

Norwegian Institutional Investors and Sustainability Reporting

Exploring sustainability reporting's impact on institutional investors' decision making

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Abstract

Institutional investors are considered major actors in the Norwegian market and have the ability to influence its environment to act more sustainably towards environmental, social, and governmental considerations. As sustainability has been prominent globally, many institutional investors have adopted this as a consideration in their investment strategies. As a result, they have also required more thorough insight into sustainability in entities they wish to invest in. This also demands more non-financial reporting, such as sustainability reporting. This master thesis has examined how the current quality of sustainability reporting affects institutional investors' investment decisions. The master thesis was conducted as a qualitative study, with semi structured interviews with institutional investors in Norway. The purpose was to fill in what was discovered to be gaps in existing literature domestically in terms of quality, greenwashing, and how reporting influences institutional investors' decisions. This study has found that institutional investors experience poor quality of sustainability reports, high Due Diligence costs, and a lack of transparency while implementing ESG into their decision making process. Consequently, this study purports that more thorough and detailed legislation on the requirements for sustainability reporting should be implemented.

Keywords: Institutional Investors, Sustainability Reporting, Decision Making, Norway

Preface

This master thesis represents our final work at the School of Business and Law at the University of Agder, specializing in International Business. After five wonderful, challenging, and instructive years, we are excited to embark on a new career journey. We are grateful for the competence and insight we have received from the University of Agder.

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1. Introduction

Globalization and complex, dynamic markets force actors of all industries to operate in a challenging environment. Climate change contributes to marketplace complexities, and businesses are pushed towards engaging in their environmental impact (Amran & Ooi, 2014). Social and governance risks have also received widespread attention in recent years and include, for example, the health of workers and externalities and gender representation and gender balance in organizations (Sinha, Datta, & Ziolo, 2020). Consequently, reporting on sustainability has been increasingly adopted by organizations, thus broadening the amount of information included and demanded upon in organizational reports. As the emerging reporting trend includes sustainability reporting more than previously, distinct frameworks and regulations have been imposed in several countries (Kolk, 2005; Petrassi, 2020). Even so, Norwegian legislation does not enforce strict requirements for reporting on sustainability, thus allowing organizations to more freely decide how they report (Regnskapsloven, 1998, §3-3 c; Vormedal & Ruud, 2009).

Reporting tools are necessary to ensure stakeholders are provided with both financial and non-financial, transparent, and reliable information. Non-financial reporting, such as sustainability reporting, helps organizations take stakeholders' broader interests into account and shows stakeholders and shareholders that they aim to deliver on their own sustainability goals, organizational growth, and long term success and survival (Amran & Ooi, 2014). Institutional investors have over the last two decades encountered issues emerging due to the vast market swings (KPMG, 2017). As a result, institutional investors are interested in reports as this contributes to the foundation they use to decide whether to conduct or refrain from investments. An annual survey from 2021 on institutional investors published by Morrow Sodali found that institutional investors' considerations of sustainability reporting have increased rapidly. They primarily engage in and prefer specific key frameworks for reporting sustainability, both for simplicity and consistency in reports from distinct actors (Vasantham, Jevcakova & Wightman, 2021).

For a long time, investors have had a financial-oriented view of the benefits of investments and conduct investments based on the financial returns. However, a dive into newer studies shows that sustainability investments are becoming necessary, and the investor community undertakes a shift in some of its interests. Many studies show this growing relationship between sustainability, sustainability reporting, and institutional investors

globally (Bernow, Klempner & Magnin, 2017). Given the vast literature on investors and their relationship with sustainability reporting and how reporting undergoes stricter regulations foreignly, we are curious as to how global studies on the concepts apply to Norwegian institutional investors and how they reflect their domestic institutional investors' behavior. This is grounded in the distinct characteristics of the Norwegian investor community, the trends in the Norwegian markets, and the Norwegian laws and regulations for sustainability reporting. This is an interesting thing to take into consideration, given that the characteristics of the Norwegian market distinguish it from foreign countries (Andersen, 2003).

There are currently limited studies evidencing sustainability reporting's impact on institutional investors' decisions in Norway, given the lack of standards imposed on sustainability reporting. As we were unsuccessful in trying to understand how Norwegian institutional investors perceive the current Norwegian laws on sustainability reporting, we disclosed a gap in the theory, which consequently became the premise for this master thesis.

1.1 Research Question

Writing research questions requires thorough research on the chosen topic and should align with relevant theory and previous studies in the field (Fleming & Kowalsky, 2021).

Therefore, the research question for this paper was developed consistent with the conducted literature review to ensure that the research question, the literature, and the data collected, closely connect. Hence, it can hopefully succeed in providing accurate results and answers to the research question (Flick, 2018).

Examining Norwegian legislation proved that laws do not currently impose a rigid standard for sustainability reporting in Norway (Regnskapsloven, 1998, §3-3 c). We find that existing literature is limited in explaining how the lack of a common framework for sustainability reporting affects institutional investors' investment decisions. On this basis, the following research question was developed:

How does the quality of sustainability reporting affect institutional investors' investment decisions?

Based on the chosen research question, this thesis aims to present how elements of sustainability reporting have come to affect investments today. The conducted study focuses

on the Norwegian investment environment and Norwegian institutional investors. Grounded literature aims to discover knowledge gaps to underline the relevance of this research question. Consequently, the research question intends to contribute to the body of knowledge on institutional investors' investment decisions and sustainability reporting in Norway.

1.2 Structure of the Paper

Firstly, this paper accounted for the reasons behind the chosen topic for the research paper and elaborated on the chosen problem statement. Followingly, a section explains how different terms are used interchangeably throughout the thesis.

Secondly, the paper provides a thorough literature review on institutional investors, sustainability reporting, financial reporting in Norway, and typical decision making routines for institutional investors. The literature review gives readers an insight to the topic and serves as a foundation for the interview guide.

Thirdly, this paper consists of a methodology section that justifies the qualitative methodological approach and tools used in the research, and the section elaborates on the data collection and tools used to analyze the data.

Fourthly, the paper looks into the interviews' results and discusses the findings throughout the different interviews. It further highlights findings that distinguish between the different interview objects and discusses the possible meaning of those.

Lastly, the paper provides a conclusion and further discloses possible implications and limitations of the research. It also provides suggestions for further research to further contribute to the body of knowledge on the connection between decision making and sustainability reporting for institutional investors in Norway.

1.3 Explaining Terms and Theory

Throughout this thesis, several terms are used interchangeably to describe similar information. To limit possible misunderstandings, this section briefly presents the different terms. It also explains why some theories and research linked to concepts of this study use different terms to explain similar phenomena and concepts.

Firstly, the terms sustainability, ESG, and CSR are all concerns when discussing sustainability. Literature uses different concepts to discuss and explain. Similarly, the interview objects also present different terms when elaborating on their considerations and

operations within their organization. Corporate social responsibility (CSR) is the collective term for which organizations have a responsibility beyond generating profits for stakeholders. The theory holds that organizations should commit to acting ethically and legally, which can align or contradict the interests of shareholders (Christensen, Hail, & Leuz, 2019). CSR principles concern what is, and what should be, the relationship between the organization and its stakeholders and external actors who may not necessarily have a relationship with the organization (Crowther & Aras, 2008; Özcüre & Eryigit, 2006). Similarly, the concept of ESG is vastly used in the literature review and by respondents through interviews. ESG concerns organizations' responsibility towards environmental, social, and governmental factors, which in this case are assessed in contact with investment practices. It focuses on the non-financial dimension of a stock's and organization's performance (van Duuren, Plantinga & Scholtens, 2015). For this paper, we primarily rely on ESG factors as a proxy measure for defining sustainability.

Secondly, terms such as firm, entity, and business are used interchangeably as different terms are appropriate and correct only in certain contexts. In examples concerning general phenomena, this thesis uses the term organization.

Thirdly, Due Diligence is a part of most investment processes and is defined as an investigation process of a potential investment to confirm all the facts. This process involves a thorough assessment of risks and whether there is a strategic fit with the portfolio. The Due Diligence process can be performed internally or externally, and a rigorous investment process is considered costly and time-consuming (Cumming & Zambelli, 2017).

Lastly, the vast theory on institutional investors is grounded in the theory of institutional owners. Therefore, the theory this thesis uses as a foundation considers institutional investors as institutional owners (Andersen, 2003; Bøhren & Ødegaard, 2022, Gulbrandsen, 2004, Regjeringen, 2014). Accordingly, theory on institutional owners that applies to institutional investors is included.

2. Literature Review

A literature review provides a ground for filling in knowledge gaps or extending prior studies. Results of other studies provide a benchmark for comparing results of distinct findings. In qualitative research, literature is used consistently with the assumptions of learning from interview objects. Since qualitative research can be considered exploratory,

researchers seek to build an understanding based on the topic. The following literature lays the foundation of this thesis (Creswell & Creswell, 1994).

2.1 Institutional Investors and Investment Decisions

2.1.1 Investing and Investor Types

A financial investment is a process of allocating resources, assuming that the investment will provide benefits in the future, often in the form of profits. An investment can also be a vehicle to preserve a resource's current value. Investments are presented as a necessity for organizations to develop, maintain strength and position in the market and survive in a competitive environment (Avram et al., 2009). Therefore, organizations compete for funds to be placed as assets. Investments can be short term investments that typically mature within one year, or long term investments without a time-set maturity. Investments demand that investors have adequate knowledge of risks and the financial environment (Gitman, Joehnk, Smart & Juchau, 2015).

The act of investment can be considered subjective as the investment is conducted to meet the needs and expectations of the investor. Even so, investors' decision making process consists of subjective and objective factors as subjective interference may not always be dominant in the investment process (Virlics, 2013). The investment process creates a center for financial trading between suppliers with extra funds and demanders seeking to attain them. Suppliers and demanders can be financial institutions, governments, organizations, or private individuals. Assets must flow between the respective parts to stimulate economic growth, and economic gains typically serve as the main incentives for investments (Gitman, et al., 2015).

The demanders in an investment process are the investors, classified into two distinct categories: individual investors and institutional investors (Brockman & Michayluk, 1998; Gitman et al., 2015; Li, Rhee, & Wang, 2017). The two categories distinguish whom they invest for and how they invest as they have unique patterns for trading and different investing behavior (Brockman & Michayluk, 1998; Chuang & Susmel, 2011). Individual investors invest privately in assets and securities for personal gains, typically in smaller quantities than institutional investors. Individual investors' investment behavior is also, often to a large extent, affected by subjective grounds, encompassing the individual investor's emotions and personal bias. Conversely, institutional investors are companies or organizations that invest

either on behalf of others, and they typically operate with substantially more significant investments than those conducted by individual investors (Corporate Finance Institute, n.d.). Contrary to individual investors, institutional investors can be considered specialized financial institutions because they have greater access to a broader set of resources to evaluate an investment's potential risk and benefit. Their decision making process consists of multiple individuals who collectively assess a possible investment (Corporate Finance Institute, n.d.; Davis & Steil, 2004). As financial institutions, institutional investors are not physical persons but entities consisting of multiple individuals collectively assessing and conducting investments (Çelik & Isaksson, 2013). Institutional investors can be sorted into different categories, varying from distinct studies. Several studies purport the following categorization for institutional investors: hedge funds, pension funds, insurance companies, and banks. These are entities made up of a set of individuals (Andersen, 2003; Bøhren & Ødegaard, 2002; Grønvik, 2005; Gulbrandsen, 2004; Kløw, 2011; Thomsen & Pedersen, 2000). The multiple individuals involved in institutional investors' decision making are more likely to reduce or inhibit the risk of investing based on personal bias (Corporate Finance Institute, n.d.; Davis & Steil, 2004). Given expertise, access to resources, and collective knowledge, institutional investors are considered investors with great market power in the segment they operate (Saci & Jasimuddin, 2021).

The ownership structure in an entity consists of direct and indirect owners. Institutional investors are classified as indirect owners (Bøhren & Ødegaard, 2022; Gulbrandsen, 2004). Indirect ownership, or institutional ownership, can positively and negatively affect the managed organization. Institutional owners tend to have profound knowledge of investments and organizational operations. Conversely, direct owners, such as private persons managing their entity, may have more significant incentives to manage them adequately (Regjeringen, 2014).

2.1.2 Institutional Investors' Behavior and Investment Decision Making Process

Literature has shown that objective and subjective aspects can influence investment activity. Subjective influence may be grounded in the characteristics of each individual separately, followingly affecting decision making and what objectives for investments are (Virlics, 2013). The theory contends that investors are a homogeneous group with similar characteristics. They are assumed to share the same investment objectives, which are most

typically financial. Moreover, they have clear visions of financial performance. When classified as a homogenous group, theory refers to the similar financial objectives institutional investors set for themselves and what serves as incentives for investing (Kordsachia, Focke, & Velte, 2021). Conversely, research also contends significant heterogeneity between institutional investors. This view considers several stakeholder groups with different expectations of an organization's operations, values, and objectives. Consequently, an organization must be examined at a more acceptable level and each level of stakeholder groups. This makes each organization unique based on its different groups of stakeholders and excludes institutional investors as a homogenous group (Andersen, 2003; Ryan & Schneider, 2003). Theory classifying institutional investors as homogenous aligns with theories that show that sustainability, as a part of ESG, has become increasingly important for institutional investors, but not all investors consider it yet, despite might expressing that they acknowledge its importance (Eccles & Klimenko, 2019; Venkataramani, 2021).

Foresighted investment experts have for a long time acknowledged the need for developing a deeper understanding of the investment process and the detailed decision making process (Slovic, Fleissner, & Bauman, 1972). Decision makers use various tools and methods to evaluate both long term and short term consequences. Decision making methods vary from simple heuristic models to more complex models (Hallegatte, Shah, Brown, Lempert, & Gill, 2012). For example, a study conducted by the Cabinet Office shows different types of company reports examined by institutional investors. Frequently used reports are annual reports, securities reports, sustainability reports, and CSR reports (Cabinet Office, n.d.). Whereas technology is a frequently used tool for analyzing investments, some argue that technological analysis of investment processes only provides a limited insight. Technology successfully provides decision makers with crucial numbers and correlations between key posts but fails to acknowledge the human, ecological, and social impact that investments may have. Therefore, analyzing investments and conducting decision making based on technology may fail to account for the impact such an investment may have on externalities (Hallegatte et al., 2012).

To understand how the decision making process is influenced by sustainability reporting, existing literature about the investing processes will provide a foundation to understand the essential factors and potential need to change and adapt those processes to new trends. Much of institutional investors' job involves adapting to the existing frameworks in sustainability. Many institutions are subject to extensive laws and regulations, such as a

requirement to deliver a predefined return annually. This requirement can make it difficult for institutional investors as they simultaneously must fulfill short term requirements, even if the purpose of the investment is long term. As a solution for this, institutional investors' ability to maintain long term investments tends to work on building up a buffer capital, funds that will cover potential weak returns (Kløw, 2011).

Investment processes and tools often depend on the firm, the sector they invest in, and portfolio strategies. However, some factors are a part of almost every institutional investor's process. As part of their investment process, many institutional investors set ethical requirements to balance expected risk and returns and make it possible for investors to assess how a company runs its business. There are three types of ethical requirements: involvement, positive selection, and negative screening. Another important aspect of their investment process is assessing absolute and relative risk. Absolute risks indicate to investors how much the return will fluctuate over time, while relative risks indicate how much the return results fluctuate concerning the market. When determining an investment strategy, investors must decide what they think about the expected return for different asset classes. They could use historical experience and economic judgment to determine this, but the strategies to assess this vary (Kløw, 2011). Another study showed that integration of sustainability in investment processes often is slower than expected. This is partly grounded in focus on ethical requirements and active ownership. Long term investments are considered to central to success. Empirical studies indicated that sustainability integration in asset management could provide better risk-adjusted returns. There was a significant positive correlation between return and ESG factors. Despite indicating a positive correlation between return and ESG factors, few have successfully utilized ESG factors in decision making processes and investment analysis. Lack of ESG expertise, skepticism towards the relevance of ESG (Meisingset & Norum, 2011), and short term requirements that institutional investors need to fulfill (Kløw, 2011), makes it harder for investors to be long term oriented (Meisingset & Norum, 2011).

2.1.3 The Norwegian Context of Institutional Investors

Studying institutional investors has become increasingly common and important over the last two decades, as they have increased in number, and the trading volume obtained by them has grown subsequently (Corporate Finance Institute, n.d.; KPMG, 2017). Institutional investors are responsible for 70 percent of stock trading volume by some estimates. Most of the trading

on the market is happening and is done by institutional investors (Josephson, 2021), and studies further show how privately owned stocks decrease at the expense of individual investors' expansion in the market (Çelik & Isaksson, 2013; Davis & Steil, 2004). Despite the extensive existing studies on the growing volume of institutional investors, less knowledge and studies are conducted on this field in the Norwegian context (Guldbrandsen, 2004). This is grounded in the existence of both individual and institutional investors and limited studies on how foreign actors operate in Norway and how much volume they own in Norway (Jakobsen & Grünfeld, 2006).

Over the last two decades, institutional owners have represented a growing number of stockholders (Bøhren & Ødegaard, 2000). As a result, the ownership category has grown faster in the Norwegian stock market (Andersen, 2003). Securities trade in Norway risen densely when the Norwegian economy withstood an upswing in the 1980s and 1990s. This made the Norwegian stock market attractive, thus attracting foreign and domestic institutional investors to the market and pushing for new establishments of institutional investors. The establishment of new institutional investors domestically can partly be explained by Norwegian deregulation and liberalization of the capital market. The deregulation of the capital market is further explained due to the vast globalization. Crosby (as cited in Andersen, 2003) finds that for small economies such as Norway, institutional investors more often invest domestically, even if there are good investment opportunities foreignly. In this way, the development of institutional investors and the development of the Norwegian capital market amplify each other through a mutual self-reinforcing process (Andersen, 2003). Institutional investors' total assets exemplify the significant growth, showing a rise from 25 percent in 1985 to 46 percent in 1996 Norwegian gross domestic product (Handelsdepartementet, n.d.). Today, institutional investors are considered large actors in the Norwegian business community, given their extensive holdings in Norwegian organizations. Therefore, they also possess the ability to affect critical decision making in the Norwegian market. Their considerable share of market power is also a result of institutional investors' resources and capabilities (Andersen, 2003).

