rather provide with a structure to our reporting. It simplifies the work” (Sustainability Officer, Insurance Company G).

When comparing the GRI with the law, both Insurance Company C and Insurance Company G argued that it is slightly more advanced, yet certain directives from the law could complement their GRI directives, and subsequently materiality analysis. To continue, Insurance Company C had been pursuing the GRI directives for an extended period of time prior to the law and thus the regulation had less of an effect on their structure as they opted to continue with their habitual ways of sustainability reporting. However, Insurance Company C was also appreciative of the law due to the obligatory requirements as opposed to the selective nature of the GRI. They were therefore obliged to examine their whole operations anew as mentioned previously. None of the new reporters have adopted the GRI, although Insurance Company G are inspired by it. Insurance Company F have instead chosen to adhere to the UN Global Compact\(^4\).

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\(^3\) GRI Standards includes a new and revised modular structure from GRI G4 with greater transparency and clearer requirements. (Global Reporting n.d.)

\(^4\) UN Global Compact is comprised of 10 universal sustainability principles concerning environment, labor, human rights and anti-corruption. (UN Global Compact)
5. Analysis

To analyze the findings with an institutional lens, the analysis will be dedicated to a mapping of our findings into Scott’s framework and complemented with our literature review. Companies are not exclusively influenced by one pillar as they respond differently depending on the dimension of the framework. The analysis therefore provides an overview of how companies respond to regulation.

5.1. Reason for Disclosing a Sustainability Report

The first dimension concerns the *basis of compliance* and is connected to what drives a company to follow a certain demand. In our context, this dimension can be translated into the *reason for disclosing a sustainability report*. For the companies who had not published earlier, two argued that the reason for disclosing was the regulative elements connected to the new law. The regulative elements that can be connected to Scott (2008) from inside the company were expressed from top management and board of directors who delegated the task downward the organization. As the board of directors are ultimately responsible for the sustainability report according to the law, all companies experienced this pressure to some degree.

The ones driven by normative elements argued that they published the report not mainly because of the law, but rather to satisfy stakeholders. These often included stakeholders such as employees or owners, but also customers. Overall the findings indicate that though the sustainability report is an external document, it can often be aimed at the people *within* the company. This finding can be connected to Pedersen et al. (2013) who argues that sustainability reports can be used to motivate employees and enhance reputation.

The line between the normative and the cultural-cognitive elements regarding reasons for disclosing were different but not contradictory. While it was written for the stakeholders, companies influenced by cultural-cognitive elements argued that the reason for disclosing the sustainability report was because sustainability is integrated in their business model and that it would be hard not to include sustainability in some way, as proven by most of the seasoned reporters with the exempt of one new reporter. This finding is connected to Pedersen et al. (2013) who find that certain companies were not able to document any direct impacts in systematic approach based on the new regulation. The reason for the finding may therefore indicate that these companies were influenced by cultural-cognitive elements rather than regulative ones. That a new reporter can be influenced by cultural-cognitive elements rather
than the regulative can be explained by Adams (2002), who claim that corporate culture, attitude and procedures pertaining sustainability affects the completeness of the reports.

5.2. What the Disclosure is Based on

The basis of order derives from the reason of how to behave in a certain context. The dimension has been translated into what the disclosure is based on as the content of the sustainability report is a reflection of the element they perceive most influencing. What information and structure the sustainability report is based on depended much on their experience. For companies driven by regulative elements, the foremost reason was to be compliant and therefore structured the sustainability report accordingly. From the institutional view of affecting regulative elements, this finding contradicts Donaldson and Preston (1995) who argue that regulation is secondary to demands of certain interest groups. A reason for this may be connected to these companies’ inexperience with releasing sustainability reports and that they therefore will develop their reasons as time passes.

We also find that this might be the case as we analyze the normative and cultural-cognitive elements for reporting. For both these groups, who are mostly but not exclusively seasoned reporters, the regulation has little or no effect on what is disclosed, which cohere to Donaldson and Preston’s (1995) findings. Normative companies argue that adherence to stakeholders is an important aspect of their sustainability agenda as they provide vital information about what is important for them, but also as way to steer the company’s sustainability initiatives. Normative companies therefore often use a materiality analysis to map what they are doing as well as what they are lacking in regard to demands of their stakeholders. As Phillips, Freeman and Wicks (2005) argues, this way of working may provide benefits, such as a “social license” and legitimacy. To continue, one company also communicated that they were keen on maintaining a positive public perception as it is associated with sustainability. To achieve this, they were keen on adhering to their customers as they dictated their sustainability reporting to a certain extent. This finding coincides with Deegan (2002) who claims that legitimacy is gained when companies opt to disclose their sustainability efforts.

