



School of Management

LEGITIMACY PERSPECTIVE

in sustainability reporting of the Swedish property and construction business

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Abstract

Title: Legitimacy in practice - Legitimacy perspective in sustainability reporting of the Swedish property and construction market

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Purpose: The purpose of this thesis is to study the legitimacy perspective in sustainability reporting in the given context, and to find out whether Swedish construction companies define and value their legitimacy.

Method: In the thesis we have performed a qualitative study using the inductive method; in the research we have used *hermeneutics* as our starting point and *constructionism* as the research strategy. In the empirical part we have conducted structured interviews with a list of pre-formulated questions. For the interviews, we have chosen Sweden's major property developers: Skanska AB, PEAB AB, NCC AB, JM AB and Midroc AB.

Major findings: Companies can get motivation to report their sustainability from their perceived obligation to support license to operate. Not all the companies use stakeholder analysis in the preparation of annual reports, which lets us assume that the companies base their choice of data mainly on internal perceptions of what is required. Data is not selected basing only on what company itself finds interesting; stakeholders' information needs are reflected in the selection process, although, just like in the first question, not necessarily deliberately. Financial rationale is merely a criterion when choosing sustainability projects to work with; it does not define whether a company is focusing on sustainability in general.

Key words: Legitimacy, Disclosure, CSR, Sustainability, Reporting, Annual Report, Accounting, Responsibility, Stakeholder, Community, Society, Environment, Construction Industry, Property Market, TBL, License to Operate.

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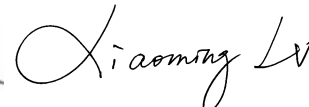
Last but not least, our families for time, support and patience with us, stealing family time after work hours. Thank you Niklas, Rasmus, Oliver and Zuguang.



Anna Yelistratova



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I Introduction

In this chapter we introduce our topic to the reader, the thesis' area of investigation, background for our interest, a description of the academic problem and purpose of the study, followed by a presentation of our choice of limitations for this thesis.

I.1 Background

Sustainable – (1) capable of being; (2) of, relating to, or being a method of harvesting or using a resource so that the resource is not depleted or permanently damaged.

Legitimate - conforming to recognized principles or accepted rules and standards.

(Merriam-Webster dictionary)

Why do so many businesses turn towards sustainability?

Why do so many businesses attempt to create social value?

What motivates companies to report on their value creation or sustainability performance?

What process lies behind the choice of data and information included to sustainability reporting?

With this thesis we want to find answers to this and similar question. We want to study why sustainability reports of Swedish construction companies look the way they do today. The theoretical focus of the thesis embraces legitimacy and sustainability reporting, while the Swedish construction and property market is the empirical subject. We find this focus interesting for several reasons.

- More and more companies recognize sustainability as an integral part of their business, and this recognition is stipulated by academic research and public opinion, which we have learnt in our literature review.
- Public opinion – or stakeholders' perceptions – plays a crucial role for a company's performance. In order to maintain a positive perception of the company and to satisfy the information needs of its stakeholders in a most comprehensive way, companies pay more consideration to sustainability accounting and reporting which is now viewed as an equally crucial activity as financial accounting.
- And third, modern business in general and Swedish construction and property market as its representation is responsible for a most significant part of the impact – both

positive and negative – on the environment and society, which makes the question of sustainability performance and sustainability reporting, resulting from it, even more challenging.

Modern society has much higher expectations from businesses than several decades ago. Today, it is not enough to produce high quality goods or provide professional services only; a company must be a worthy member of society in order to behold its “license to operate”.

Moreover, without turning towards sustainability, businesses are doomed to suffer most unpleasant consequences (overconsumption of finite resources, declining health and rising pollution taxation being several examples) that will affect their financial performance. This idea has appeared many times in statements by leading organizations and public persons, for example, within The Prince’s Accounting for Sustainability Project or *A4S* (an institution launched in 2004 by His Royal Highness The Prince of Wales in order to develop sustainability accounting policies and practices¹). In other words, the challenge of our time is the integration of the three dimensions of business: financial, social and environmental. Only such integration can assure a sustainable way of operating in the modern business context. As Hopwood (2010) states in his book, the roles of these three dimensions are tightly interconnected:

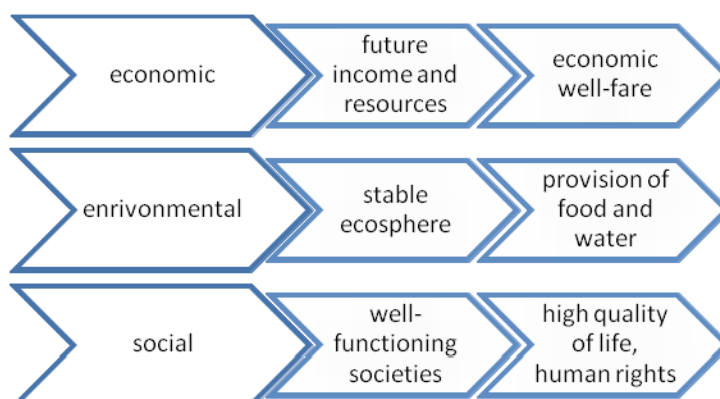


Fig. 1 The three dimensions of CSR (adapted from Hopwood, 2010)

The urge of integration of the three CSR dimensions is obvious for a range of stakeholders (politicians, NGOs, academics etc) and is being gradually transmitted to the general public whose expectations and assumptions regarding companies change over the time. If rejected by

¹ <http://www.accountingforsustainability.org>

the society, a business cannot continue its operations and must leave its market. This, in its turn, means that business must listen to their societies and work to define their stakeholders' information needs in order to defend and manage the license to operate.