Jakobsen and Grünfeld (2006) show that authority over Norwegian business and industry is equally distributed between the authorities, private individuals, and foreign actors. Institutional actors are defined under authorities because they indirectly manage ownership in various organizations and funds. This is how institutional investors are classified as indirect owners (Bøhren & Ødegaard, 2022; Gulbrandsen, 2004). Similarly, Grimsby, Eide, Syrstad and Grünfeld (2017) show that Norwegian business and industry ownership has shifted, as

less of the market is foreign and privately owned. The market is dominated by institutional investors more than previously. Andersen (2003) found that institutional investors in Norway have had a more significant impact on the organizations they invest in and have been more active as owners than priorly thought. Institutional investors regularly assess current and future strategies and operations in the organizations, pushing them to implement and adopt principles for organizational operations the institutional investor prefers. Furthermore, they often serve as a reactive control system by detecting unsatisfactory performance and steering the organizations in the desired direction by implementing corrective actions (Andersen, 2003).

There are many Norwegian institutional investors operating through small, medium, and big-size firms. In a representation of the 500 biggest companies in Norway from 2021, where companies are assessed based on annual turnover, many institutional investors are represented (Kapital, 2021). Among them is KLP, Norway's biggest life insurance company (KLP, n.d). KLP expresses the main focus on meeting financial obligations and assesses sustainability and responsible investments for firm value and customer value (Finskas, 2011). Storebrand is another prominent Norwegian institutional investor (Kapital, 2021). They are a leading actor in the Nordic market for insurance and long term savings. They express sustainability as a core of their strategy and operations and claim to analyze economic, social, and environmental aspects before conducting investment decisions (Storebrand, n.d.). One of the largest institutional investors in Norway includes Norway's Government Pension Fund, which is also one of the largest institutional investors globally (Bernow et al., 2017). The Government Pension Fund facilitates government savings as security for rising public pension costs and further supports the longitudinal financing of the domestic petroleum revenues. They express that their investment strategy deems to be consistent with sustainable development through economic, environmental, and social factors (Ministry of Finance, n.d.). After briefly presenting some of the largest institutional investors in Norway, it is evident that Norwegian institutional investors are largely considering sustainability through their strategies and explicitly expressed considerations (Bernow et al., 2017; Finskas, 2011, Ministry of Finance, n.d.; Storebrand, n.d.).

2.2 Sustainability Reporting and Quality

2.2.1 A Brief History of Sustainability Reporting

Monumental changes have happened in sustainability reporting since KPMG's first Survey of Sustainability in 1993. Almost 30 years ago, barely 12 percent of companies published sustainability reports. Today that number has increased to 80 and 90 percent among the largest corporations in the world. In the past five years, many countries have seen dramatic shifts in companies reporting on sustainability. Regulations and laws did not drive these reports, but rather a growing understanding of the importance and the impact of the environmental, social, and governance issues on corporate value and financial performance. The minority of companies not reporting on sustainability are posing a risk because of the misalignment with accepted global norms and practices (Threlfall et al., 2020)

The European Union (EU) requires regular reports on the environmental and social impacts of the activities of large companies. This standard and updated directive help investors, consumers, policymakers, and other stakeholders develop a responsible approach to handling business. The Non-Financial Reporting Directive (NFRD), also called Directive 2014/95/EU, lays down certain large companies' regulations and rules on non-financial information. This directive applies to large companies that count more than 500 employees. Across the EU, this regulation covers 11 700 large companies, including insurance, listed and other companies designated as public-interest entities, and banks. For instance, NFRD demands that companies are required to publish information associated with environmental matters, respect for human rights, social matters and treatment of employees, anti-corruption and bribery, and diversity on company boards that needs to be disclosed in terms of age, educational, professional background and gender. Guidelines to help companies disclose social and environmental information published by the European Commission in 2017 are not mandatory, and companies may choose to use international or national guidelines otherwise. Additionally, reporting guidelines on climate-related information was added to the existing guidelines on non-financial reporting in 2019. The commission's proposal for a Corporate Sustainability Reporting Directive (CSRD) was adopted in April 2021 and requires more detailed reporting requirements, audits, and digital tags that enable machine reading. CSRD supports the adoption of EU sustainability reporting standards, which would be drafted and developed by the European Financial Reporting Advisory Group. These standards could contribute to international standardization initiatives and be tailored to EU policies. The first

set of standards is expected to be adopted by October 2022 (European Commission, n.d.).

NFRD was changed over the years. As a result, companies that meet two out of three conditions of a minimum of 250 employees, 50 million euros in revenue, or a balance sheet total of 20 million will need to start reporting in compliance with the new sustainability reporting standard. In the EU, a change in the NFRD will affect 49 000 companies. Under the new standard, these companies are required to report on the impact they have on the environment, society, and the risks they are exposed to (Intito, 2022).

In line with increased global awareness of negative environmental changes, Norway has progressively served as a leading actor pushing for improved environmental reporting. The Norwegian Accounting Act required firms to include notations on the substantial impact on the external environment as early as 1998 (Brandsås, 2019). The increased awareness, both within organizations and the social environment, continuously lure more organizations to involve themselves in sustainability reporting (Diouf & Boiral, 2017).

2.2.2 Importance of Sustainability Reporting

Companies across industries and sectors embrace the triple bottom line concept - the philosophy that profit is equally important as social and environmental issues - and the ESG profile was elevated (Farnham, 2021). An ESG report contains the measurements of an organization's procedures and policies in environment, social, and governance, which may impact the organization's revenue, company, valuation, brand, market perception, and risk management. ESG reporting is a complex process of gathering information on ESG metrics and internal ESG data (OneTrust, 2021).

The environmental component addresses the footprint and the impact of an organization on the external environment. In their decision making and evaluations of companies, investors and capital markets take these criteria into account when assessing their managing environmental factors and internal policies. The social component represents their relationships with employees, customers, suppliers and vendors, and the broader communities where the organizations operate. This component also fosters their reputation if operating with the same audience. The governance component addresses the organization's system of controls, practices, and procedures. These procedures are adopted by organizations to govern themselves, comply with the law, make effective decisions, and meet the needs of the stakeholders (OneTrust, 2021). All three elements of the ESG have seen increased scrutiny as climate challenges are accelerating. Desire for sustainable finance is a concept that was a part

of corporate consciousness and was driving businesses to review their investment decisions and practices (Farnham, 2021).

Transparency is a major element in reporting practice that ensures that stakeholders are aware and informed of what an organization is doing and why it is doing so. Negative perceptions are less likely to arise from well-informed stakeholders, which can help maintain the company's legitimacy and image. Historically, companies have changed their behavior due to stakeholder advocacy, and media plays a significant role in stakeholders' perceptions of companies and organizations. The empirical studies have evidence of the size of the companies, where the more significant the size of a company, the higher the responsibility they have. As sustainability reporting has an important impact on a company's environmental, social and financial performance, pressure from stakeholders compels companies to show and prove their effectiveness, transparency, and accountability through sustainability reports (Amran & Ooi, 2014). Transparency and accountability are interrelated concepts. The term accountability states that companies should be held responsible for proving the truthfulness of their decisions. Business activity reports are based on the transparency principle. However, the validity of decisions is related to the principle of accountability. Financial reporting has received a significant amount of criticism. It limits the company's operations to a narrow perspective, taking profitability and profit as a priority, but lacks assessment of environmental and social aspects and their impacts on activities. It is disclosed that organizations need to disclose non-financial information in addition to financial information (Şahin & Çankaya, 2020).

2.2.3 Norwegian Standards of Sustainability Reporting

When reporting annual accounts, Norwegian firms are currently required to include a balance sheet, cash flow statement, income statement, and note information (Regnskapsloven, 1998, §3-2). Large companies are also required to include a statement on social responsibility. The statement should account for the organizations impact on the external environment, social environment, social equality, non-discrimination, human rights consideration, and actions against bribery and corruption (Regnskapsloven, 1998, §3-3c). The demand for reporting on social responsibility matters does not extend beyond that the statement must be present. The law allows, but does not call for, specific reporting standards for such matters. Consequently, firms reporting on ESG have a greater opportunity to shape the report based on various considerations, such as employees, suppliers, customers, shareholders, and stakeholders. The

different set of shareholders have different expectations regarding the operations of organizations. In addition, actors have different interests in a firm. Consequently, different considerations are necessary and may affect how an organization chooses to shape its sustainability reporting (Moravcikova, Stefanikova, & Rypakova, 2015). ESG performance is also expected to affect organizations' economic performance long term and short term (Yawika & Handayani, 2017).

The foundation for sustainable finance is purported to be the EU's taxonomy. The taxonomy is the classification of information. It can help change the definition of sustainable activities different organizations do (NHO, n.d.). In December 2021, the Storting adopted a new act of sustainability information in the financial sector and a framework for sustainable investments. The new law, which implements two EU regulations in Norwegian law, is expected to have great significance for how financial market respondents will have to report on the environment and sustainability in the future (Ottesen, 2020). It may become a generally important aspect of the future of businesses in Europe (NHO, n.d.). Sustainable finance became an important part of the EU's green endowment, but has not yet been included in the European Economic Area (EEA) agreement (Regjeringen, 2021). The Ministry of Finance encouraged Norwegian organizations to include taxonomy-related information in their annual reports, even if legislation did not require it yet (Regjeringen, 2021).

With the constant growth of green initiatives and willingness to invest in green funds, the necessity for a clear definition of sustainable investments has increased. Separation of greenwashing and the actual sustainable activities can lead to an increase in financing of sustainable solutions. The European Union will introduce measures to help companies manage their operations more sustainably to achieve this goal. This will include reporting requirements for the turnover, new rules and regulations for the companies to meet, and the classification of sustainability, which will serve as a starting point for other measures (NHO, n.d.).

For an activity to be classified as sustainable, NHO set three criteria to fulfill. Firstly, it has to contribute to at least one of six environmental objectives. This includes, among others, climate change mitigation, climate change adaptation, and transition to a circular economy. Secondly, the activity must not harm any remaining environmental objectives. Lastly, sustainable activity must meet the minimum terms for social rights. It is important to remark that the system classifies the financial activities as sustainable, and not the company as a whole. Furthermore, it does not evaluate activities as good or bad. Instead, it serves as a

guideline that can be used to evaluate whether an investor should invest further to make an organization sustainable or if this is redundant. It is worth noticing that not all activities are included in the taxonomy, but that does not necessarily mean it is not sustainable. Currently, the EU's taxonomy is a work in progress and is being adjusted continuously. In April 2021, the commission published the criteria for the first two environmental objectives, and the remaining four are set to take effect from the first day of 2023. Currently, seven areas are under these regulations, and their activities can be evaluated against the criteria for sustainability. These are agriculture, information- and communication technology, transport, and the construction sector (NHO, n.d.).

Sustainability reporting in Norway is encouraged and demanded (Regnskapsloven, 1998, §3-3 c). The statement demands that such reporting contain notions on guidelines, principles, procedures, and standards that organizations integrate into their business strategies, daily operations, and stakeholders (Kirkeby, 2021). The law does not demand that the statement is regulated beyond commenting on the respective matters until the taxonomy enters into force in Norway, which will not happen until the EEA Committee has made a formal decision on incorporation into the EEA Agreement (Ottesen, 2022). Organizations are free to choose international standards for reporting on sustainability. However, large companies must report sustainability implications caused by organizational operations and are encouraged to include taxonomy information in their annual reports. The organization should state how and to what extent its operations can be classified as environmentally sustainable. It should also comment on the financial aspects of these operations, including turnover, operating costs, and investments (Kirkeby, 2021; Regnskapsloven 1998, §3-3c).

2.2.4 Quality of Reporting

Firms' market value growth increases when firms decide to incorporate sustainability programs and social responsibility (AlHosani & Nobanee, n.d.). Sustainability reporting is a document provided by a business regarding the financial, communal, and ecological impact initiated by their activities (Al Muhairi & Nobanee, 2019). It has its roots in the three pillars of environmental, social, and economic performance, its interrelations, and is often called the triple bottom line approach (Isenmann & Gomez, 2009). A high consideration of CSR concerns among all stakeholders have the possibility to result in more sophisticated reporting requests (Brammer & Pavelin, 2008). External corporate communication and reporting play significant roles in corporate sustainability, meaning communicating benefits a company

creates for society and sustainability-relevant effects of its activities are needed (Herzig & Schaltegger, 2006).

Reporting was seen as the most effective way of helping businesses hold track of reducing and eliminating the negative environmental performance of their socio-economic systems cost-effectively. According to Hopkins (as cited in Helfaya & Kotb, 2016), the quality of disclosures can be defined as to what extent investors can easily interpret the information they are provided with. In order to provide this report, information creation and its flow have to be organized in line with the requirements of stakeholders (Herzig & Schaltegger, 2006). However, the issues of implementation of non-financial reporting and the lack of standardization lead to a lack of comparability of data disclosed in reports across sectors, companies, industries, and countries. The quality, relevance, transparency, and credibility of data in non-financial reporting are important factors and influence the decision making process (Oliinyk, Kucheriava, Semensyhena, Boiarova & Hryshchenko, 2022). Results from a study conducted by Deloitte showed a clear correlation between the quality of corporate reporting and the size of the company. Half of the organizations that achieved the highest results in terms of quality reporting are among the ten largest organizations in Norway. This is partly a result of investors expecting a higher quality of non-financial and financial reports from large companies (Deloitte, 2019).

Firms feel obligated to provide their stakeholders with non-financial reports, and they choose to communicate their environmental strategies through voluntary disclosures. These disclosures have been based on rapidly growing literature on how reporting can be undertaken. Empirical studies show two broadly polar approaches to these disclosures, one where the body of the framework focuses on environmental disclosures without paying attention to details. The other is less practical, where the analysis is detailed and considered high quality. The other group is not easily achievable for many companies. Some ground in empirical studies was seeing quality through quantifying the qualitative reports by measuring the number of words or sentences or the proportion of the annual report used on environmental information (Brammer & Pavelin, 2008). Brammer and Pavelin further tested different hypotheses for when the quality of reports is being discussed, where the quality of the environmental disclosure was correlated with the size, profitability, to which level the company is exposed to media, and or whether the firm's environmental issues are apparent (Brammer & Pavelin, 2008). Behind all the hypotheses, there is a common agreement among stakeholders that a set of consistent and comparable standards will allow businesses to build trust through transparency of their sustainability initiatives, something that will be helpful for

investors to interpret information easily. Institutional investors use sustainability reporting to inform their decisions and are, together with the ones preparing the reports, the driving force behind the increased quality of reports (IFRS Foundation, 2020).

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As the relevance of Corporate Social Responsibility has been increasing consistently, alignment between management and stakeholders been essential in reducing the information asymmetries and reducing the market risk of capital investments related to the non-financial reports (Manes-Rossi, Tiron-Tudor, Nicolo, Zanellato, 2018). CSR is considered an important factor for firms' survival in the market. Accordingly, firms manage some of the environmental and social impact risks and demonstrate social responsibility (Manes-Rossi, Tiron-Tudor, Nicolo, Zanellato, 2018). Thus, guiding lines and principles have been established by the Global Reporting Initiative (GRI). By using those principles and guidelines, firms disclose the most critical impacts, both positive and/ or negative, on the economy, environment, and society. Although, it was documented that a lack of compliance with guidelines and regulations for Sustainability reporting results in a credibility gap between sustainability performance and sustainability reporting quality. Stakeholders view provided information as a strategic move, thereby lacking expected credibility and quality. Consequently, CSR reports have received criticism for lack of transparency (Moses, Che-Ahmad & Abdulmalik, 2020).

The quality of sustainability reporting is relevant for the investor decision making process and for sustainable development. To keep their legitimacy, companies mostly disclose and provide stakeholders with misleading and unrealistic information. The proportion of positive information disclosed is greater than the negative one, which wakes

skepticism and affects stakeholders' confidence in sustainability reporting. Transparency is measured by the presence of quality characteristics that derive from GRI guidelines (Moses, Che-Ahmad & Abdulmalik, 2020), balance, accuracy, comparability, reliability, timeliness, and clarity (GRI, n.d.). The reporting, thus the following guidelines, has received criticism. Proportion of positive information disclosed in the reports is also considered to be opportunistic, greenwashing, lacking in stakeholder inclusivity, effort, implausibility, and cosmetic. It has also been argued that the quality of reports is in the eyes of the stakeholders and how they perceive it (Khan, Bose, Mollik & Harun, 2020).

Skepticism towards sustainability reports is present. As one of the Brammers and Pavelins hypotheses stated, the quality reports correlate with the size of the organization. According to them, bigger firms are economically more significant to society, tend to be more visible to the public, and are under greater regulatory and political pressure (Brammer & Pavelin, 2008). This statement could also be supported by the NFRD, which lays down the rules and demands diversified information by large companies. The NFRD was requested and is only applicable to companies with more than 500 employees. However, The European Commission has in April 2022 adopted an EU Directive on corporate sustainability Due Diligence, and the directive aims to foster responsible and sustainable corporate behavior in all parts of the global value chain. CSRD will amend the existing requirements of NFRD and is extended to all large companies and companies listed on the regulated markets except micro-enterprises (European Commission, 2022). Understanding the quality of sustainability reporting is instrumental for many reasons, such as high-quality information being viewed as credible, reliable, and relevant, reducing stakeholders' credibility gap and mistrust (Khan, et al., 2020).

2.3 Connecting Sustainability Reporting and Institutional Investors

2.3.1 Institutional Investors' Sustainability Awareness

Growing sustainability concerns globally force institutional investors to assess their commitment to ESG concerns. This is shown as many institutional investors publicly have expressed their commitment (Bailey, Klempner & Joffer, 2016) and recognized environmental factors as drivers for firm value (Bernow et al., 2017). The UN Principles can

evidence this for Responsible Investment, an act promoting environmental and social responsibility among investors globally. This act was signed by more than 3,400 investors who collectively represent more than \$100 trillion in assets under management (UNEP Finance Initiative & United Nations Global Compact, 2022). Moreover, the act relies on voluntary disclosures by investor signatories, which underlines that institutional investors acknowledge and accommodate the green shift (Bailey et al., 2016).