Companies that were mostly affected by cultural-cognitive elements claimed that sustainability was such an integrated part of their business that their adherence to stakeholders was continuous and routine. They took the same steps as those more affected by normative elements but the basis for it was rather due to habit than to a certain demand and argued that they had to engage with stakeholders to remain relevant and “in the driver seat”.

5.3. External Influences
The dimension of mechanisms is connected to the external influences pressuring companies. As this thesis uses an internal perspective by investigating how external pressures are perceived, the coercive pressure is already covered in previous sections. This section is therefore mostly focused on the mimetic aspect. Pedersen et al. (2013) concludes that regulation encourages benchmarking through inspiration from other companies, standards and other guidelines. The findings in this thesis coincide with those of Pedersen et al. (2013). All companies have to some degree used benchmarking, though the reasons for it differs. As found by Herremans and Nazari (2016), normative companies use benchmarking as a way to stay up-to-date on what other companies do, in order to gain inspiration rather than just abiding to the regulation. The indication of this thesis is that benchmarking is not the only way for a mimetic isomorphism but rather that companies also approach conformity through the use of established standards, such as the GRI and the UN Global Compact, as suggested by Maroun and van Zijl (2016). The companies argue that these standards increase comparability and legitimacy for their work. These arguments coincide with the conclusion of Martínez-Ferrero and García-Sánchez (2017). Pedersen et al. (2013) also concludes that benchmarking is most recurrent among new reporters. The thesis cannot strengthen nor oppose this conclusion. As this is a qualitative thesis we have not been able to measure the level of benchmarking among companies. What we do find are indications that new reporters, in most cases, put a larger focus on being compliant than to mimic the industry leaders or peers.

When regulations are ambiguous, mimetic isomorphism is more applicable. (DiMaggio & Powell 1983; Joseph & Taplin 2012) This might be the case for the companies participating in this thesis though it is too early to draw conclusions from it. As all companies were affected by the law at the same time, benchmarking and gaining inspiration from other companies was only possible by viewing ex ante reports. Instead, we find that some companies used branch organizations, workshops, auditors or consultants to gain this knowledge. In contrast to many other parts of the business, sustainability is mainly not seen as a competitive advantage, in accordance with the findings of Pedersen et al. (2013), and more as an internal or customer-focused medium for their sustainability agendas.

5.4. Sustainability Reporting Reasoning
Companies experience different aspects driving the sustainability reporting agenda forward. In our context the dimension of logic describes the sustainability reporting reasoning. As previously concluded, the regulative elements affecting the reporting is mostly connected to
fear of failure or loss of legitimacy. These elements led the companies to take certain steps to ensure their compliance, often through the (re-)structuring of content in the report.

Both Dye (1986) and Ioannou and Serafeim (2017) finds that regulation should increase the level of information in the sustainability report. As the thesis have not conducted a content analysis, we are not able do either agree or oppose these finding. Although, from our review of the sustainability reports and from the perception of our interviewees, who have been part of the writing process, this does not seem to be the case. Normative companies argue that, though also affected by regulative elements, they have continued to report in the same way as before the regulation. As previously stated, the companies do not see the reports as a competitive instrument but rather as a necessity to be transparent and coherent to their stakeholders. This indication therefore opposes both the view of Dye (1986) and Ioannou and Serafeim (2017) and also contradicts Alberti-Alhtaybat et al. (2012) who argues that a reason for increased disclosure in liaison to regulation can be because companies wants to distinguish themselves from other companies within the market. The findings in this thesis would argue that rather than increasing the level of disclosure, companies driven by cultural-cognitive elements aims to set precedence by using the most up-to-date frameworks and being forward-looking, which coincide more closely to Larrinaga-Gonzelez et al. (2001) and Herremans and Nazari (2016).

Eccles et al. (2012) claim in regard to companies’ reluctance to publish sustainability reports was partially confirmed by the empirical findings as certain new reporters emphasized their inexperience with the sustainability reporting process and was therefore not keen to publish one prior to the law. Due to insufficient resources and/or lack of time to conduct a thorough process for the report, the law is perceived as a regulative influence for them to publish one. This is further supported by Adams and McNicholas (2007) who highlights that companies have difficulties understanding best practices and how to involve stakeholders in their first reporting process. However, all companies, both new and seasoned reporters, have worked with sustainability for a longer period of time.