A new mindset that comprises the three dimensions and defines overall performance and long-term goals is the number one priority for modern businesses. But adherence to the sustainable mindset is not enough; another challenge that businesses face today is to define *a proper way to choose what to tell the world and how to tell about it*.

One of the most common means of engaging with stakeholders is corporate reporting. Nowadays many companies reasonably choose to report on all three dimensions, demonstrating their cohesiveness in the management system. The majority of these companies present two reports – financial and sustainability reports. The dynamics of sustainability reporting practice are constantly studied and assessed, forecasts are made. Today many businesses report on financial, social and environmental aspects of their activity, which implies that these companies actually adhere to sustainability in all its dimensions.

The two questions that can be asked in this regard are **why companies choose to report on their sustainability performance** and **how they choose the data to report on**. One of the possible answers to the first question is the legitimacy theory, according to which companies have a certain perception of what responsibilities they have towards their stakeholders and act in accordance with this perception (Blowfield, 2008). As for the second question, it is directly connected to disclosure procedures that every company chooses for its reporting.

In our work we are going to study how legitimacy theory is reflected in corporate reporting practice of a number of companies. We also study the role of stakeholders in the process of data selection. Below follows an outline of the thesis.

First of all, in the **Introduction** chapter we provide a theoretical framework of background concepts - sustainability or Corporate Social Responsibility (further - CSR), its forms and practices, a brief historical background of sustainability reporting and sustainability practice in the Swedish construction and property market. After that, in the **Theory** chapter, we introduce the disclosure theory, the legitimacy theory as “*a method of managing stakeholders*” (Blowfield, 2008, p.60) and proceed to sustainability guidelines and policies etc. The **Empirical** part of the thesis contains a study of legitimacy theory as reflected in sustainability reporting of certain Swedish property developers.

As we will describe in more detail further in the chapter, the construction and property market does not only have a very strong environmental impact; its social impact is equally significant. Because of the scale and scope of the industry, because of the high number of people involved in the construction business directly and indirectly, its environmental and social impacts are wide and multifaceted, including energy consumption, transport emissions, construction safety, injury rate etc.

We believe that the general framework and the focus of this thesis are highly relevant and respond to the challenges of the modern world. In order to introduce the theoretical and empirical subjects in more details, we present background information in the following subchapters.

1.1.1 Historical background of sustainability reporting

There are many definitions of CSR, but probably all of them are centered around such notions as responsibility, commitment, stakeholders, society, community etc. Thus, Crane (2008, p.6-7) quotes definitions of CSR of various organizations: “*CSR is a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis*” (European Commission); “*The continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large*” (World Business Council for Sustainable Development).

Blowfield (2008, p.13) presents the definition by PriceWaterhouseCoopers: “*CSR is the proposition that companies are responsible not only for maximizing profits, but also for recognizing the needs of such stakeholders as employees, customers, demographic groups and even the regions they serve.*”

CSR as an academic concept dates back to the 60s, when Keith Davis defined social responsibility as a sphere of operation that is not directly included into the company’s economic interest. As Eells and Walton wrote in 1961, CSR comes into focus when a company “*casts its shadow on the social scene*” (Crane, 2008, p.61). A decade later, in 1971, the Committee for Economic Development (a US non-profit, non-partisan business led public policy organization) presented a *three concentric circles* approach to CSR:

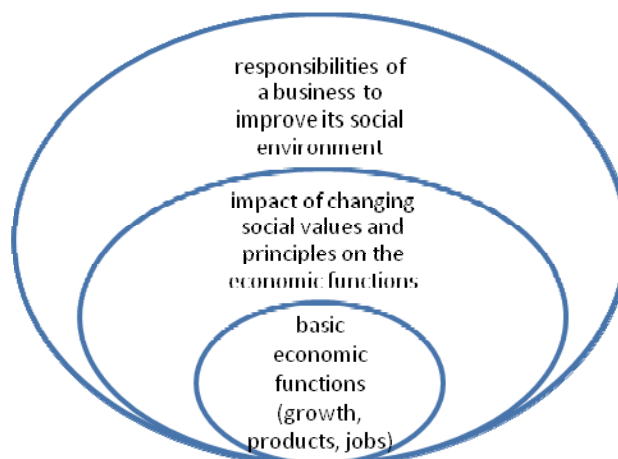


Fig. 2 "Three concentric circles" approach to CSR (adapted from Crane, 2008)

Meanwhile, other authors emphasized *social responsiveness* instead of concentrating solely on social responsibility. Social responsiveness included not only the obligation of a business, but also corporate action, pro-action, and implementation of a social role of a business (Ibid.).