Even though many investors and corporate leaders understand the role of sustainability and climate change in business today, many also believe this differs from the interest of their shareholders. As a result, many investors rarely involve ESG considerations in their operations. Similarly, many business leaders contend that ESG has not yet become a mainstream consideration in the investment market. This perception is by some considered obsolete, as ESG currently is part of the foundation of many large organizations' operations. A survey by FTSE Russell evidenced this, showing that more than half of global asset owners do implement or examine ESG in their investment strategies (Eccles & Klimenko, 2019).

The scale of implementation of sustainable investment strategies differs greatly between regions and countries. As of 2016, asset managers in Europe represented the highest shares of sustainable investments, with 52.6 percent. Other regions show lower numbers, such as Australia and New Zealand with 50.6 percent, Canada with 37.8 percent, the United States with 21.6 percent, and Asian countries with 3.4 percent or lower. Contributions to the large share of sustainable investing in Europe are partly because of Norway's Government Pension Fund Global and the Dutch pension fund ABP, which are two of the world's largest institutional investors (Bernow et al., 2017). The extensive awareness of sustainable investing in Europe is ground for several unique factors for the European market. Firstly, policy and regulatory drivers influence the investment market across Europe. Regulatory developments such as the NFRD and the EU Taxonomy regulations require regular reports on their activities' social and environmental impact, and list environmentally sustainable economic activities that can serve an important role in increasing sustainable investments. Secondly, industry drivers also increase sustainability awareness, both enforcing and pushing for it. For example, voluntary sustainable fund labels present ESG credentials to different funds to investors, thus increasing the funds' attractiveness for certain institutional investors. Several financial tools are also established to facilitate data flows to simplify the disclosure of ESG concerns to investors. This allows to meet regulatory compliance. Thirdly, customer drivers are demands imposed by customers who show increased interest in investments conducted with responsibility and sustainability. Lastly, market drivers show that engagement in

responsible management in the market serves as a tool for generating positive outcomes (Global Sustainable Investment Alliance, Global Asset Management, & Robeco, 2021).

2.3.2 Sustainable Investing

The linkage between organizations' financial performance and CSR has received vast attention in research, especially when studying socially responsible investing (Hill, Ainscough & Shank, 2007). Responsible investing can be defined as integrating social concerns and personal values in investment decisions (Berry & Junkus, 2012). In responsible investments, institutional investors try to, besides existing factors of ethical issues, take ESG factors into account. Investors seek to influence firms' and countries' social responsibility, simultaneously aiming to optimize financial risk-return trade-off (Scholtens, 2013). However, there is no framework to determine optimal trade between risks, return, and social responsibility in a theoretical sense. As social responsibility criteria lie outside the common efficient market framework and investment process, implementing them comes with difficulties. Investors need to decide whether to use an inclusionary or exclusionary approach to social responsibility investing (Berry & Junkus, 2012). An example is organizations that choose to invest in charitable companies and refrain from investing in companies that do not share the same values as investors, such as the weapon or the tobacco industry (Cambridge University, 2014).

In prior years, the value of investments has changed (Zhou, 2022). Institutional investors have grown too large to diversify away from systematic risks, which has forced them to consider ESG's impact on their portfolios (Eccles & Klimenko, 2019). It is no longer sole focus on economic returns, but also focus on organizations contribution to society (Zhou, 2022). The relevance of social and environmental factors is acknowledged as it is essential for long term sustainable returns. Some investors prove willing to compromise greater financial gains to create non-financial value. However, this view is outdated. Companies with the lowest ESG ratings were by 40% outperformed by the highest rated ones (Nordea, as cited in Eccles & Klimenko, 2019). Profits are important, but should not counter with values that organizations consider important (Zhou, 2022). To respond to this shift in focus, companies feel pressured to publish a statement of purpose and provide investors with ESG reports besides the annual financial reports. This aims to involve managers in ESG issues, improve internal systems for measuring and reporting ESG by robust IT systems, and assess the company's impact performance information (Eccles & Klimenko, 2019). Responsible

investing encompasses many strategies that can be used. The explicit inclusion of ESG factors in financial analysis is one of the responsible investing strategies. This strategy includes ESG opportunities and risks in investment decisions such as individual asset selection and asset allocation based on appropriate research sources and systematic processes. Positive, "best-in-class" screening is an investment approach where best-performance investments within a class, category, or industry are weighted or selected based on ESG-criteria. On the other hand, negative, exclusionary screening is an approach based on excluding specific investments from companies, sectors, industries, or countries. Similarly, the exclusionary process is a norm-based screening, where investments are excluded from companies that do not comply with norms and institutional standards, such as those developed by the UN or Organization for Economic Co-operation and Development (OECD). Active ownership is an investment approach where investors engage deeply with portfolio companies on ESG and other matters to minimize the risk and act more responsibly. Sustainably themed investing focuses on investing in assets, technology, and themes linked to sustainability development. Investments made into organizations, funds, or companies with the intention to generate environmental or social impact, alongside earning a market return, is an investment strategy called impact investing. Briefly described, responsible investment strategies are not mutually exclusive (Scholtens, 2013; Eccles & Klimenko, 2019).

Eccles and Klimenko (2019) highlight different factors as drivers towards change and increased focus on ESG issues. One factor concerns the size of the investment firms: as they have trillions of dollars and have become too big, they have no hedge against the global economy. Financial returns are not suffering if companies are trying to follow some responsible strategies. However, materiality is central in sustainable investing. A company that addresses every aspect of ESG issues will suffer great financial losses; companies that focus on material issues tend to be superior to those that do not. Investors are looking for evidence that the companies are focusing on the material ESG issues that impact their financial performance. Institutional investors are demanding more responsible strategies from the companies they invest in. Legal opinions, taxonomy, and regulatory guidelines make it clear that not taking into consideration ESG factors is a violation of fiduciary duty. Investment firms are integrating ESG analysis in their fundamental financial activities. ESG issues have become a focus of shareholder activism, and this approach is making a rise in financial markets and is the last of the factors driving the change (Eccles & Klimenko, 2019).

Despite the forces driving ESG investing forward, there are barriers to overcome in the future. The biggest obstacle is sustainability reporting. Companies report sustainability,

but those reports are not aimed at investors but rather other stakeholders. Several organizations, such as GRI and SASB, are trying to fill this gap, which is more challenging due to the lack of government rules to use these standards. Even if companies use these reports, they are rarely subject to audit by a third party. EU directive, such as Taxonomy, requires disclosure of non-financial information. The quality of the ESG reports is not perfect but is improving. Investors are seeking a more profound understanding of portfolio companies. "Statement of Purpose" as a part of integrated reports for shareholders will provide a good foundation. In practice, company reports should use materiality analysis that identifies ESG issues that can affect a company's financial performance. Such a report effectively shows investors and other stakeholders that the company is practicing "integrated thinking" and is focusing on long term value creation rather than on short term financial results. Few firms have sophisticated IT infrastructure and reliable systems for measuring ESG performance. ESG performance is usually generated through customer retention, spreadsheets, or software solutions, making disclosed data of poor quality. Some ESG issues are not affecting companies' bottom line directly, but affect society. The challenge companies face is that there is no agreed way of measuring "externalities"- the negative and positive effects of their services and products on society; an example of a challenge is a geographical location (Eccles & Klimenko, 2019).

2.3.3 Importance of ESG in Investment Processes

A growing impact of ESG initiatives has brought new opportunities to the financial sector and opened up for more sustainable investments in the future. This can be shown through the research conducted by PwC among 325 active asset managers globally. In the survey, 79 percent of investors agreed that ESG risks are important in their decision making process. However, even though most investors commit to ESG goals, in one way or another, barely 19 percent of them are ready to take a hit higher than one percent on their returns to reach committed ESG goals. Furthermore, one-third of the questioned investors are not willing to sacrifice any of their returns to address mentioned issues. Investors have a tendency not to trust everything they receive and are conscious of the information received through evaluating ESG priorities (Chalmers, Cox & Picard, 2021).

In another research conducted by Ernst and Young, 320 institutional investors participated. This research showed that companies' ESG performance disclosures are central in investment decision making. Investors are seeking higher-quality ESG data from

companies and the regulatory landscape as they are clear that consistency in the reporting will contribute to transparency and quality. There are still concerns about quality, transparency, and materiality, even though 78 percent of interviewed investors stated that their approach to evaluating ESG disclosures is methodological and structured (EY, 2021). There are frequently asked questions on how to deliver satisfying returns to investors with business transformations built around ESG. Research done by PwC may partially answer these questions. They have a new insight into what it takes for a leader to be in the front of such a transformation and how companies can more efficiently talk about their cause (Chalmers et al., 2021).

Investors see ESG as an important factor in decision making. Half of them are ready to redirect their money from companies that do not show significant progress on ESG issues into more sustainable investments. This shows growth in commitment around climate change and issues brought with it and willingness to take action to counter negative impacts (Chalmers et al., 2021). As the importance of ESG disclosures has been increasing, encouraged by demands from the public, regulators and investors, companies have been making progress on the same topic. However, there is growing pressure for companies to do more. EY's research has also shown that investors look at ESG performance as pivotal when making decisions. This research also showed an increased focus on the social factor of ESG, which provides opportunities to address issues such as gender pay gaps or employee mental health (EY, 2021).

Investors must consider the quality of reporting when aiming to conduct sustainable investments. Investors use companies' ESG reports and base their further investments on their data, but the quality of available information can sometimes be questionable. Namely, only a tiny fraction of investors believe that the reports are good enough. Reports should make relevant and reliable information available to investors; additionally it has to be complete and comparable. In this way, the decision making process would become more effective for investors, and they could differentiate between companies based on their ESG-reports and performances. This would lead to more value creation among companies that have the potential to impact society and the environment positively. This means that the investors demand more valuable and dependable information on the sustainable model of certain businesses before they decide to invest in it (Chalmers et al., 2021).

2.3.4 Investment Risks

Following a definition developed by the European Commission, a sustainability risk is an environmental, social, or governance condition or an event that, if happening, could have negative implications and material impact on the value of the investment. Environmental considerations can include preservation of biodiversity, circular economy, pollution prevention, or climate change mitigation and adoption on a narrower level (European Commission, n.d. - b). As environmental issues increase at large, decision makers must increase their focus on how investment provides environmental consequences. Climate change provides deep uncertainty for investments, especially as improved and increased infrastructure, and general human activity, causes radical changes in the environment that often are difficult to assess on a large scale (Hallegatte, Shah, Brown, Lempert & Gill, 2012). Climate related risks providing uncertainties for investments and economies are present and will grow depending on global responses to climate challenges and changes. Climate change risks are usually divided into transition risks and physical risks (Corporate Finance Institute, 2020). It should also be considered a short term risk and consequence for investment, despite it often being assessed barely as a long term consequence. Many investments have long term consequences, especially if they do not take social and governance aspects into consideration (Hallegatte et al., 2012). Social aspects consider inclusiveness, labor relations, inequality, and human rights issues. Governance plays a fundamental role in including environmental and social considerations (European Commission, n.d. - b).

Considerations of ESG factors and risks have increased among investors. In line with growing interest, challenges in addressing sustainability risks have also arisen. Some of the ESG risks are unpredictability, lack of reliable information, and methodological issues regarding measurement. In order to minimize those risks, institutional investors have adopted some responsible investment strategies. However, the assessment of what types of risk to consider is highly dependent on portfolio and investment strategy (Robeco, n.d.) Empirical evidence has presented that if an investor chooses to apply only negative filters, such as excludatory screening, compared to a combination of responsible strategies, it will have a worse outcome. However, ESG scores have been used as a tool to improve a portfolio's sustainability quality, as well as diversification. ESG score is a metric used to assess a company's ESG performance. An increasing number of investors rely on ESG ratings to measure ESG risks; this has become an essential reference in the financial markets. However, ESG scores are increasingly becoming the subject of interest, as it is considered

that there are equally as many shortcomings as strengths. In addition, investors' attitudes towards sustainability have changed, so the investment processes have changed because of the integration risk. The methodology changed in 2018, when ESG performance measurements were replaced with ESG risk measurements, including carbon risk. Leading information providers, Morningstar Direct database, have adopted this shift. They are considered to be one of the most influential providers of sustainability data because of their ability to reach retail and institutional investors (Folqué, Escrig-Olmedo, Santamaría, 2021). Institutional investors have been exposed to risks in different investment situations. ESG issues can be discussed in relation to established investment risks. Credit risk, where risk involves financial difficulties to repay the principal at maturity or pay the interest. An unexpected transition risk may damage investment bonds, such as high CO2 tax rates. Market risk can be investments made in a company that is not transitioning towards a more sustainable economy, leading to a value decline in the market. If some environmental and climate-related risks materialize, the investment company can experience outflows and financial material impact on physical risks. This type of risk is called liquidity risk. Operational risks are a consideration of possible events that may impact the operation in more than one region; epidemic diseases and extreme weather conditions are some examples (Robeco, n.d.). Operational risk is production-focused and can involve employee dissatisfaction, visual pollution, land contamination, and poor site location (Young, 2013). Finally, Institutional investors need to consider reputational risks, a risk that a company is marketing a product as sustainable while it is not justified. This mispictured presentation is called greenwashing (Robeco, n.d.). Some companies are getting high ESG scores even when the reality is different; institutional investors have a key role in fighting this trend and discovering when companies are getting higher ESG scores than they should have (Aviva Investors, n.d.). Getting reliable information to disclose on sustainability and companies' impact was highlighted as one of the main obstacles to inconsistent and unreliable ESG data, which can consequently lead to unfair ESG scores (Robeco, n.d.)

Besides established investment risks that consider ESG issues, supply chain also serve as a risk. This occurs if suppliers operate in other countries with issues like living wages, unsuitable production, human rights, and high pollutants. As part of the supply chain, product risk can involve using unsustainable and hazardous raw materials, waste, disposal, safety and health issues, and product use can have environmental effects. Also, an important risk to consider includes disclosure of societal and environmental performance, purpose statement, and certification to standards, so called general societal expectations. Disclosure of truthful

information is a key to a good flow of information in the market. In practice, the lack of transparency is another risk, and the reason behind regulation leads to mandatory disclosure. Sustainability risk integration depends on high quality ESG information, so data availability is another risk institutional investors face (Young, 2013).

2.3.5 Greenwashing

Many companies struggle to live up to positive CSR practices. Greenwashing benefits a company when it deceives its customers. Transparency in the market can fill the gap between genuine and artificial for the environment. An example of transparency is where clothing retailer Patagonia, unlike many other companies, does not sugarcoat that their chemical use leaves a footprint. Their sustainability statement is presented as a "struggle to become a responsible company" (Edwards, 2022). Greenwashing in reports presents information that is not always truthful, where facts are overstated, misrepresented, or bent. Greenwashing is the engagement of a firm in two different behaviors simultaneously, positive communication about environmental performance and poor environmental performance. As still not a punishable act, Greenwashing is a phenomenon companies will use as different incentives drive it. Those drivers can be individual, organizational, and external; external drivers are pressures from different regulator actors and consumers, investors, and competitors. Organizational drivers include ethical perspectives, and organizational structure, while individuals include individual decision making, narrow decision framing, and bias. This is due to a lack of regulation for greenwashing (Dzafic & Petersson, 2016). Companies have spotted a rising awareness of ESG issues among consumers and a commercial opportunity. Market research in the US has discovered that 66 percent of people were willing to pay higher prices for environmentally friendly products from firms that they consider more responsible. A similar study in Europe showed that 78 percent of customers considered environmental factors as very important when purchasing (Aviva Investors, 2021).

Some businesses present a small carbon footprint and are presenting positive non-financial reports. However, the reality is that they are very exposed. Companies must look at their clients and their value chains to fully assess their risks. 95 percent of European corporate lending comes from the banks committed to the Paris Agreement. European banks have limited climate risks but are exposed to plenty of climate risks through their clients as they enable most economic activity, which might expose banks to substantially more climate risk than presented and commonly assumed (Aviva Investors, 2021). There are many

greenwashing definitions in various perspectives and classifications, such as firm, service, and product levels. On a product or service level, the usual approach is to refer to a product's ecological benefits and disclose misleading environmental information (de Freitas Netto, Sobral, Ribeiro & Loares, 2020). For example, the Swedish company Lundin was labeling their oil production as a carbon neutral product, but later acknowledged that only direct and indirect emissions from the company were included in the reporting of the oil production, but major emissions that occurred in the value chain were not considered or included in this report. Emission reduction across the supply chain can start a positive ripple effect that will raise standards among competitors and economies. Banks and institutional investors have a certain responsibility and are key players in the market. This requires their attention to the companies' suppliers and customers in association with indirect, not company owned emissions. Institutional investors have an obvious financial incentive to ensure that claims in non-financial reports are backed up by the companies they invest in. Inability to do that can have consequences on a company's share price due to reputational damage. This can also cause reputational damage to the investment companies if they are falsely branding themselves as sustainable investors without making an effort to make their portfolios more ESG-friendly (Aviva Investors, 2021).

As a strategic approach, CSR is communicated to the audience in annual reports; a parallel can be drawn between the approach to CSR and sustainability. Ecological engagements have improved companies' reputation, brand equity, and image, consequently leading to a green advertisement. This is considered another form of greenwashing, Executional greenwashing, where the strategy is based on using elements such as images or symbols evoking nature and misleading the audience. Pictures of renewable sources of energy are typically included in the documents and claims that are vague, confusing, and descriptive (Parguel, Boreat-Moreau & Russell, 2015). Misleading communication through sustainability reports or other channels is used to meet expectations from stakeholders and shareholders. Greenwashing is not considered useful for organizations' long term and will consequently undermine the meaning and intentions of sustainable behavior. Assurance of disclosed and open communication through reporting will minimize the use of greenwashing strategies. Deloitte conducted a survey in 2019 called "Greenwashing or measurable results?" where they analyzed the 50 largest companies in Norway. The majority of the firms did not change their reporting style, and those reports are characterized as unstructured and complex without clear connectivity. A common thing for most companies is that they provide multiple reports that are detailed but repetitive. The average report counted 151 pages. Companies also

published extensive reports on more than 200 pages with important elements, but were not considered to be easy to interpret. By publishing multiple non-financial reports, it might be difficult to assess what the organization wishes to communicate, as there is no connectivity between the organization's strategy, material areas, stakeholders, and purpose. This confusion and too long reports could be characterized as greenwashing rather than measurable results (Deloitte, 2019). On the other hand, this unclear connectivity and vague claims are practices that, according to the empirical evidence, are an organization's measure towards avoiding accusations of greenwashing. Some firms disclose less because of fear of such accusations. A report would beneficially be either a common framework globally, or a framework specific and consistent for industries. This could increase trustworthiness of reports and decrease possibility of greenwashing and greenwashing practices (Gatti & Seele, 2019).