To further connect to the research, Dagiliene (2014) argues that standardization of sustainability reporting, such as the GRI, strong norms have been established. This argument corresponds with our findings as many companies argue that the law did not affect them to a larger extent as they follow the GRI, which have higher requirements than the law demands. The findings could indicate that a norm has already been set among the Swedish companies who have reported previously, as proposed by Higgins and Larringa (2015). Therefore, the new regulative
elements are not enough to subdue the established normative precedence thus allowing companies to set the norm, which leads to an acceptable minimum standard that new reporters can follow in the future. (Maltby 1997)

5.5. Influence of the Regulation

Indicators that a company associates to a certain element has been translated into what influence of the regulation companies perceive. As stated by Logsdon and Lewellyn (2000), the law acted like a framework for the companies who were mostly driven by regulative elements. Though these companies focused foremost on being compliant, they also argued that the regulation provided an opportunity to map and structure what the company was doing as well as a reason to disclose on it. This coincide with the argument of Hess (2007) that mandatory reporting encourages higher standards. Though many reporters argue that compliance is the most critical aspect this year, they also argue that the aim is to improve their reporting in the years to come.

For normative companies, the law instead appears to affect the internal processes more rather than the content of the report or, for that case, how the company works with sustainability on a daily basis. This indicates that the normative and cultural-cognitive elements are stronger than the expressed demands of the regulation. All companies argued that, in accordance with Pedersen et al. (2013), the law made them revise and evaluate their sustainability agendas as the board of directors now are responsible for it and to be compliant. Cultural-cognitive aspects of the law were positive as they envision that companies in general will have to become more involved in sustainability issues and that the law encourages owners and boards of directors to invest more time and money to it. The reason for this outcome may be because the law is not meant to restrict but rather to steer the companies. (Edelman & Suchman 1997)

Normative and cultural-cognitive companies experienced that the regulation provided sustainability aspects with legitimacy both externally and internally. In line with Albareda et al. (2007), who states that regulation leads to increased social accountability, the companies argued that the law will trigger an external drive and momentum in society concerning sustainability and this would reflect in the legitimacy of their sustainability reports internally. This can be further elevated by Maltby (1997) who highlighted that norms and standards can develop from regulation and thus allow stakeholders to demand more in accordance with the increased awareness in society. As a result of the momentum, the sustainability reporting agenda gained more awareness which supports Conley and Williams (2005) statement on how
government involvement supports the development of corporate social responsibility and sustainability reporting.

Hess (2008) argue that regulation should allow companies to disclose on what they deem most important and not obstruct innovative thinking and rationality. All companies emphasize that they would not appreciate more rigid regulation demands. By allowing companies to focus on the aspects most relevant to their business, the companies were able to make the report “their own” and avoid the risk of generic portrayals, which would diminish the sincerity of the law. In addition, the implicitness of the law further facilitated regulative companies to publish in accordance with the law, however, provide with their own unique perspective. Hess (2008) suggest the regulation should take consideration to the unique situations of companies and allow them to report on what is relatable for their business, rather than a rigid set of rules. This is further supported among the normative companies who advocated for implicit laws as there were contextual differences between both industries and companies. Companies could then proceed to benchmark and gain inspiration regarding aspects they had not previously considered.

5.6. View of the Sustainability Report
The companies’ view of the sustainability report is connected to the affect as it concerns the outcome of a certain action. The thesis find that the regulative companies view a compliant sustainability report as a foundation for future sustainability reports. The regulation therefore mitigates the problems companies face according to Adams and McNicholas (2007). As these companies often lack the experience of reporting, they view the report as a starting point and, coinciding with the conclusion of Adams and McNicholas (2007), as a learning experience. To continue, Hawkin’s (1984) argument regarding the need for a growing mutual relationship between companies and government is supported by the findings. Two of the companies communicated their concerns of static developments and requested more requirements of the sustainability reports in the future to further nurture growth as opposed to a rigid enforcement. Two of the seasoned companies in this thesis, who were also mostly influenced by regulative elements in regard to this dimension, argued that though they are experienced in sustainability reporting, the foremost reason for this year was to be compliant due to an uncertainty regarding how the regulation will be enforced. Similar to the new reporters influenced by regulative elements, the two seasoned companies both argued that this report provided a starting point and digression from this structure can be made when a new norm has been set.
Normative companies view their sustainability report as a way to communicate with stakeholders and is foremost conducted through the use of materiality analyzes to understand the demands of their most relevant stakeholders. This coincide with the findings of Herremans and Nazari (2016) who found that normative companies used accepted standards of reporting. The similarities between our studies implies that independent of the type of impact companies have, normative companies act similarly. The companies in Herremans and Nazari’s (2016) study consisted of oil and gas companies, with a high direct impact on the environment while the companies in this thesis consists of companies with high indirect impacts on the environment. Though many normative companies argued that publishing a sustainability report was a natural way of behaving, one company viewed their sustainability report as a natural part as it was integrated into most aspects of their annual report.

5.7. Legitimacy of the Sustainability Report
The basis of legitimacy in the context of this thesis concerns what is argued to provide legitimacy of the sustainability report. Our findings can conclude that all companies view the new regulation as a way to increase legitimacy of the sustainability reports. Although the regulation provided the foundation for legitimacy for regulative companies, it is not solely based on this for all companies. For normative companies, legitimacy is mostly connected to the frameworks they use, such as the GRI and following the UN Global Compact, as concluded by Hedberg and Malmborg (2003). The reason for this is argued to be that the GRI is more comprehensive and extensive than the law.

van Liedekerke and Dubbink (2008) argues that regulation and standardization encourage truthful disclosures and that voluntary reporting makes comparability more difficult. Maltby (1997) also states this and adds that regulation will provide a minimum standard for companies. Though this thesis does not oppose this view, the findings instead coincide with Fortanier et al. (2011) and argues that it is not the law that increases comparability, but rather the use of frameworks. The law instead creates a regulative incentive that steers unexperienced companies to begin disclosing sustainability information, and in extension, follow the norm of using these frameworks. Cognitive-cultural elements are instead connected to the integration of sustainability into their business-model, as the companies argue that sustainability and their operations as intertwined. Therefore, the sustainability report is argued to gain legitimacy through their decisions, as they are made partly based on sustainability aspects.
5.8. Summary

Table 5.1 provides a summary of our findings and how the regulative influence takes different shapes on the sustainability report. In addition, it further illustrates the mitigating elements (normative, and cultural-cognitive) that made the regulative influence less impactful.

Table 5.1

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Regulative</th>
<th>Normative</th>
<th>Cultural-Cognitive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basis of Compliance</td>
<td>Have to follow the law</td>
<td>It is the interest of our stakeholders</td>
<td>It is integrated in our business model</td>
</tr>
<tr>
<td>Basis of Order</td>
<td>Directives and guidelines of the law</td>
<td>Stakeholder demands</td>
<td>Routine/habit</td>
</tr>
<tr>
<td>Mechanisms</td>
<td>Pressure to comply with law</td>
<td>Benchmark to gain inspiration</td>
<td>Benchmark to see what others are doing</td>
</tr>
<tr>
<td>Logic</td>
<td>Fear of failure</td>
<td>We have done this for a long time</td>
<td>Set precedence</td>
</tr>
<tr>
<td>Indicators</td>
<td>Provided a reason to disclose/structure the company's sustainability</td>
<td>Made the company review and discuss their operations</td>
<td>Seen as a way to make firms more comparable and invested in sustainability</td>
</tr>
<tr>
<td>Affect</td>
<td>As a starting point</td>
<td>As a way to communicate with their stakeholders</td>
<td>As a natural way of reporting</td>
</tr>
<tr>
<td>Basis of legitimacy</td>
<td>Regulation</td>
<td>Internationally accepted frameworks</td>
<td>Business model</td>
</tr>
</tbody>
</table>
6. Discussion and Limitations

Though this thesis uses an institutional perspective to investigate firm reasoning regarding regulation, it cannot dismiss other possible affecting variables. This chapter discusses these variables as well as some limitations of the findings.

The industry (Trotman & Bradley 1981), the environmental effect of the business (Hahn and Kühnen 2013; Pedersen et. al. 2013), size and firm characteristics (Cowen et al. 1987; Hahn and Kühnen 2013; Rasche and Esser 2006; Trotman & Bradley 1981) and the country of origin (Gray 1995) have previously been found to affect the sustainability reporting and can provide substance for the findings of this thesis.