To properly assess risks and opportunities that a changing climate poses to private and public companies, investors must be able to evaluate and identify the impact of the physical risks associated with climate change. Although physical and transition risks understandably dominate the analysis of the economic and market impacts of climate change, the transition to a less carbon-intensive world will also present some opportunities. Investors need to understand the impact of physical and transition risks brought on by climate change and how they will affect the companies they choose to invest in. Some of the risks have already emerged, and some are growing threats. Investors should understand the intensity and frequency of such risks. This allows them to engage with companies to undertake strategic steps to mitigate these risks. At the same time, the climate change transition brings opportunities to investors in both nascent and established industries (Corporate Finance Institute, 2020).

Large and long term investors tend to prefer risk management and engagement as a strategy to accommodate climate risk rather than withdrawing from investment (Krueger, Sautner, & Starks, 2020). The idea is grounded in studies showing that firms can profit financially when engaging in environmental risk management by lowering costs of capital and increasing income if they initiate and improve their environmental policies. If environmental policies are implemented adequately, these benefits extend to investors, thus providing profits for both institutions and investors (El Ghoul, Guedhami, Kim, & Park, 2018). Economic globalization increases the environmental impact caused by human intervention and human development. Political interaction, technological innovations, and overpopulation are large-scale aspects that call for new definitions of sustainability while also providing for new risks threatening the environment. The climate risks call for strategies and

regulations to accommodate the challenges (Obersteiner et al., 2001; Panayotou, 2000). As climate policies become more stringent and environmental issues increase, investors encounter climate risks when engaging in investments. One obstacle is the policy risk that entails regulations that partly steer the economy away from fossil fuels, thus affecting investments in all sectors and generating new financial patterns globally. Another obstacle is the physical impact risk that entails climate change's adverse consequences. Both the policy risk and the physical impact risk can provide financial impacts for companies and assets, thus institutional investors (Center for International Climate Research, n.d.).

Greenwashing is considered an increasingly turbulent problem. While some intentionally falsely report information through bias or misleading information, some are also unintentionally reporting sustainability wrong. This misleading of shareholders can happen at any level in organizations. This can prove to be costly due high costs of miscommunication, and the cost of the paralysis on actual sustainability measures are high for both the organization and its environment and externalities (Forrester & Forbes, 2022).

3. Methodology

The methodology of a research project presents the overall methods, tools, and research design used to conduct research. It further explains how data can be correctly collected, in line with distinct research questions and research types (Beech, 2014). The following section explains aspects of this study, its research design, and a detailed description of the data collection process, coding, and analysis process. The coding and analysis process chapter will also provide an example of the first and second rounds of coding and theme development. Afterward, the reliability and validity of the research paper were discussed.

3.1 Research design

The research design is essential in planning the research and further structuring steps to undertake throughout the data collection. It serves as a blueprint formed to answer a specific research question, which is the central purpose of this thesis. Research designs can be categorized in many ways, whereas some include descriptive, quasi-experimental, experimental, exploratory, and correlational research, depending on what the research question aims to examine (Dulock, 1993; Swedberg, 2020). The different types of research

have distinct characteristics that differentiate them. Some research questions even demand a combination of several designs or implementations of design features from several research designs to conduct research properly. The design will be affected, and sometimes limited by, the current information and knowledge on the field of study, which also serves as a cause for sometimes including distinct design features (Dulock, 1993). The research design for this study is presented and justified in the following sections, after briefly being presented visually in Figure 1, providing an overview of the essentials.

The empirical data of our study includes exclusively qualitative data. A research strategy is shown in Figure 1, where the steps of the study and a breakdown of the study are presented. This study aims to obtain a clear picture of how sustainability and the quality of sustainability reporting impact investors' decision making process.

In this study, interviews are undertaken to understand better whether and how institutional investors take sustainability in their investment decisions. This analysis contributes to insights on this subject on a narrower level, which is domestic. The respondents were selected based on a homogenous sampling technique. If done right, it helps the researcher gain many insights through small sampling groups, where irrelevant respondents and responses are filtered out. The idea behind the homogenous sampling technique is to focus on preciseness and where the chosen group of respondents is relevant to the research question (Etikan, Musa & Alkassim, 2016). In this research, only institutional investors are included.

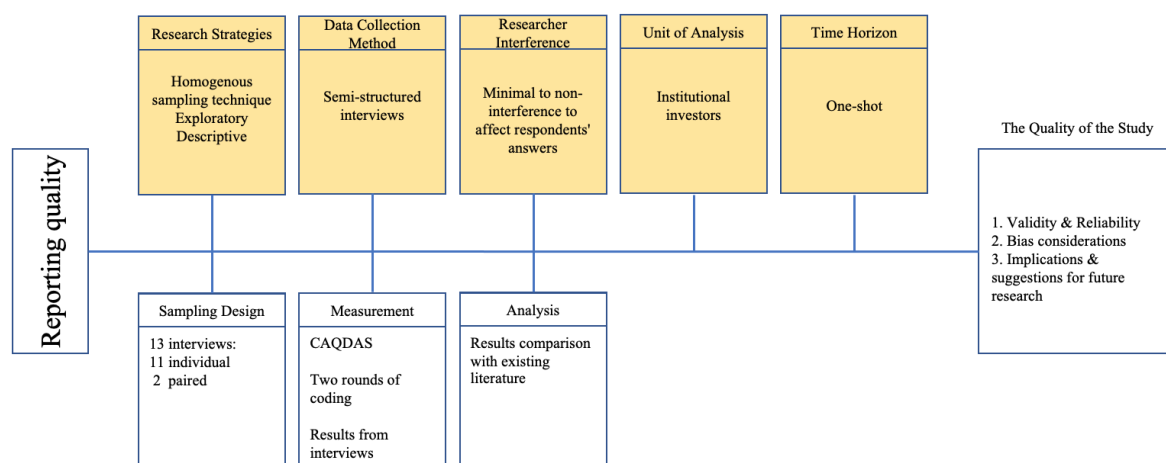


Figure 1. *Research Design of the Study*

3.2 Qualitative Methodology and Tools for Qualitative Research

Quantitative research entails collecting and analyzing numerical data to detect patterns, and averages, develop predictions and causal test relationships or generalize results to a broader segment of the studied population (Bhandari, 2020). This approach has a positivist perspective, meaning it is a number-based, science-oriented research paradigm (Beech, 2014). An opposite approach to research strategies in qualitative methodology. Qualitative research intends to approach real-world phenomena and contextual situations, hence having a phenomenological research perspective. Soft data can explain such phenomena and pertain to words to produce solutions (Beech, 2014). Qualitative research can analyze either individuals or groups, contextual interactions and communications or documents and traces of previous interactions and phenomena (Kvale & Brinkmann, 2009). The approach gathers in-depth insights commonly used in humanities and social sciences (Bhandari, 2020, b).

Distinct methodologies have certain tools for conducting research from start to finish. Behavioral science studies factors that affect how people conduct decisions. Large parts of human behavior are not openly motivated, meaning reasons for decision making often are grounded in the human self and people's uprisings, values, cultures, group identity, and norms. Motives are also grounded in political, psychological, cultural, and social motivations. This makes decision making both consciously and subconsciously affected. Furthermore, networks and contexts of individuals making decisions are also factors affecting decision making, especially in the contexts of the job environment. Therefore, individuals' emotions towards economic, social, and political matters are important to understand in order to understand how powerful decision makers operate. This paper examines how institutional investors say they conduct decision making and what evidence and information they evaluate and analyze when they decide on making investments or refrain from investments. The research question considers the explicit statements from investors grounded in their thoughts on and evaluations of investments. On this basis, it is stated that this paper examines social and behavioral science to uncover reasons for decision making. Social human behavior relies mainly on descriptions of a given environment and its context rather than numbers and vast descriptive details (Abbott & McKinney, 2013). Human processes are evaluated through social behavior and the context that affects behavior. Considering behavior rather than numbers, the psychology study calls for a certain type of scientific approach. This calls for a

qualitative study (Mitchell & Jolley, 2010). Given that the research question is developed based on discovering a knowledge gap, we argue in line with Swedberg (2020) that this is an exploratory study.

The literature review provided insight into the lack of studies on the Norwegian territory about this subject, so we have conducted an interview guide that comprised 23 guiding questions and focused on investors and investment processes, sustainability and sustainability reporting, quality transparency, and greenwashing. The interview guide was used in 13 interviews. The time duration varied from approximately 20 to 50 minutes. The interviews were all conducted digitally through video conferences. This approach allowed us to approach investors from different places in the country, potentially investing in local businesses or knowing about different businesses focusing on sustainability in different parts of Norway. The sample included almost exclusively employees in high hierarchical positions, such as partners, CEOs, CFOs, and Board members. At the beginning of each interview, all respondents were informed that they could choose not to answer or to end the interview throughout the interview. The respondents were also guaranteed their anonymity. One person conducted the interview, while the other took notes of the information provided by the respondent.

Data collection is a crucial part of the research, where gathered data contributes to a deeper understanding of a theoretical framework. Improperly collected data can have significant consequences on the quality of the study, and no amount of analysis can compensate. Purposive sampling is a method where researchers choose the best participants based on their existing knowledge. Respondents had similar job positions; all of them were a part of the investment process and investing on behalf of others. Knowledge gained through writing a literature review was a tool to make the most out of a small sampling group. It made it possible to gather qualitative responses, which led to better insights and hopefully more precise research results. However, purposive sampling has disadvantages that are important to acknowledge as participants can manipulate the data, causing low-quality and invalid research outcomes (Etikan, et al., 2016).

Research questions can be divided into two fundamental types; descriptive research and explanatory research, where questions about certain events and phenomena are asked and further explored why the events and phenomena occur. Descriptive research provides a research enterprise with a good description that is fundamental. Descriptive research systematically and precisely describes events, circumstances, and characteristics of an area or a population of interest. Further, to accurately account for the characteristics of an area or

population of interest, portray the characteristics of an area or population in a certain phenomenon it occurs in, and discover possible connections and relationships between chosen variables in the study (Dulock, 1993). In line with the characteristics of descriptive research provided by Dulock, this study and the research question are considered descriptive. It is descriptive research as the research question aims to describe how the characteristics of sustainability reporting affect institutional investors domestically. The investment behavior of domestic institutional investors is examined to provide insight into the chosen topic.

Interviews can be categorized into two main variants, single interviews, and paired depth interviews (Arksey, 1996; Hannabuss, 1996). Similar with paired interviews, single interviews are a suitable tool for collecting information. Researchers can conveniently gather insight and opinions from the desired population through questionnaires and observations. Researchers can attempt to extract what was presumably implicit or intentionally hidden away through data collected from interviews and by observing the respondents during the interviews. Interviews function as an important tool when researching understudied topics, as they can help researchers discover what they cannot directly observe or discover elsewhere (Hannabuss, 1996). The paired depth interviews consist of one researcher interviewing two people simultaneously to collect different perceptions of the same phenomena (Arksey, 1996; Wilson, Onwuegbuzie, & Manning, 2016). The risks and benefits of paired interviews are important to evaluate if the method should be used in a research study. Firstly, paired interviews can create an atmosphere of confidence for the interview objects. A friendly climate can aid the researcher, and the respondents disclose the desired information (Edgell, as cited in Arksey, 1996; Interviewing Guidelines, n.d.) Secondly, since the respondents participate jointly, they can fill in each other's gaps and memory losses. Consequently, the interviewer is more likely to collect more complete and comprehensive data. Thirdly, the researcher can cross-check factual data with the joint interview respondents if joint interviews are undertaken after separate interviews in the same research. Conversely, paired depth interviews also can create a disharmonic atmosphere among the respondents. There is also a risk of one person dominating the other, thus limiting the information intended to collect. If respondents have different incentives for undertaking the interview, there might be a conflict of interest. These risks can damage the interview as data might be biased due to self-interests or withheld given the poor atmosphere of the interview (Arksey, 1996).

Data was collected through 13 interviews with institutional investors from different companies. Two of the 13 interviews undertaken for this study were paired depth interviews. According to Arksey (1996), both paired interviews were held after four individual

interviews, thus allowing the researchers of this study to verify and further collect elaborations on information that might have been unclear in prior interviews. In addition, both paired interviews contained respondents from the same organization, thus seemingly acting in their organizations' best interests. Given this, it is argued that the possibility of respondents acting based on personal interest is small. It is further argued that this also limits the possibility of collecting biased information due to the paired interviews.

3.3 Data collection

In order to carry out this study and be able to generalize the study on some level, we have approached institutional investors within insurance companies, banks, and private-equity funds. Choosing private equity funds has developed to be an important source of equity in the Norwegian sector. This is a special type of investment fund that chooses to invest in companies not listed on the stock exchange. Behind these funds are big institutional investors (Finans Norge, n.d.), and this is something that we considered a rational choice of sample selection. However, a major challenge we met during our research is the low respondent rate to our requests for interviews, as the answers received from a number of investors is that the sustainability is not their priority, meaning that in terms of generalizability of our findings, it should be noted that our respondent group is biased towards the groups with high awareness of sustainability.

The sample consists of 11 single interviews and two paired depth interviews. Respondents in Table 1 marked as F1, F2, L1, and L2 are the respondents who participated in paired depth interviews. The respondents in the same paired interviews are representatives of the same companies. The different investors interviewed for this thesis are representatives of firms of different sizes based on the number of employees. This is done to ensure different perspectives are represented and strengthen the trustworthiness of the findings. Consequently, the sample selection aims to develop conclusions that apply to the broader segment of institutional investors. Small-sized firms consist of 1-20 employees, midsize firms consist of 21-100 employees, and large firms consist of more than 100 employees. This definition of firm size is consistent with the common evaluation of firm sizes in Norway (Næringslivets Handelsorganisasjon, n.d.)

Respondent	Position Title	Firm Size	Interview Duration
Respondent A	Partner	Big	32:20
Respondent B	Asset Manager	Small	32:03
Respondent C	Chief Executive Officer	Small	34:12
Respondent D	Board member	Big	47:35
Respondent E	ESG Portfolio Manager	Big	23:54
Respondent F	F1: Chief Investment Officer F2: HR - ESG Reporting Responsible	Big	51:41
Respondent G	Chief Financial Officer	Small	37:23
Respondent H	Chief Executive Officer	Small	30:20
Respondent I	Chief Executive Officer	Small	24:54
Respondent J	Head of Responsible Investment	Big	26:42
Respondent K	Investor Relations Manager	Big	20:04
Respondent L	L1: Head of Investment Department L2: Head of Sustainability Department	Medium	30:54
Respondent M	Portfolio Manager	Big	30:27

Table 1. *Overview of the length of interviews, sizes of the firms and hierarchical positions of the respondents.*

3.4 Coding and analysis

The generated data from interviews and surveys often lack structure, and the interpretation of the results can be aggravated. You can use qualitative coding to better organize and explain observation into useful and meaningful theory. It allows the analyst to be self-critical, reflective, and accurate with their findings. The main mean of collecting the data in this thesis was through interviews. In order to make use of the data, we had to transcribe interviews, something that we did in real-time. There are three dominant types of transcription: verbatim, intelligent, and edited. We chose to use the intelligent transcription, as we could omit certain parts that did not add value to the final result (Delvetool, n.d.). In this way, the trustworthiness of the transcripts would not commute, and the quality of the research would be equally good but not as time-consuming as the other two types (Poland, 1995).

Qualitative coding is defined in the “The Essential Guide to Coding Qualitative Data” as systematically categorizing excerpts in your qualitative data to find themes and patterns. Using coding systems makes the analysis more valuable, systematic, and punctilious. It helps you reflect on the topic and results. It also helps with selecting the data that make a valid representation of the collected data and its stories. Qualitative coding brings much valuable insight to the table as it increases validity, decreases bias, accurately represents respondents, and enables transparency, meaning that other analysts can quickly review the analysis (Delvetool, n.d.).

Qualitative coding data involves reading through the collected information, applying codes to fractions of the data, conducting iterative rounds of coding, and grouping those into themes. From this point, you can interpret the data and move a step forward to the final research findings and presentation (Delvetool, n.d.). A researcher gets to make sense of the data in relation to their research topic or even highlight data related to a particular point. An example could be counting specific words associated with a certain subject (Elliott, 2018).

There are different approaches in coding. Selection of coding approaches depends on whether the researcher decides to start with a set of codes, so called deductive coding, or develop codes while simultaneously reading the material that should be coded, so called inductive coding. This thesis has used the deductive approach, also called top-down coding. This was done as it was unclear what the data would provide of information before the coding started, seemingly purporting deductive as the suitable choice. New theories and ideas emerged from the data, proving the selected coding approach was appropriate. The coding

started with the raw data, which was grouped sections into several codes before developing the themes for the selected segment of the research, see the Figure 3 (Delvetool, n.d.).

CAQDAS software was used to code the collected data. First, the analysis was conducted through a round pass of raw data with open coding. Open coding is a first-round coding method which makes it possible to take a large set of qualitative data and develop codes that are meant to be tentative and loose, making them a subject for evolving in further coding processes (Delvetool, n.d.-b). After the first coding round, certain patterns emerged, and it was possible to group codes into categories. Codes similar to each other that generated the same concept were grouped. This provided the foundation for further rounds of coding, where it was possible to re-examine the codes by renaming, recategorizing, and merging the codes we had by finding patterns. Through the axial coding method, and after breaking the data into discrete parts during the open coding, it was possible to draw connections and look for links and relationships between the codes (Delvetool, n.d.). Figure 2 provides an overview of the approach to the coding process.