The business of both the banking and insurance industry is characterized by long commitments. Though the horizon varies between loans, investments and financing, the focus is long-time solvency. As proven by Trotman and Bradley (1981), this should have a positive impact on their reporting. Though they do not have large direct impacts, these commitments contribute to a large indirect impact on the environment and social aspects. In addition, due to how their customers’ operations can reflect on them, they have to be cautious of how they invest capital and finance businesses. This reasoning can be illustrated by one company in this thesis that stated that they have substantial investments in other companies and are thus obliged to perform a rigorous assessment of their customers impact to ensure that they adhere with their sustainability agendas. As a result, they should, independent of the regulation, be keener on releasing sustainability reports than many other industries. (Hahn and Kühnen 2013; Pedersen et. al. 2013)

Size is one of the most proven variables connected to sustainability reporting and have a positive relation to quality and quantity (See, for example Hahn & Kühnen 2013; Rasche and Esser 2006; Trotman and Bradley 1981). Most companies investigated in this thesis are among the largest in their industry or part of groups that are, which should therefore have an effect. Without implying this is the case for the companies in this thesis, as this has not been investigated, we can observe that though smaller companies have actively worked with sustainability, they had not published an external report pertaining to it prior to the law. (See Table 3.1). Rasche and Esser 2006 argue that the reason for this is that larger companies are under greater stakeholder scrutiny, which is perhaps even greater for the companies who handles their customers savings and pensions. The empirical findings also found that companies
had different corporate governance pertaining to sustainability. The larger companies in this thesis all had department dedicated to sustainability and had therefore more substance to their sustainability reporting process. This finding coincides with Cowen et al. (1987) who argues that a dedicated committee will improve a companies’ disclosure process.

The findings also illustrated that the companies with sustainability departments were characterized by normative and cultural-cognitive influences, indicating that experienced companies are keener to have one as opposed to regulative influenced companies. Furthermore, the normative and cultural-cognitive companies were also those who had less difficulties complying with the law which could be further explained by the presence of a dedicated department who were able to discuss, process and implement sustainable strategies. To continue, as stated by Rasche and Esser (2006) and supported by Hahn and Kühnen (2013), larger companies have higher accountability and are scrutinized more by stakeholders due to their impacts. Therefore, the normative and cultural-cognitive companies’ in this thesis may feel more obliged to have a sustainability department to ensure that their operations are legitimized and systematic. This further supports Adams (2002) argument that the completeness of sustainability reports are often influenced by the procedure and attitude a company possess.

Another important variable is that all companies in this thesis are Swedish. As argued earlier, Sweden is placed high on sustainability indexes and customers and law-makers/politicians tend to have a strong environmental consciousness which, according to Gray (1995), may positively affect the sustainability reporting. For example, all companies in this thesis have, independent of sustainability reporting experience, worked with sustainability issues prior to the regulation. Due to the specific national context in which these companies act, the possibility for generalization with financial companies in other countries is reduced. The context of the thesis may also reduce the possibility for replication due to the use of institutional theory. As the normative element can be summarized as what one “ought to do” (Palthe 2014) in a given situation, the norm will differ between countries. For replication studies to be made, they should be conducted in countries with similar national context as Sweden regarding sustainability and transparency.

Due to the limited number of applicable companies in these industries and the number of case-firms in this thesis, the credibility may be lessened. This should be considered before generalizing these findings to a larger context or to other industries.
7. Conclusion

The conclusion provides a summary of the findings in connection to the research question and how they contribute to both academia and practitioners. Lastly, the chapter illuminates suggestions for future research.

This thesis set out to investigate how the disclosure processes in Swedish financial companies were influenced by sustainability reporting regulation. By investigating the first mandatory sustainability reports, the findings are interesting to policy-makers and researchers alike as they illuminate companies’ initial response to non-financial disclosure regulation. The findings of this thesis show that while the regulation had a limited effect of the content of the sustainability reports, it resulted in changes in the internal processes. The theoretical contributions therefore further strengthen the findings of Adams (2002) and adds to the limited field regarding internal context in response to sustainability regulation.

When assessing if they were being compliant to the new regulation, companies had to evaluate both the disclosure processes and their sustainability actions. It also enabled them to think about aspects they previously had not thought about, or to some degree neglected. To continue, the thesis finds that the law contributed to an increased sense of legitimacy pertaining sustainability reporting inside the companies. Changes in companies’ sustainability report mostly consisted of structural changes to illuminate their compliance to regulation rather than a change of content. The thesis also finds that the regulation influences reporters differently depending on what institutional elements affecting them. Companies who are mostly influenced by normative or cultural-cognitive elements, as opposed to regulative elements, have less difficulties obliging with new regulations.

The thesis find that the prevalence of internationally accepted frameworks mitigates the effect of regulation on reporters and thus partially answers the aim of this thesis. Due to their longevity and relevance, frameworks create a certain norm and is perceived to have a higher standard than the Swedish regulation. For practitioners, these findings can help companies that are mostly influenced by regulative elements. In line with Fortanier et al. (2011), this thesis argues that the use of frameworks such as the GRI and Global Compact provide a structured and comparable way to present sustainability initiatives that also complies with regulation. It is also found that benchmarking is a well-used tool for all companies to identify best practices and for inspiration, preferable to companies similar to one's own. Organizations that perceive the
regulation as a foundation for their sustainability report can, in accordance with the statement by Hoffman (1997), change their adherence in the future and conform to the norm by adopting international accepted frameworks instead. These findings provide theoretical contributions as they illuminate the how the normative use of frameworks mitigates the impact of regulative elements.

The thesis finds that new reporters perceive the regulation as a learning experience and a starting point for future sustainability reporters. With the introduction of the law, they had to make new preparations and, beyond interpreting the directives, establish new processes to collect data and compile it in a report. Another finding is that sustainability reporting is seen less as a competitive advantage and more as an instrument of communication containing a compilation of the organization's sustainability agendas aimed to stakeholders.

In contrast to Pedersen et al. (2013) who finds that benchmarking is most recurrent among new reporters, this thesis does not find any differences between companies, independent of institutional influence, as benchmarking was prevalent among all companies in this thesis. The law forced new reporters to benchmark due to their inexperience, whereas experienced companies were keen on observing the content of other experienced companies and how they measure in comparison.

7.1. Future Research
The influence of regulation on sustainability reporting is still an understudied subject and more research is needed to address this gap. A suggestion for future research could, by using a longitudinal study, examine how the new reporters develop over time and if the institutional elements shifts from regulative to cognitive-cultural as suggested by Hoffman (1997). In addition, how these developments are reflected both in content, structure and processes of the sustainability report would add much needed research to further illuminate the long-term effect of sustainability and non-financial disclosure regulation.

Although the regulation is based on an EU directive, this thesis exclusively investigates the influence on Swedish financial companies, making generalization somewhat limited. To gain a more comprehensive overview of how companies in other European countries respond to the regulation, an interesting research area could therefore be to conduct a cross-country and cross-industry study to illuminate institutional differences between them. This could potentially also illuminate larger discrepancies between industries than this thesis could find.
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# Appendix 1

## About the Company and the Interviewee

- What is your title and function within the company?
- How do you contribute to the sustainability report?
- How do the company work with sustainability matter on a daily basis?
- How is the sustainability work coordinated at the company?
- Do you use a centralized sustainability department or is it spread out to different departments?
- What is the reason you have/have not published a sustainability report earlier?

## Influences

- Do you follow trends in your sustainability work?
- Do you experience shifts in current sustainability aspects?
- What do you put a larger/lesser focus on?
- How do you procure knowledge and inspiration regarding sustainability and sustainability reporting?
- Have you benchmarked certain companies for inspiration?
- How and why did you use these companies?
- How do you take your stakeholders into account when creating your sustainability report?
- Who are they and how do you address their demands?
- Do you feel persuaded by some stakeholder to include or exclude certain information?
- For whom is this report written?

## The Regulation

- How are you affected by the law?
- Have you used the law as a base when producing your sustainability report?
- For your own part, do you see any advantages with the law?
- Does it make your reporting easier or do you feel bound by it?
- How have you proceeded to ensure you are compliant with the law?
- Have you used external parties to interpret the law or has it been done inhouse?
- Would you have liked to have seen more explicit legal demands?

## The Process

- Tells us about the process of producing the sustainability report
- Do you work independent or in a team?
- How do you collect the data?
- Who determines what goals and policies to follow?
- How goes the decision-making process?
- How did you decide on the extent of the report? As the law is quite inexplicit it allows you to produce it as you see fit.
- How do you decide what to include and exclude?
- What can be a reason for disregarding some information?
- How do you perceive future reports?
- What do you believe will change in the report?
- What knowledge have you procured that you will use in future reports?
- What is the reason you have an integrated/standalone report?
- How and why was this decided?
- Are there pros and cons to do it in the other way?

## Other

- Is it something you would like to add regarding your sustainability initiatives of reporting process?