Figure 2. *Approach to the Coding Process.*

Coding of the qualitative data began with organizing the existing codes. Afterwards, reexamination of the codes again to find patterns and develop a theme was done. Figure 3 provides an example of the coding method, where the first round of code aligns with sentences mentioning some of the codes. In the second round of coding, where original codes were merged, it was possible to identify patterns that made it possible to group different codes into themes. The figure only provides an example to illustrate the process, as the actual number of codes per theme was higher.

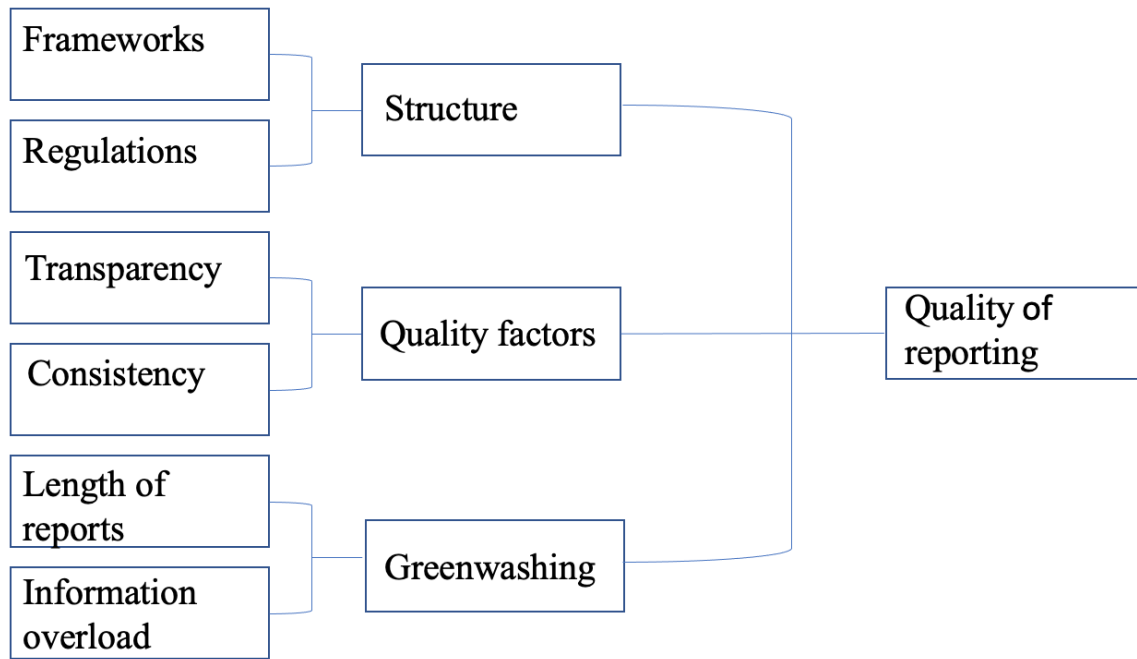


Figure 3. *Example of the Coding Process.*

3.5 Validity and Reliability

The science of research is constantly pursuing providing accurate information and limiting as much biased information as possible. It increases the rigorousness of the study and the trustworthiness of the findings extracted from the research (Roberts & Priest, 2006). Reliable and valid information is a requirement for research studies (Institute for Work & Health, 2016), and it communicates the research paper's state of accuracy and credibility (Roberts & Priest, 2006). Furthermore, providing valid and reliable information demands adequate methodology regarding the research question and correctly applied tools for data collection and data analysis (Flick, 2015). Accordingly, sections elaborating on the concepts of validity and reliability are presented below. The sections also discuss how the research design and the chosen methodological approach of this paper align with the concepts.

Validity reflects the extent to which the study reflects the accuracy of the actuality (Beech, 2014). It can be further classified into internal and external validity. Internal validity is how the study provides a credible relationship between the variables we study and if the data can measure what is intended to measure (Saunders, Lewis, & Thornhill, 2009; Sekaran & Bougie, 2016). External validity captures the degree to which the conclusions drawn from the study are applicable to a broader population beyond the studied group (Findley, Kikuta, &

Denly, 2021). To ensure internal validity in this study, interviews were conducted within 13 different firms of different sizes and with people with different positions within the firm who had influence, insight, and knowledge on the firm's investment processes. This division of characteristics of both firms and individuals' positions within the firms provided different perspectives for the interview question. Therefore, it also contributes to increasing the study's external validity since the respondents of the study represent unique firms and individuals, thus representing a broader segment of people.

Reliability refers to consistency and stability in the findings. Studies are considered reliable if findings are robust because the findings will stay consistent if the study is replicated, however, and whenever (Kirk, Miller, & Miller, 1986; Saunders et al., 2009; Sekaran & Bougie, 2016). Therefore, it is crucial to examine Miller's trustworthiness of a study to ensure reliability in qualitative research (Golafshani, 2003). To maximize reliability, the data collected for this study were retrieved through in-depth interviews with a varied section of individuals with long experience with investing and who represent different companies. To further ensure reliability in the study, respondents were provided with a statement of consent, which disclosed how the interviews were to be conducted, and that their names and their respective organizations would be anonymized in the paper. This was partly done with the intention of allowing the respondents to respond more accurately and truthfully, without the possibility of sharing information they did not want to be directly linked to in the paper. Consequently, perspectives from firms and individuals with different job positions contribute to the increased trustworthiness of the findings. During the interviews, respondents referred to the guidelines, ethical considerations, ESG reports, and questionnaires used for assessing ESG risks.

4. Results and Discussion

The purpose of this research was to identify how sustainability reporting and the quality of those reports affect the decision making process for institutional investors in Norway.

Throughout the study, the following research question was addressed:

How does the quality of sustainability reporting affect institutional investors' investment decisions?

Hence, this chapter presents the data gained through in-depth, semi-structured interviews. This chapter presents the most central findings extracted and sorted out through coding. The presentation of the findings follows the structure of the interview guide, which aligns with the structure of the literature review, as seen through three grouped themes as presented in Figure 4. For simplicity, results and discussion of findings are combined in the following chapter. Each significant finding is presented and discussed simultaneously to increase the clarity of the linkage between findings, discussion, and literature.

Theme	Topic
<i>The Investment Process</i>	<p>Is the ESG pivotal in the investment process?</p> <p>How do investors assess the truthfulness of non-financial reports?</p> <p>What are the most important factors in investors' decision making process?</p> <p>Are some industries or companies excluded from the portfolio and why?</p> <p>Are investors active shareholders?</p>
<i>Reporting Quality and Greenwashing</i>	<p>What defines a high quality report?</p> <p>What are portfolio companies expected to include in their reports?</p> <p>What is investors' take on standardization of reporting standards and possible contribution to quality?</p> <p>Do investors demand certain disclosed information?</p> <p>How do investors define greenwashing?</p> <p>How do investors assess possible greenwashing in reporting?</p>
<i>Reporting Quality's Influence on the Investment Process</i>	<p>Does the quality of reporting matter?</p> <p>How do investors know whether the company reports poorly, but is actually considered green?</p> <p>If companies report poorly, how do investors assess the possibility of them acting sustainable?</p> <p>Do investors compensate for bad quality reports, if so how?</p> <p>If investors are active shareholders, is the quality of reporting something they are involved in?</p>

Table 2. Overview of the themes developed from the interview guide and addressed topics.

4.1 The Investment Process

The interview guide aimed to examine the decision making process for institutional investors in distinct companies. This was done to uncover important considerations in the process and get a thorough understanding of what risks they assess. This section also aimed to uncover what tools different organizations exploit to assess the quality of ESG reports.

4.1.1 Investors and Investment Processes in General

As a part of the interviews, respondents have explained how the investment processes are taking place in their companies. All respondents claim to use standardized processes depending on different industries and companies. These processes involve Due Diligence, where disclosure of ESG is collected, among other information. According to respondents, Due Diligence processes can be costly. Respondents further disclose that the size of investments affects how much they are willing to pay for Due Diligence. A respondents stated that:

"It costs money to conduct Due Diligence processes. For example, if you invest one million NOK, you cannot spend 2 million NOK on Due Diligence. However, if you will make an investment of 50-100 million, 2 million on Due Diligence is considered reasonable"-
Respondent D.

We recognize that respondents evaluate the cost of assessing investments, thus evaluating the financial aspect. This implies that some investors assess the cost of collecting information, such as information on ESG concerns. However, they further underline that investors will refrain from it if the costs, thus the financial aspects, are too extensive compared to the possible investment returns. Consequently, it is fair to assume that the perceived value of financial aspects exceeds the perceived value of ESG concerns for these investors. This aligns with Kordsachia, Focke, and Velte (2021). Their studies disclose how institutional investors typically have a financial-oriented view, which ultimately affects their decision making, thus investments, to the largest degree. We also draw lines to the findings presented by Eccles and Klimenko (2019), which show that while many express that they consider sustainability measures in their operations, sustainability assessment may counter with shareholders' demands, which often are financial. Consequently, we argue that many investors consider

sustainability reporting as an important measure. However, if assessing it appears to be too costly, it is often considered an investment to refrain from because it would happen at the expense of financial objectives.

4.1.2 The Assessment of ESG in Investment Process

All respondents mentioned ESG considerations as a part of their investment process; even so, institutional investors disclosed different emphases on their importance in the decision making process. Some respondents stated that ESG was an integrated part of the decision making process. As part of the integrated process, some disclosed using a document that they need to work through in the form of several environmental, social, and governance factors that need to be fulfilled to make it further in the investment decision making process. When asked which of the ESG factors they considered the most important ones, the answers were very different. However, the majority indicated that ESG is an established term where all factors are equally important. Many have stated that when investing in Norway, they do not have to worry much about governance because laws and regulations in Norway are setting strict boundaries when it comes to corporate governance practices, such as gender diversity. They have stated that if discovered that governance practices are not fulfilled, they will refrain from the investment.

"ESG is an integral part of the investment process, especially governance. All major concerns on governance can overturn the investment"- Respondent L.

Some of the respondents labeled Environment as the most important factor, while others had concerns about the Environment becoming the most important factor of ESG. Among them, a shared opinion was that the social aspect of ESG did not get enough attention, and they hoped that it would change in the future, as there is a belief that there is a domino effect in the ESG concept. A respondent stated:

"If people are not well or do not enjoy the Environment or communities they are in, they cannot take care of the Environment. It's that simple. If you are well, living well, you will be able to take care of things around you to a greater extent"- Respondent C.

Respondents seemingly assess the different ESG factors variously. The valuation of the factors in the respective firms varies to the degree that some of the factors are little examined. In contrast, other investors demand that all possible investments need to consider the ESG factors respectively in order for them to invest. We draw lines to the findings presented by Eccles and Klimenko (2019), which show how many investors express ESG considerations as important, but not all assess them. In line with sustainability trends (Kolk, 2005), we acknowledge that investors might wish to identify with the attributes fronting sustainability measures. Even so, in line with Eccles and Klimenko's (2019) material, we also recognize that there is a possibility that respondents may not always be expressing their opinions genuinely. Their answers may be affected by sustainability trends, thus maybe providing some misleading information, in this case, on how they value sustainability and distinct ESG factors. This might imply that they cannot define the findings as truthful with absolute certainty. Even so, findings uncover similar information from different interviews and organizations, strengthening the degree of certainty for the researchers that answers are truthful. Although some respondents mentioned that the environmental part of ESG is the most important one, we argue that based on companies' annual financial non-financial reports, as well as their ethical guidelines, it appears unlikely that the respondents would invest in companies that have major issues with the social and governance parts of ESG. Result: Several respondents used a thoroughly worked out questionnaire to cover different topics within ESG that align with their strategies, values, and KPIs. This structured approach gives them a basis for ESG rating and makes them aware of risks. According to respondents, mapping ESG risks within an organization gives them the possibility to decide whether that risk is manageable or not. For respondents that also act as active shareholders, this risk awareness gives them a foundation to decide whether there is anything that they, as active shareholders, can do to minimize the risk. There is also a shared opinion that the financial aspect of the firm will be better after the integration of the ESG policy, a respondent elaborate on the topic:

"The financial values in the company will improve after integration of ESG in the business model of the company, and in distinct company's processes" - Respondent F2.

Respondents seemingly exploit different frameworks and tools to assess potentials, risks, and return of investments, of the different investment possibilities. This aligns with studies showing that institutional investors as professional financial institutions (Corporate Finance

Institute, n.d.; Regjeringen, 2014) have proficient capabilities, hence having access to greater resources to assess such factors. They have developed their own strategies in the lack of such tools and resources. This has further underlined findings by Davis and Steil (2004), showing that their capabilities as institutional investors allowed them to operate in complex environments. However, they might lack some of the resources foreign institutional investors have access to. Respondents' displacements on self-developed tools for sustainability assessment may imply that current tools, and current standards for sustainability, are insufficient in explaining the factors institutional investors wish to consider for possible investments. Another reason behind their assessment of the situation and ESG scores is that ESG data was inconsistent and unreliable, leading to unfair ESG scores (Robeco, n.d.). Some companies were getting higher ESG scores than deserved; as institutional investors are significant players in the market, some of the pressure lies on them to fight this trend and identify those companies (Aviva Investors, n.d.). Respondents disclose different factors they assess, and they seemingly value different factors distinctively. Hence, the tools they use to assess sustainability vary. We argue that the organizations' reports on sustainability and how they are to assess sustainability, in general, are often unique among organizations. Distinct tools may not be beneficial for all organizations to use. In light of this, we argue that current Norwegian law and regulations should extend their requirements on sustainability reporting so that organizations include adequate information for shareholders and stakeholders to assess. This might imply a need to broaden the regulations and extend the current requirements of notes on organizations' sustainability measures. We further believe that the assessment and evaluation of the different ESG factors might call for distinct frameworks to be developed to cover the different factors adequately. Those regulations and frameworks might need to be generalized, as not every factor is relevant for every company, sector, or industry. Required reporting demands could be beneficial to the organizations that only disclose required information and not the relevant information for them. However, tailoring requirements on a narrower level takes time and resources, and it might take time before new standards or regulations are implemented on a regulatory level (Institute for European Environmental Policy, Institute for Environmental Studies, ICF GHK, Naider, 2015).

4.1.3 Risk Assessment in Investment Processes

In order to determine whether an investment is potentially good, all of the respondents listed growth as essential in contributing beyond financial returns, such as learning, competence,

international potential, or becoming better in reporting ESG. For instance, a respondent explained that:

"A criteria we have for investments is that companies should contribute to something more than just financial returns, they must have sustainability in the foundation of their business model"- Respondent H.

As a part of the sustainability business model, interviewed investors raised concerns about supply chain risks and to which level companies depend on it, and about non-sustainable industries, and have different approaches to minimize those risks. When doing Due Diligence, some investors examine the supply chain and conduct Q&A with potential companies they want to invest in to see how dependent they are on the parts of the supply chain that are not considered sustainable. All investors are aware of potential risks and are willing to take the risks they consider manageable, but if there is nothing that can be done with the supply chain, they likely refrain from investing. They all expressed concerns about geographical risks:

"We can achieve a lot if we exclude investing in companies that operate in certain countries. Geographical risk is an important element that connects with sustainability. There is a big difference if you run oil extraction in Norway versus, for example, in the USA or Saudi Arabia"- Respondent D.

Another respondent stated that supply chain check is a part of their standardized investment process:

"We look very closely at the supply chain, where it is located, how dependent the company is on it, and whether there is any risk of any significant breach, there is usually the highest risk."- Respondent L.

The respondents agreed on the importance of looking into the supply chain and customers of the companies they choose to invest in. Some of them have made requirements that they need to change a supplier, or let a customer go, as it does not align with their strategies and portfolios and can be damaging. Some have even mentioned greenwashing in connection with this, as they are presenting environmentally friendly companies but are not thinking

about their customers with high levels of emissions. A respondent has also mentioned that greenwashing can come from the investors' side as well:

"There are different stages of greenwashing, there is, for example, greenwashing on the investor side, where a fund claims that they are green, and applies the basis of exclusion principles, something that is not enough." -Respondent L.

Results indicate that institutional investors demand greater and more detailed disclosed information from potential investment subjects. We recognize that despite respondents not always using the term ESG, the factors they explain as considerations align with the concept of ESG. Consequently, findings repeatedly show that institutional investors assess possible investments' environmental, social, and governmental aspects. The growing focus on ESG in investment processes shows how aspects of ESG have become increasingly crucial in investment processes, thus removing the sole focus on financial aspects from investment processes (Zhou, 2022).

As priorly discussed, findings show how institutional investors use certain tools to identify what investments to refrain from based on, for example, distinct unattractive industries, products, or strategies. The findings presented above suggest that some investors also consider the value chain of the entity they consider investing in. This implies that institutional investors, as supported by Andersens (2003) studies on Norwegian institutional investors, more than priorly assumed, often function as active owners by steering the entity in a more desired direction through implementing preferable actions and excluding undesired actions. Undesired actions, in this case, surmise, appear to be unwanted parts of the value chain. This further supports prior findings showing that Norwegian institutional investors exploit distinct screening methods to evaluate investment possibilities (Scholtens, 2013). We argue that by excluding certain companies, sectors, and industries, they are also trying to protect themselves from greenwashing.

As respondents stated multiple times, one of their concerns is a geographical risk, which is, in our opinion, a supply chain-, operational, and product risk. Suppliers are operating in countries with poor site locations on contaminated lands, with a high degree of employee dissatisfaction, health problems, and safety issues because of issues like human rights (Robeco, n.d.). Respondents' major concern lies in the social aspect and governance part of the ESG when referring to the geographical risk, like child labor, living wages, and other basic needs for humans are in danger, and not ensuring that companies are not involved

in this can have consequences along with financial consequences, and reputational damage for both investment companies and the company that was invested in. The respondent stated that greenwashing could come from the investors' side is also supported by an article published by Aviva Investors in 2021, where investors present themselves as sustainable without making their portfolios more sustainable (Aviva Investors, 2021). However, the investors face this challenge because there is no agreed way of measuring the negative effects of production on society, such as geographical location (Eccles & Klimenko, 2019).

Some respondents shared that they have decided not to invest in the industries such as tobacco, alcohol, oil and gas, shipping, weapon production, and cannabis, regardless of the potential financial return. The main reason was that those companies do not align with their strategies, KPIs or portfolios. They have a responsibility toward many other stakeholders. On the other hand, there is an opinion that the oil and gas industry serves an important role in the transition toward green energy. As long as they work towards FN goals and have an energy transition in the plan, they will stay a part of the portfolio. They choose to exclude businesses within the industry that are not trying to change anything. A respondent stated during the interview:

"Energy sectors are a good example because people exclude those companies and say that one should not invest in them, but it is a useful resource in the transition. Then we as investors must help make it possible, and rather exclude the worst companies in those industries; those who do nothing about it, who have the highest emissions, who do not show responsibility"- Respondent M.

Findings show how institutional investors are reluctant to invest in certain industries, even though they might provide good financial returns. They do, however, see such investments as profitable if it contributes to the transition to a greener economy. Consequently, and despite respondents not explicitly exploiting the term exclusionary screening, we argue that this method is essential in many investment processes to exclude some investments. We further recognize that investors also exploit norm-based screening, as they refrain from investments that do not comply with norms and institutional standards, such as the desire to invest with consideration to sustainability and futuristic well-being (Scholtens, 2013). We surmise that refraining from certain investments that contradict the concept of sustainability might also be a consequence of the prominence sustainability has gained across the globe, as shown by Kolk (2005) and Petrassi (2020). However, it was argued that exclusively using negative

filters, such as norm screening, rather than using a combination of sustainable strategies will have a worse outcome (Folqué et al., 2021). Respondents did not express that they are using different strategies to build their portfolios, but they did mention important factors such as growth, impact, and excluding companies or industries. In our opinion, there is a lack of theoretical knowledge regarding the different investment strategies.

4.2 Reporting Quality and Greenwashing

ESG reporting and the quality of reporting were part of the interview guidelines, but the questions came naturally during the interviews. Respondents expressed concerns about reporting and an understanding that sustainability reporting is a relatively new theme and that companies are unsure which information to disclose, what to expect, or how to trust the disclosed information.

4.2.1 Investors' Perception and Evaluation of Sustainability

Respondents were asked to explain their views on sustainability. All the respondents had different definitions of what sustainability is; the bottom line was they all were associating sustainability with the balance in resource use; a respondent that does not go into companies as an active shareholder stated:

"It is about running your business in a way that the world can tolerate, which means that it can be run further in an infinite perspective." - Respondent M.

The definition of an active shareholder, where they actively can contribute to the changes within the company stated:

"...Our vision is to create tomorrow's society, it will be in place for future generations" - Respondents L1 & L2.

Respondents view sustainability and environmentally friendly products as more expensive, which was a barrier a few years ago since companies were looking at that as a cost rather than an investment. However, according to some of them, this has changed, as exchanging one of the suppliers for suppliers that are more expensive but more environmentally friendly is

beneficial for their non-financial reports and their marketing strategies. Many of our respondents have stated that sustainable products, supply chains, and acting according to norms are usually more expensive. However, they also understand companies that cannot do many things at once, as long as they are honest about it.

"People have started to choose more expensive products because then they can report that they have done something good and push the competitor to operate more sustainably. Such decisions drive a domino effect on the sustainability front." - Respondent A.

There has also been an agreement that price is a barrier, as price-focus is dominating the market; however, in respondents' opinion, this could be used as an advantage if the company is transparent:

"Honesty in the fact that it is not financially suitable for the company to choose a more sustainable product can also be an advantage." - Respondent F.

As this master thesis partly discovers the linkage between sustainability reporting and how institutional investors perceive its quality, it was essential to understand how the different institutional investors interpret sustainability. The question was important to make sure that the information we collected on sustainability came from a similar understanding and perception of what sustainability is. As accounted for priorly, all investors consider ESG in their investment processes as a foundation for organizational growth; likewise, those factors are considered essential for working towards and achieving sustainable operations. Responses on sustainability are similar to the answers on ESG, in the sense that institutional investors consider them all to be important but dedicate the factors to different importance and attention. This finding further purports how institutional investors value social, environmental, financial, and governmental factors as important considerations in investment processes and sustainable growth. A broader audience agrees with the respondents' opinion that transparency and honesty can be used as an advantage; Patagonia, a clothing retailer, has received a lot of positive reactions for transparency in its sustainability statement (Edwards, 2022).

Respondents' observation that customers are more willing to pay more agrees with market research done on the U.S. and Europe territories, where 66 percent of U.S. citizens stated that they were willing to pay more for more sustainable products. In comparison, in

Europe, that number was 78 percent (Aviva Investors, 2021). All respondents are long term investors, so their main goal is to get financial returns, but some of them are more willing to sacrifice a certain percentage of return by excluding businesses that are not sustainable and allocate their capital among businesses that contribute to something more. A respondents mentioned:

"Businesses must be environmentally friendly, but we do not make investments that do not give us a good return. But we also do not make investments that are not sustainable. It's black and white." - Respondent A.

When asked which of the factors is priority, return on investment (ROI) or the sustainability, answers involve that those go "hand in hand", because in today's world, a firm cannot expect to survive on the market if changes are not made:

"There is a balance between financial sustainability and sustainability within ESG" - Respondent G. "One does not exclude the other. We are not a pure impact fund with no requirement for profitability. We have at least as high ambitions for returns as we have for ESG." - Respondents G.

The second group is the one that is focusing on the financial returns and that has not changed the portfolio by excluding industries. They have been investing in the same companies with great returns.

"On the environmental side, we are not so exclusive that we do not invest in the oil or emissions industries. We are more concerned with what the company does with these issues if it adapts to the new future, but it must also fit into our portfolio; given what type of sectors it is in, how much exposure we have in that sector today." - Respondent M.

The triple bottom line philosophical approach is grounded in the theory that profits are equally important as the social and environmental aspects (Farnham, 2021). Companies that disclosed exclusively financial information received much criticism because of their focus on profitability and profit and lack of disclosed non-financial information (Şahin & Çankaya, 2020). Our results indicate that the majority of the interviewed institutional investors are willing to sacrifice a part of the short term financial return to contribute to society and/ or the

environment. This supports the results provided in the PwC's global annual research report, where 79% of the surveyed institutional investors agreed on the importance of ESG risk; however barely 19% were ready to sacrifice more than one percent of their financial returns to reach committed ESG goals (Chalmers, Cox & Picard, 2021). However, the nature of the investment has changed. As empirical evidence showed, institutional investors were forced to take ESG considerations in its portfolios. The theory is not about financial returns but rather about contributing to society (Zhou, 2022). As proven, companies are not suffering financial losses if they implement some of the responsible strategies. Exclusionary screening, as one of the strategies that our respondents have been using, comes with certain financial losses, but their capital allocation and focus on sustainability have been profitable. However, some respondents combine strategies and use exclusionary screening within the industry rather than excluding the whole industry from their portfolio. It can be argued that even high emission industries are playing an important role in the green shift. Industries such as oil and gas or shipping are still crucial, and they should not lose their funding but rather work on the shift towards set KPIs. On the other hand, there is a danger that incoming capital will not set a good example but rather make an impression that sustainability is not a priority.

4.2.2 Non-financial and Quality Reporting

Non-financial reports are supposed to make it easier for institutional investors to get an overview of the situation in the company. When asked to describe a high quality non-financial report, the respondents had many different answers. A respondent compared sustainability reports today with CSR reports 20 years ago. CSR report back then was used as a marketing and profiling tool. They had CSR brochures that disclosed everything about emissions and other aspects of the firm on more than 100 pages on paper. The respondent stated that quality was measured in terms of quantity, before mentioning the disagreement in that approach:

“It was a derailment, because the more pages there were, the better it was. I am concerned that good reports are measurable, that others can double check the information, they are open, they are simple and clear on what they are measuring and why.” - Respondent D.

There was a shared opinion that such a report does not exist on the market yet due to the lack of transparency, comparability, standards, laws, and regulations.

Quality of non-financial reports was in some empirical studies measured through quantifying the information, measuring the number of sentences, pages or words (Brammer & Pavelin, 2008). This research was published 14 years ago, something that can imply that in that period quality, in fact, was measured through quantity. However, institutional investors are demanding more transparency in the market, and their definition of quality has transitioned gradually. The statement from the respondents supports Hopkins theory (as cited in Helfaya & Kotb, 2016), that the quality of disclosed information for investors can be defined as how easily investors can read and interpret information. Long reports, as well as providing multiple reports has done the opposite of the intention. Companies are, in hope to disclose sufficient information and address issues, provide enough transparency without being accused of greenwashing. Investors are not seeking descriptive information to that degree, especially the one they cannot trust. Per today investors use a lot of resources to do the Due Diligence, to discover which parts of the reports are truthful, to understand what companies are trying to achieve, and the changes they are willing to make. For investors, it is easy to see when a sustainability report is a bought product, or a marketing tool, as CSR reports the respondent mentioned were. We argue based on the information we gathered during the interviews, that a genuine approach to the reporting, and consistency in reporting style will contribute to more transparency on the market, and ease on the resource use for investors.

All of the respondents have mentioned the excitement about the incoming taxonomy in Norway, and some of them have already had a pilot of the taxonomy for the last accounting year, something that was welcomed well by other stakeholders. All of the respondents have published their own non-financial, sustainability reports. In their experience, it was hard to know what to report, how to do it, which framework to use. Additionally, two respondents mentioned the problem of getting enough, truthful data at the right time. Organizations are facing a big challenge where they need to measure and report on things they never have measured before, something that takes time and consequently leads to delays. respondents have shown a great amount of understanding when it comes to the “bad” reports:

“It is still a very early stage for many, and it is demanding for many companies that they should have the resources and knowledge for this.” - Respondent G.

According to Eccles & Klimenko, very few firms have reliable systems for measuring ESG performance and consequently lack the ability to provide high-quality non-financial reports (Eccles & Klimenko, 2019). Due to this lack of structure and experience, as our results suggest, it may be hard to disclose information at the right time. The quality of the non-financial reports is improving, but there are many barriers that companies meet and challenges they need to overcome (Eccles & Klimenko, 2019). We can be critical towards the inability to disclose information at the right time. Companies are aware of the current situation and pressure they feel for disclosing non-financial information. This is not a topic that has arisen recently, companies are aware of the phase they are in, the lack of knowledge, structure and could have been working on the measuring and reporting over a longer period of time to be able to provide needed information. On the other hand, such measurements and changes require resources, so if a company does not have an opportunity to do so, and other things that are keeping the companies in business are prioritized, such delays are not so uncommon.

4.2.3 Greenwashing in Reporting

Quality was previously associated with quantity, number of pages, and long reports. Most respondents showed skepticism and resentment towards long reports during the interviews and characterized them as greenwashing. In their opinion, to become more sustainable, one needs to learn about sustainability during the process, starting with smaller reports that will evolve and be extended over time, trying to make them better next year. More sophisticated demands from investors, in their opinion, are something that will push everyone in the right direction, one needs to be willing to do the job and not take shortcuts. This is the path toward high-quality, transparent reports, as some respondents' opinions do not exist today. A respondent mentioned that:

"It is clear that many people spend time making a very good report and spend time on it, instead of working on it. It may be a greenwashing, but you have to focus on getting better rather than making very good reports." - Respondent A.

Another respondent had a similar statement:

"In my experience, when I find 200-page wonderfully embellished reports, it is greenwashing too. It is so perfect. They have bought it through consulting companies as a product and have not even worked with it in the organization." - Respondent F1.

Seemingly, the interpretation of a quality report has seen a shift over the years. Whereas respondents say the definition of quality has transitioned from the degree of quantitative information to shorter, more specific reporting, we also argue that some of the information the reports include today has a narrow focus on certain key points that quantitative data may fail to account for. For example, numbers may be insufficient in explaining certain parts of an organization's strategies or certain effects the organization has on its environment and externalities. Consequently, the numbers institutional investors purport are insufficient today and may be replaced by soft, qualitative data to describe the phenomena of institutional investors and investment's impact on other factors than financial (Beech, 2014). We argue that broader requirements on notes on sustainability could be beneficial to include in the Norwegian legislations §3-3c on sustainability reporting for institutional investors' simplicity when evaluating investments (Regnskapsloven, 1998, §3-3c). This skepticism is justified, as Deloitte's survey concluded that the average size of a report from big companies is 151 pages. Norwegian companies publish multiple extensive reports that are not easy to read or understand and are repetitive (Deloitte, 2019). Respondents' references to "perfect" reports can be an example of Executional Greenwashing, where reports use pictures of nature or renewable sources of energy and confusing and misleading graphs (Parguel, Boreat-Moreau & Russell, 2015). Perfect reports in other respondents' opinions do not exist, so one report is long, perfect, and too descriptive with vague statements, another argument that companies are not sure what to report on and the previously mentioned fear of being accused of greenwashing.

As some respondents expressed skepticism towards long reports, as well as being skeptical towards the report as they believe more effort should be put in the execution of sustainability measures and less time designing a thorough report, we argue that current standards for reports are insufficient in meeting some institutional investors' demand. Even so, not all respondents have expressed support for similar claims. This surmises as an indicator that institutional investors, whom we have argued are a heterogeneous group, have distinct preferences when it comes to how sustainability should be reported. We still argue that the current regulations for standards are inadequate based on institutional investors' preferences.

Greenwashing was defined as a gray area, as there is no clear definition of what greenwashing is. One of the respondents mentioned that many have been in this business for a long time and that competent financial institutions will eventually discover greenwashing. Fear of reporting was one of the most frequently used expressions when discussing greenwashing during the interviews. According to the interviewed investors, companies they invest in, but also the companies they work for are afraid to report information that they are not sure about because of the potential scandals or punishments.;

"There is always a risk of greenwashing, but we have to do our best. We are in an early stage in discovering this topic." - Respondent M.

They have a responsibility towards stakeholders and reputation to maintain, which can be costly if accused of greenwashing. Everyone agreed that there was a lack of transparency because of the fear of being punished for reporting misleading or false information unintentionally:

"It is much better to show transparency and say we are working on this. We know we are not quite there, but we put work into it. Better than saying they are sustainable." - Respondent F1.

The answer that differed the most regarding greenwashing was that it is not so much their concern, as they are not looking at the financial return and not investing in exclusively "green" companies, where many sustainable aspects have been presented turned out to be false. A clear definition for greenwashing, as well as standards and laws regarding the reporting, is something that will prevent greenwashing was something that all respondents agreed on, with an exception that a definition for greenwashing will never be clear:

"With concrete guidelines, there will be less greenwashing, but I also think that there will not be a clear definition of what greenwashing is and entails. Even so, companies should understand if they are crossing a line in regard to reporting false or misleading information" - Respondent E.

Empirical evidence has shown that there are a lot of greenwashing definitions on product, firm, or service level. However, without regulations, the gray area the respondents referred to

is giving companies a place for not considering all aspects of their products or services. The most common approach is disclosing misleading information (de Freitas Netto, Sobral, Ribeiro & Loares, 2020). Such practices are most common for the banks, where they act as creditors, are officially committed to the Paris Agreement, and report minimal climate risks. However, their customers indirectly expose them to higher climate risk (Aviva Investors, 2021). According to Gatti and Seele, industry-based codes of practices, or global regulation, will form better reporting practices, consequently decreasing greenwashing practices (Gatti & Seele, 2019).

4.3 Reporting Quality's Influence on the Investment Process

To answer the research question to see how and to what extent the quality of sustainability reporting influences investment decisions, we have asked many questions about the investment process, reporting quality, transparency in the market, and the possibility of greenwashing through reporting. To some extent, the following section connects the previous results and discussion chapters to discover the relationship between institutional investors and sustainability reporting.

4.3.1 Implications of Quality Reporting in Investment Processes

Everyone is in the learning phase, trying to adapt to the new frameworks, demands, regulations, and expectations, but all investors have seen progress in sustainability reporting in the last period. It was mentioned that a lot has happened in this field in the last three years, and the majority are optimistic about the reports' progress and evolution. However, they do not find it enough; lack of transparency, and lack of standards, make it hard for them to trust the reports. In decision making processes, institutional investors screen what is available and aim to establish an overview of the organization. If reporting is considered to be of bad quality, it is a risk they need to consider. Untruthfulness of the disclosed information is another risk that needs to be considered, something that, in their opinion, will implicate a financial risk. ESG-rating is only an indication for many, but this is a risk they actively can try to minimize and work on for active shareholders. On the other hand, others need to demand better and more high-quality company reports. It was stated that:

"We are a demanding owner; we require a lot of financial reporting and reporting within sustainability." - Respondent G

All of the respondents do their research, and for many, it is a long, costly process. During this process, they can form their report to their standards. Consequently, reporting quality does not represent an issue for them, as this was justified by the fact that it is still early and that companies are still trying to figure it out. When directly asked how the quality of sustainability reports affect their process, the answer of all respondents can be summarized in the statement that Rapport has nothing to say; they can get better at it because we do our analysis and research, and we will not invest in a company that is bad on other fronts.

This finding surmise as highly important for the research question of this paper. The interviewed institutional investors disclose that they do not consider current standards and laws sufficient when evaluating other entities' sustainability impact. Hence, many investors have compensated for this lack by developing their tools for such assessment. Assessing a possible investment is time-consuming and costly, thus considered a financial risk by many institutional investors. As institutional investors are concerned about greenwashing, the possibility of being the subject of greenwashing, or the costly and time-consuming process of discovering possible greenwashing, is also surmised as a financial risk for institutional investors in Norway.

4.3.2 Investors Definitions on Quality Reporting

Although the definition of the high-quality report was not as clear, all of them had a clear vision of what they were expecting from the companies they were investing in. All respondents had certain claims of what they were expecting within ESG before investing in mapping risks. When becoming an active shareholder, they work towards implementing better routines for non-financial reporting, choosing frameworks that they find appropriate according to the KPIs, goals, and business model. A respondent explained:

"For some, it makes sense to become Miljøfyrtårn certified, and then they choose to go in a race with documentation and reporting. For others, there is more focus on safety and the environment; therefore, ISO certification. Other companies think Bicorp is a better fit. Some look at the Nordic Sustainability report for SMEs (small-medium-sized enterprises). It is

better to support and guide each individual than to force everyone to report equally." -

Respondent G.

This opinion was not common among all of the active shareholders; some have stated that they have a predefined template that they want to use in all the businesses they actively go in, as they are familiar with that one, and it will save time and resources and will be easier to implement. Other respondents that are not working as active shareholders are expecting some kind of report, depending on the phase of the company they are investing in. They understand the companies that are start-ups and are in the early phase without enough resources or knowledge to provide high-quality non-financial reports. On the other hand, high-quality reports for companies listed on the stock exchange are required. Moreover, a common agreement among all the respondents is that every company needs to start with the reporting and use the "learn by doing" method; they all expect to see progress. An important factor for them is to compare reports, not across companies or industries, to see the progress from year to year within the same company.

According to the study that Deloitte did where they analyzed the 50 largest companies in Norway. They saw a clear correlation between the size of the company and reporting quality. Half of the best reports came from the ten largest companies in Norway (Deloitte, 2019). The high quality of their reports can result from sophisticated and strict demands from investors. Even if the Taxonomy is not in force, the Ministry of Finance in Norway encouraged all the companies that would have had to follow the law and implement the taxonomy to include taxonomy-related information in their annual report (Regjeringen, 2021). EU Taxonomy is a classification of information and is a standardized framework with certain requirements according to the company's size (NHO, n.d.). Even the investors that did refer to sustainability reporting as "one size does not fit all", mentioned Taxonomy as something good, in a context that finally is something happening.

5. Conclusion

This final chapter summarizes the key findings of the master thesis and attempts to answer the research question: "*How does the quality of sustainability reporting affect institutional investors' investment decisions?*". It also provides insight into the implications of the study and suggestions for further research to be conducted on the topic.

5.1. Master Thesis Summary and Conclusion

This study set out to determine the effect the quality of sustainability reports has on institutional investors investment decisions domestically. The phenomena of interest demanded qualitative research, conducted with a research design containing tools for exploratory and descriptive research. Based on 13 interviews with 15 respondents, this thesis has hopefully succeeded in providing a deeper insight into the research question "How does the quality of sustainability reporting affect institutional investors' investment decisions?" which has served as the foundation for this master thesis.

A growing body of domestic and foreign literature has investigated the concepts of sustainability reporting, institutional investors, and the importance of sustainability and ESG concerns for investment decisions. Reflecting on the current information, few studies on how the quality of sustainability reporting affected the decision of institutional investors in their investment decision making. This was found to be particularly interesting, as the growing market power of Norwegian institutional investors (Andersen, 2003), the growing attention towards sustainable investments globally (Vasantham et al., 2021), and the limited domestic regulations for sustainability reporting currently are brief in its requirements (Regnskapsloven, 1998, §3-3 c). As it appeared to be little studied, it was put in the same context for the research question, studying the phenomena of institutional investors and sustainability reporting, as this was prominent globally (Eccles & Klimenko, 2019).

This study has shown that investors greatly consider sustainability reporting in possible investments for their investment decisions (Cabinet Office, n.d.; Chalmers et al., 2021; Eccles & Klimenko, 2019; Farnham, 2021; Kløw, 2011; Krueger, Sautner, & Starks, 2020). Institutional investors assess ESG in the investment process, but have a distinct emphasis on the different factors (Finskas, 2011; Storebrand, n.d.; Ministry of Finance, n.d.). An important finding is the perception of a good quality report for institutional investors, which appears to be a report that includes aspects institutional investors consider when investing. In the case of sustainability, all institutional investors demand an elaboration of ESG factors. As institutional investors' considerations vary to some extent, a report of quality is not necessarily universal for all investors. This study has found that, generally, institutional investors accommodate poor sustainability reporting and counter them with existing, or internally developed tools to assess risks connected to sustainability and ESG. If the process of discovering possible ESG risks is too costly, institutional investors are likely to refrain

from them. This implies that institutional investors consider notes on a broader segment of sustainability and ESG than what is currently required by Norwegian legislation, which is limited to certain notations (Regnskapsloven, 1998, §3-3c). The study also found that institutional investors are aware that greenwashing occurs, both with and without intent, as also shown by Forrester & Forbes (2022). Consequently, we argue that institutional investors can be apprehensive towards reporting on sustainability, if they lack insight on how their organization has integrated sustainability. However, most believe that institutional investors, as professional financial institutions, have the ability to eventually detect greenwashing (Respondents M and G).

The perception of quality sustainability reports varies in-between institutional investors, as they emphasize different factors as important and have different considerations to show in regard to their stakeholders and shareholders (Moravcikova et al., 2015). Therefore, it is important to highlight how institutional investors define a high quality sustainability report. Figure 4 presented below is an illustration of key findings extracted from the interviews. It discloses how key features in sustainability reporting, as presented in the midsection of Figure 4, have the ability to define either high or low quality of a sustainability report. For example, if the sustainability report includes precise notes on all ESG factors, this would be interpreted as a sign of high quality that is desired by institutional investors in the report. Conversely, if the report lacks adequate disclosure of parts of ESG, it will purport low quality in the report. Another example, as shown in Figure 4, shows how easily interpreted reports are signals of transparency and truthfulness, thus suggesting the report is of high quality (Hopkins, as cited in Helfaya & Kotb, 2016). We remark that some key features are high quality and some low quality. How institutional investors assess the value of the different key features vary, consequently, we argue that not all key features necessarily have to be defined by high quality for institutional investors to consider a sustainability report as a high quality product.

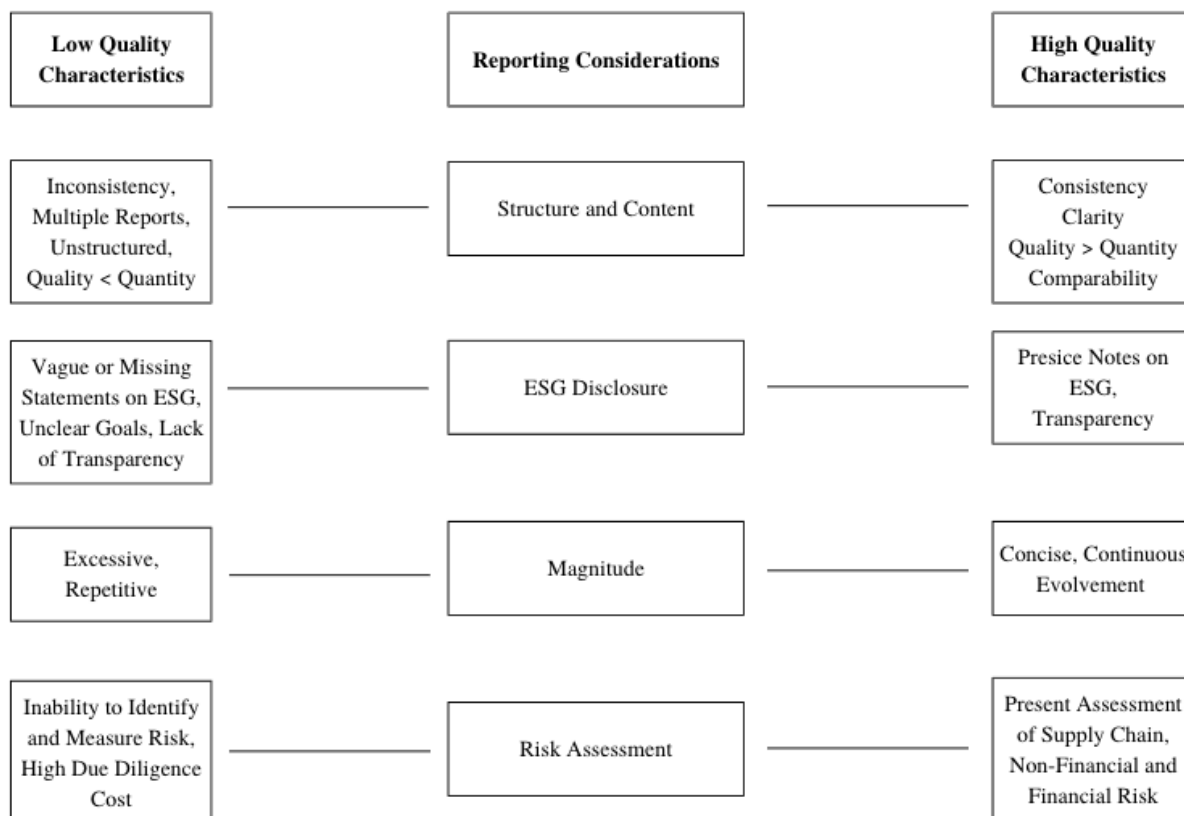


Figure 4. *Overview of Results - Characteristics of Low and High Quality Reporting*

We argue that current sustainability awareness globally has pushed most institutional investors to consider sustainability, in line with Amran and Ooi (2014). As respondents mentioned ESG, in their investment decisions, thus implying that notes on these manners must be present in sustainability reporting. Poor reporting on sustainability might cause institutional investors to refrain from an investment unless they can, without too great a cost, assess possible risks on their own in the lack of adequate reporting from the entity in which they wish to invest. It is evident that, despite institutional investors being perceived to have a narrow financial orientation in their investment behavior, sustainability contributes to the foundation for investment and future growth (Respondent F2; Şahin & Çankaya, 2020). Hence, we argue that good sustainability reporting is highly necessary for quality reporting and for investors' decision making process. Good sustainability reporting, however, is a subjective manner (Virlics, 2013). Institutional investors demand different reporting styles and standards. Although most of them demand non-financial reports, institutional investors are critical towards reports that are overwhelming with information and repetitive notes. This research has shown that the lack of quality sustainability reporting affects institutional

investors' decisions in the manner they are using more resources. Due Diligence regarding sustainability can be costly, time consuming, and considered to be a poor investment if institutional investors see a higher risk in investment than expected (Respondent D).

Overwhelming and repetitive information, as well as vague disclosed statements, lack of transparency and extensive reports lead to concerns for greenwashing, as illustrated below in Figure 5. The figure presents distinct characteristics that institutional investors often suspect implies greenwashing, and can therefore be categorized as characteristics of low quality sustainability reporting. The figure highlights five key factors that institutional investors often consider sources of greenwashing. The information presented on the right side of Figure 4 further elaborates on the typical characteristics of greenwashing.

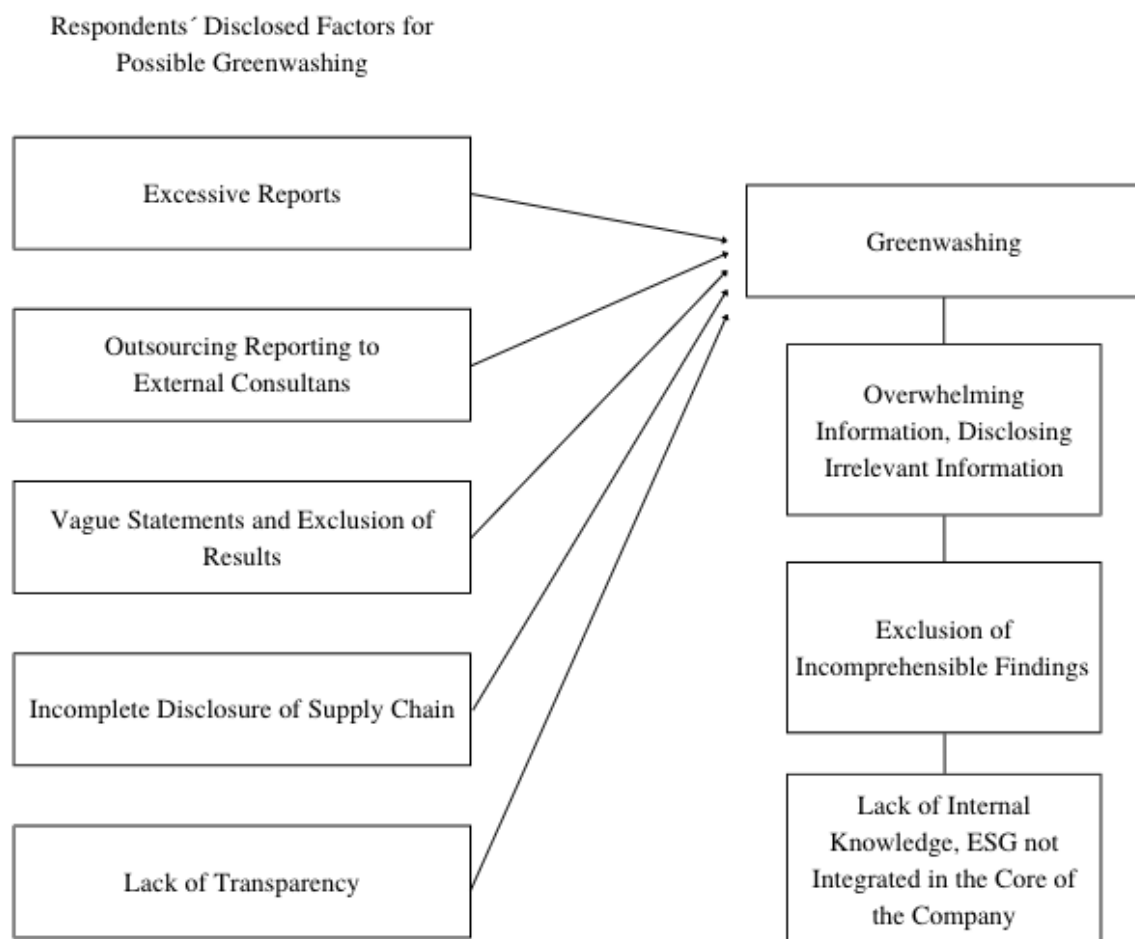


Figure 5. Overview of Results - Factors Implying Possible Greenwashing

Returning to the research question of this study, "How does the quality of sustainability reporting affect institutional investors' investment decisions?", it is possible to provide some

suggestions. Based on 13 interviews, this research has provided key findings that hopefully are generalizable to most Norwegian institutional investors. The lack of quality sustainability reporting negatively affects institutional investors' investment decision making process. However, they see evolution in reporting, companies trying to do better and learn, and are optimistic about EU Taxonomy (Respondent A). We argue that investors seek transparency, open statements, honesty, and consistency in non-financial reports, which will contribute to higher quality and, consequently, have a more positive effect on the decision making process. Furthermore, this paper argues that the current legislation should extend to include a broader set of notes on sustainability to accommodate institutional investors' demands. It is also noted that this suggestion only applies to institutional investors, as research on other actors might generate findings that imply other segments should be included in sustainability reporting.

5.2 Implications and Suggestions for Future Research

This thesis contributes to the literature in four different ways. Firstly, the research contributes to defining the term quality within non-financial, sustainability reporting. Reporting quality has many different definitions, where the degree of quality is correlative with quantity (Brammer & Pavelin, 2008), and it is easy to interpret results in order to interpret the information correctly and handle it correctly (Helfaya & Kotb, 2016). Secondly, as majority of interviewed institutional investors have defined what quality of reporting is, what is expected of organizations. Besides the financial return, they are expected to deliver contributions to the society on environmental, social, and governmental factors (Amran & Ooi, 2014; Zhou, 2022), and these indications, missions, and goals stated in the non-financial reports. Thirdly, research supports the existing literature in terms that ESG was integrated in the institutional investors decision making processes, but contributes to the lack of research done for Norwegian institutional investors (Chalmers, Cox & Picard, 2021). Consequently, the study has proven differences and similarities, on institutional investors and sustainability reporting, globally and domestically. Lastly, all of these contributions have had implications on our research question, where we aimed to get a deeper insight into whether and how sustainability reporting and the quality reporting is influencing their decision making process.

The research is limited in terms of the size of the sampling collection, and the interviewed respondents possessed high hierarchical positions, which might imply that some answers could be biased. Even so, this can also improve reliability and validity of findings, as they are more likely to have a deeper insight and knowledge on the topic.

Given that our definition of institutional investors is broad and that based on their sectors, strategies, and size are defined by different laws, regulations, and expectations, we argue that there is a need for further research in terms of sector. Therefore, we recommend a similar sector based research approach and research to be conducted, suggestibly by targeting the similar respondents to analyze development of the knowledge and changes in behavior at a later point in time. It is also interesting to investigate the same research question after the taxonomy is implemented in Norway. Sector based research could further provide a more profound knowledge on the subject and give researchers the ability to compare the answers, see potential patterns, and provide companies with guidelines on what society expects of them in terms of reporting and how to produce a high quality report.

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Appendix

A.1 Interview Guide

The investment processes

1. Briefly, how does an investment process look from beginning until end?
2. What factors do you consider important in an investment process?
3. Who is involved in the investment process?
4. Who are decision makers in the investment process?
5. What competence is important that decision makers have for you?
6. What factors do most often determine if an investment is considered good or bad?
7. What tools do you typically use to evaluate if an investment can be good or bad?

Sustainability

1. What do you associate with the concept of sustainability as a responsibility for organizations?
2. How do you define an organization as sustainable?
 - a. How is it important that what you invest in can be defined as sustainable?
 - b. How is it important for you as an investor to be sustainable?
3. Do you use sustainability theories in your strategies?
 - a. If yes: which and how are they important to you?
4. Are sustainable operations important to you?
 - a. Why, or why not?
 - b. What factors make sustainability important for you?
I.e., laws and regulations, society, profits, environment, stakeholder etc.
 - c. Who do you consider your most important stakeholders?

Sustainability reporting

1. Do you, and if so how, report sustainability?
 - a. Are there notes in sustainability reporting that should/could be included?
 - b. Are there notes in sustainability reporting that should/could be excluded?

2. Are you familiar with standards and frameworks for sustainability reporting?
 - a. If yes: Which and what are your thoughts about them?
3. What reports do you consider most meaningful for an investment decision?
4. Is the quality organization's sustainability reporting of importance when you consider investments?
 - a. If yes: What is important and why?

Quality and transparency in reporting

1. SASB reporting standard has investors as a primary audience. Many organizations choose to provide the audience with many different reports, do you check the internal consistency in the reports, or do you focus only on the report provided for you?
2. Due to lack of laws and standards for sustainability reporting, organizations are free to choose how they report sustainability. What do you consider a complete report that covers the necessary aspects?
 - a. If some information is left out of a report, do you consider this to be a lack of resources to publish such information, or is it intentionally left out?
3. What parts of ESG do you consider det most and why?
4. What do you consider high risk in sustainability reporting in an investment process and why?
5. Some literature suggests investors often do not care about sustainability and environmental issues but invest in organizations that do because it is increasingly popular. Do you agree or disagree? Please elaborate.
6. Many organizations have set goals to reach within 2030/2050. Published reports should contribute to transparency and give investors necessary information to simplify the investment process. If an organization in large degree only refers to positive numbers, do you consider these to be easy goals, greenwashing, or how do you evaluate them?
7. Did your process for sustainability reporting change after the EU implemented a standard for reporting? If yes, how, and why? If no, how, or why?
8. Lack of standards can make it difficult to compare reports from different organizations and industries. How do you assess this problem and how do you tackle it?

9. Do you prefer the ability to choose from several standards and having the ability to form your reports on sustainability yourself, or would you prefer integrated reporting? Why?
10. What role do investors play in Corporate Governance?
11. Which of these do you consider the most important?
12. What is the most important role for an investor in CSR issues?

A.2 Discussion Paper - Bojana Babic

Master's Programme in Business Administration

Competency goal: RESPONSIBLE

Introduction

Responsible is one of three key concepts in the UiA School of Business and Law's (UiA) strategy and mission statement. This discussion paper is part of our master thesis and addresses the term responsible. It will give the foundation for the UiA to assess whether the integration of term responsible has been achieved through the program.

Presentation of the thesis & responsibility

We are submitting this thesis to complete our Master of Science in Business Administration. Through a wide range of courses, through the last two years of our specialization in International Business, my friend and co-writer Nora Elise Stendebakken and I have engaged with sustainability concepts. UiA has seen the importance of sustainability and implemented it in many ways, both in courses, seminars, and activities on campus. We chose to write about sustainability reporting and how the quality of the reporting can affect institutional investors' decision-making process.

Due to a lack of regulations, standards, and laws, sustainability reporting is a relatively unknown field for many. In the course Environmental, Social and Governance (ESG) Metrics: Reshaping Finance, we learned about reporting initiatives. As a part of our final exam, practical analysis of real reports and comparison of the reports from two different companies made us realize how distinct those reports can be and how the quality of the reports played an important role.

Quality in terms of sustainability reporting was not defined precisely, nor did the standards or the expectations from stakeholders. We realized that empirical evidence in Norway was limited; however, consulting companies such as Ernst & Young (EY) and PricewaterhouseCoopers (PWC) are conducting similar research on a global level.

Our research aims to reject or support different elements from the existing literature, see whether institutional investors in Norway follow the same trends, and provide more information that may be used as orientation when it comes to reporting.

We conducted a qualitative case study to be able to answer our research question; *How does the quality of sustainability reporting affect institutional investors' investment decisions?* However, I also try to be a part of the movement toward a better world and contribute to the research.

Norway does not have strict requirements for sustainability reporting. Organizations can freely choose the frameworks and the parts of their businesses they want to report on (Vormedal & Ruud, 2009). Sustainability reports and their use in the investment decision-making process have increased rapidly, and those have been used as a foundation to make investment decisions, according to the global survey published by Morrow Sodali (Vasantham, Jevcakova, Wightman & Offel, 2021). Although investors have been implementing sustainable strategies in their

investment processes, the quality of information disclosed is still a barrier (Eccles & Klimenko, 2019).

Consequently, an issue that investors face and need to be solved is the quality of reporting. Only a small fraction of investors believe that the reports shared are good. Information disclosed by companies should be complete, reliable, relevant, and comparable. As a result, the decision-making process effectiveness would increase, as well as value creation (Chalmers, Cox & Picard, 2021).

Discussion of the concept responsible

The Cambridge dictionary defines the word responsible as having control and authority over something or someone and the duty of taking care of it, him or her (Cambridge, n.d.) Therefore, the business world could also be seen as a chance to influence society and the environment through smart investments that do not harm the mentioned areas.

For leaders of businesses, the responsibility exceeds the typical functions or roles. The obligations also include the performed actions and their consequences. For instance, ESG reporting seems to have a growing importance in decision-making for investors, and value creation is more dependable on it than ever. A business could lose potential investors by not making a statement about global issues and not being a part of the green initiative. A business has multiple responsibilities, starting with financial responsibility. This covers managing money and resources that work in the interest of the company's stakeholders. Often, it is described as living or functioning below its means, meaning that spending has to be lower than profit.

Furthermore, there is business and management responsibility, which covers the responsibilities assigned by certain people or management. For instance, a team manager should control their team members and their activities and operations. In addition, there is a moral responsibility. It gives both individuals and groups specific guidelines on how to act according to acceptable moral principles and principles in communities and institutions (You matter, n.d.)

There is another responsibility term that is considered the most relevant for our master thesis. It is corporate social responsibility. It is also called CSR and is the company's task to do "good". It means that the business should perform its actions to make a positive impact on the environment, customers, and stakeholders. In practice, this means that not only the greater profit is crucial, but also other aspects of the business. There are four under-categories of CSR, which are environmental, ethical, philanthropic, and economic responsibility. With the growth of climate change and challenges, it has become important that companies find alternative practices where it is possible. Businesses can be important in contributing to a greener environment. Eco-friendly initiatives can greatly impact the environment if the businesses are ready to take a hit on their profit to have more sustainable operations. This does not have to be the case, or the loss is only short-termed. How a company helps the environment depends on its size, industry, and even resources. Some businesses can use alternative forms of energy and materials, and others can contribute through other activities, such as volunteering or recycling. Furthermore, every corporation has ethical responsibility. They have to follow specific guidelines to maintain fair business practices and treat all employees, stakeholders, and customers with respect. Some examples that support this are competitive wages among workers and equally fair benefits depending on the level of responsibility. Many companies share a part of their profit with the community. They try to support causes that align with their values and goals. This is called philanthropic responsibility. This is done through different means, most often fundraisers and donations to essential movements. Corporate Social Responsibilities have a fair share of positive sides. Being responsible for a company means a

good image in public and satisfied employees and customers. Additionally, with the growth of socially responsible companies, more positive effects are brought into the world as a whole (Pacific Oaks College, 2021).

In this discussion paper, I aim to discuss the responsible perspective of our master thesis and hopefully be able to illustrate that I have learned the broader applications of concepts through my master's degree. I collaborated with my co-writer, Nora, on multiple projects and tasks before we agreed to write the master thesis together. During the period at UiA, I have learned how to act responsibly towards my co-students, employers, co-workers, professors, tasks, and myself, which made writing the master thesis easier. I can speak for both of us when I say that we have acquired a mindset that constantly tries to improve the procedures, knowledge, processes, and also, as it is presented in our master thesis. This product hopefully will contribute to improving the quality of reporting in Norway. I argue that we have gained much knowledge about the topic and have acted responsibly towards the interviewed participants and the information they chose to share with us.

Ethical issues

The investment process and the investment strategies of institutional investors can vary, however, as one of the most common factors in the process is the ethical requirements. There are three types of ethical requirements, involvement, negative screening, and positive selection (Kløw, 2011). A sustainable culture lives within the capability of its social and natural system. It has a system of impulses, norms, and rules that limit pollution. A sustainable society is built upon a commitment of different groups to conform to these rules, enforce them and use different drivers to push them in the right direction (Jennings, n.d.)

The ethical discussion in this section will follow four central components, evaluate the intentions behind the reporting, evaluate the actions institutional investors have taken, the consequences of the poor quality of reports, and the concept of greenwashing and ethical concepts around it.

Sustainable investing has surged in the last years, and investors and asset owners include the ESG discipline in their decision-making processes. Suppose a company is unwilling or viewed as unwilling to reduce its unsustainability concerns or ESG risks. In that case, investors may relocate their capital to industries or sectors that seem stronger from an ESG perspective. This has become an unstoppable trend for both companies to report and investors to invest in more sustainable businesses or exclude those that are not, depending on the strategy (Cua, 2021). This brings ethical issues whether companies and investors are doing it because of the trend or care about the planet, resources, and society. Our interview guide had a part that addressed this issue. The majority of our participants have answered that maybe it started as a trend and that the claim was more accurate a few years ago, but it seemed that everyone understood that companies could not keep doing things the same way. Investors also have more sophisticated demands, as they also realize that they can be the force to make this change.

As another ethical issue that brought the concept of greenwashing into the picture, poor quality reports have taken significant time during the interviews. Greenwashing and the term quality regarding the sustainability reports are undefined terms. According to the participants, they did not find lousy reporting quality a big issue, just a risk they would consider taking. Their demands for reporting are becoming more sophisticated, and everyone showed great understanding that this issue is due to a lack of knowledge and experience and is still early for many. Some participants expressed their concerns about long, "nice" reports that did not show an effort behind the produced reports. They referred to this as greenwashing when high quality

is associated with quantity. As an unethical concept where companies are trying to hide information, Greenwashing has significant issues regarding the ESG concepts, supply-chain, and reporting quality was defined as a grey area. However, investors also stated that standardized frameworks, incoming taxonomy, precise definition, and encouragement to disclose truthful information as long as it shows effort and aims for change would reduce the appearance of greenwashing on the market.

Summary

There are many ethical issues regarding the ESG-risks, reporting, greenwashing, quality of disclosed information, and transparency in the market. However, the awareness of the issues is the first step toward addressing them. Stakeholders and shareholders have the power to make this change by encouraging transparency in the market. All the participants mentioned the taxonomy as an essential factor in higher-quality reports and transparency in the disclosed information. In this paper, I have explained some of the most important features of our master thesis, research question, concept responsible, and ethical issues regarding the findings.

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A.3 Discussion Paper – Nora Elise Stendebakken

Master's Programme in Business Administration

Competency goal: INTERNATIONAL

Introduction

This discussion paper is as a mandatory assignment, written as a part of my master thesis at the School of Business and Law, at the University of Agder. The master thesis marks my final work in the specialization International Business. The discussion paper provides a presentation of my master thesis, disclosing how it is conducted and highlight essential findings. Furthermore, it elaborates on the concept "International" and explains how the concept aligns with the master thesis. Hopefully it succeeds in evidencing why it is highly relevant in today's society, affected by vast globalization and market complexity. Finally, the discussion paper is summarized, and highlights the key points of the discussion section.

Master Thesis Presentation

The master thesis is written in collaboration with my fellow student and friend, Bojana Babic. Prior to the master thesis, we had worked together on several courses throughout our five years at the University of Agder. As we share interest in several subjects, we were certain we wanted to write our master thesis together, exploring the concept of sustainability. With guidance from our supervisor Andreas Erich Wald, we developed a research question that examines the quality of sustainability reporting, and how this impacts institutional investors' investment decisions. The research question is as follows: "How does the quality of sustainability affect institutional investors' decisions?". The research question has narrow focus on Norwegian institutional investor, hence making it a case study on domestic phenomena.

Our writing process began with examining relevant information and previous research conducted on the topics of sustainability reporting, institutional investors, and the distinct concepts combined. Theory shows sustainability reporting as an emerging trend, and such reporting has been both enforced and encouraged by governments globally (Kolk, 2005; Petrassi, 2020). From the beginning of the process of reading existing literature on the topic, it was evident there was little information and research on sustainability reportings impact on institutional investors in Norway. Conversely, the topic has been vastly studied from a global perspective and in several regions, for example seen through Bernow et al., (2017), and Bailey, Klempler and Joffer (2016).

Studies show how frameworks and standards have been implemented to benefit organizations and stakeholders demands (Kolk, 2005), whereas Norwegian legislation imposes less requirements to the reporting of organizations sustainable impact (Vormedal & Ruud, 2009). This gap in theory developed the foundation for our thesis. Given that sustainability reporting is more evident in several foreign countries, and existing theory on sustainability reporting and institutional investors' investment decisions largely study foreign case studies, we sought to examine how the lack of

sustainability reporting standards in Norway, and the quality of it, affects domestic institutional investors.

To answer our research question, we conducted a case study on Norwegian institutional investors. Answering research question adequately calls for appropriate research design and methodological approach. Case studies examines phenomena in society and benefits from soft data and word-based information. Consequently, the appropriate methodological approach to answer the research question is a qualitative approach (Beech, 2015). The data collection consists of information obtained from 13 in-depth interviews with domestic institutional investors, and existing grounded theory on the subject. We feel lucky and very content having been able to interview organization that are small, medium, and large, thus providing us with different perspectives.

The collected data was analyzed and coded to discover similarities and dissimilarities in interview objects' responses. All respondents acknowledge increased focus on sustainability reporting. They further expressed they focused on the different ESG factors, but had valued the importance of the factors differently. The distinct assessment of the factors was grounded in either shareholders expectations or because of risk and cost assessment. In lack of a standardized, universal framework for sustainability reporting in Norway, respondents exploited different tools for assessing sustainability measures. Some of the tools are thoroughly developed internally and also demand a thorough assessment of possible investment, which can be both time and cost consuming. Furthermore, respondents have different demands for defining a report of quality, but explain that lack of certain information can be considered a risk for investment, especially if disclosing those risk are too costly and might exceed possible returns of investments. Respondents are also considering greenwashing when assessing reports, but express certainty that greenwashing will be discovered if assessed by the right mandates.

The thesis has hopefully discovered factors that increase and decrease the possibility of investments for domestic institutional investors, based on how organizations institutional investors assess, report on sustainability. It is argued that lack of universal frameworks domestically has pushed institutional investors to develop their own, in order to assess the attractiveness of an investment. If assessing sustainability in a possible investment appears to be too costly, institutional investors might refrain from conducting that investment. Results evidence that institutional investors' awareness of sustainability and include them in their investment decision processes. Even so, most reporting institutional investors assess goes beyond the current standards for reporting sustainability in Norway.

The Concept International in relation to the Master Thesis

The term international, briefly defined, is a collective term used to explain phenomena including more than one country (Merriam Webster, n.d.). This definition aligns with the values of the School of Business and Law that aim to ground activities in three pillars: international, innovative, and responsible. The faculty further aim to connect globally, by providing students with international experiences, and providing students with international insights and resources (University of Agder, n.d.). My interpretation of 'international' in line with my study course is similar. After five instructive years, our different subjects have shown how different teaching material applies both domestically and abroad, as well as showing how the world ties together through.

The process of writing our master thesis demanded a comprehensive investigation of previous studies and research on the topics of sustainability, quality reporting, and institutional investors, as well as studies on the concept combined. Norwegian studies on the distinct topics proved to be limited compared to the international studies that have tied together the concepts across borders.

Hence, our study has largely relied on the international studies for adequate information needed to conduct our study. Furthermore, the sources we used to collect this data are international databanks for academic articles, which are pages we have been introduced to throughout our five years at UiA. Linking the concept international in relation to sustainability reporting is essential throughout our master thesis. Existing literature shows how foreign countries and regions have developed framework and imposed strict regulations for reporting sustainability. Some standards are international, as they apply to a broader set of countries, such as regulations developed by the European Union. As these standards and regulations currently do not apply to Norwegian organizations, domestic organizations have the opportunity to use any framework of their preference, as long as they include a certain set of notes on social, environmental, and financial affairs (Regnskapsloven, 1998, §3-3c). Even so, several institutional investors exploit international standards for reporting these matters. This implies that institutional investors currently demand more thorough information that exceeds what is currently demanded upon organizations domestically. Such standards and frameworks appear to be developed more thoroughly abroad, thus being exploited by many domestically.

The need demand for sustainability reporting can partly be considered a result of globalization and internationalization. Theory and studies on the sustainability are largely conducted across countries, both regionally and globally. Sustainability challenges often manifest at certain location, even so, they are often the cause of activities undertaken in other regions or countries (Wiek et al., 2013). Through grounded literature such as the study conducted by Wiek et al. (2013), it is evident that the prominent sustainability trend in a large degree can be explained by internationalization and globalization. The interactions between regions and nations has both indirect and direct affect on nations and regions, and such relationships must be addressed in order to tackle the challenges arising from sustainability issues.

As initially stated, the gap of knowledge on sustainability reporting and institutional investors in Norway laid the foundation for our master thesis and our research question. The research gap was discovered after international literature was examined, which further proved the need for such studies to be conducted on regional and national levels as well, which there currently was little of in the Norwegian market. During our five years studying economics, international theories, articles, and sources of knowledge, has been critical factors for providing us with the competence and knowledge demanded from us to further pursue our aspiration to educate us within the field of economics. Presenting and teaching the UN's sustainability goals has been consistent in almost all subjects we have had. The sustainability goals are goals developed to meet today's sustainable challenges in a responsible manner, consequently they aim to help the society accommodate the future more sustainably. The standards are the basis for international cooperation worldwide. Through our subjects we have gained deep insight into how these apply to us, our subjects, and how different conditions around the world affect this.

Discussion Paper Summarized and Conclusion

This discussion paper has accounted for my final work at the University of Agder, my master thesis in International Business. The master thesis has studied how quality of sustainability reporting affect domestic institutional investors investment decisions. We find that certain

notes on financial, environmental, and social are demanded upon by institutional investors, but to a varied degree, as they assess the factors differently. The international concept has broadly served as a foundation for our master thesis throughout the writing process. The writing process began with reading international material on the topics of sustainability, quality reporting, and institutional investors. International studies are the main source for the conducted literature review, and have also provided us with vast information that apply both domestically and internationally. It is important to yet again disclose that this master thesis was a case study of domestic international investors. Therefore, the results we aimed to discover is mainly indented to benefit Norwegian Institutional investors. However, the international aspect presented in the discussion paper emerges when we discover as to why sustainability reporting is needed, as well as seeing how foreign, international standards affect Norwegian institutional investors. Consequently, the international aspect has been well presented through our master thesis, as a consequence of five instructive years of having the concepts implemented in our different subjects.

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