The next step in the evolution of CSR was to match economic and social orientation of businesses in a four-part concept of CSR:



Fig. 3 Four-part concept of CSR (adapted from Crane, 2008)

CSR performance is accounted for and reported upon. In our thesis, CSR reporting and sustainability reporting are synonymous, and the latter is used in the thesis. Studies on sustainability reporting or sustainability accounting began in the 70s (Blowfield, 2008), but its history goes back to many years ago and is characterized by several shifts towards environmental, social or joint focus:

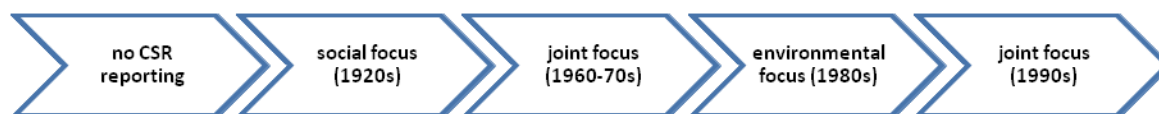


Fig. 4 Focus of sustainability reporting (adapted from Blowfield, 2008)

From scratch to social issues. According to Blowfield (Ibid.), social issues were covered in annual reports of some European companies in the beginning of the 20th century, in the USA and Australia - before World War I. The main reason to this was the social disturbances that characterize the period.

From social to joint focus. Later, in the 60s and 70s, general non-financial issues gained even more significance as corporate governance faced new challenges caused by the changes in the society (growing environmental concern, collapse of businesses, scandals and social shifts etc). Moreover, in the 70s some countries adopted a new legislation on non-financial accounting, such as employment practices or pollution expenditure. One can say that in the reports of the 70s non-financial - environmental and social – issues were not distinctly separated; neither from each other nor from the financial data, and only a few accounting researchers split these issues in two different groups. *The Corporate Report* published in 1975 by Accounting Standards Steering Committee (an institution founded in 1970 by Institute of Chartered Accountants in England and Wales in order to develop standards for financial reporting²) emphasized the importance of social and environmental information for annual reports.

From joint to environmental focus. Nevertheless, the findings of *The Corporate Report* were mostly ignored in the coming years since companies concentrated on the environmental aspects pushing issues of social responsibility way back. As Blowfield (2008) argues, this was a result of the chain of environmental catastrophes that shocked the entire world: Bhopal gas tragedy of 1984, Chernobyl nuclear reactor explosion of 1986, Piper Alpha disaster of 1988 etc. These events naturally made companies to focus on environmental accounting. According to a survey conducted by KPMG, up to 1999 non-financial reports were purely environmental (Ibid.). Generally speaking, modern sustainability reporting takes its roots in the environmental reports of the 80s.

² www.icaew.com

From environmental to joint focus. The following decade was a period of major development of social reporting practice, mainly due to the appearance of organizations (such as the World Business Council for Sustainable Development, the Council on Economic Priorities, the Institute of Social and Ethical Accountability etc), who raised the significance of The Corporate Report and its findings (Ibid.) who worked specifically to raise awareness of sustainability issues among managers (Ibid.). By the end of the 90s many companies extended their environmental reports to include other non-economic aspects of their business, such as sustainability and social responsibility, thus presenting two reports - one with financial data and the other focused on non-financial aspects (Ibid.).

1.1.2 Construction and property market in Sweden – background information

Generally speaking, the construction industry is one of the most influential spheres of business. It accounts for 1/3 of the global gross capital formation and for 5-7% of GDP in most countries (Kenny, 2007). We have chosen to investigate legitimacy as reflected in sustainability reporting in the property and building sector for the following reasons. The construction and property market is responsible for a significant part of **environmental impact**. The construction of houses releases four times as much carbon dioxide as the heating and running of Sweden's all buildings (report of the Swedish National Board of Housing, Building and Planning, 2009). In 2009, the total energy consumption in Sweden was 569TWh. The total usage is divided to 3 sectors³:

- Property and building sector (dwelling houses, holiday houses, premises (except those who belong to the industry), the construction industry, street lightning, drainage and water supply, power and water stations) 39%
- Industry 36%
- Transports 25%

The building industry and its building proprietor have a great responsibility and power to influence:

- Outlet and waste products
- Non-toxic environment
- Secure radiation environment
- Eutrophication
- Ground waters
- Good built-up area

³Energimyndigheten, <http://www.energikunskap.se/sv/>

The **social impact** of the construction and property market is also significant. Not only does the industry employ thousands of people in Sweden – as we have learnt from a brief telephone interview with Statistics Sweden, in 2008 approximately 350 000 people between 15-74 YOA⁴ (or about 14% of the total number of employees in the country) were employed in the Swedish construction sector (300 000 in building industry and 50 000 in property). This industry also provides millions with a place to live and premises for work.

Social problems that should be dealt with in terms of social responsibility are an integrated part of the construction industry. Illegal construction work is a common phenomenon in Sweden. The building industry is one of the worst when it comes to tax crimes (i.e. every 5th household has bought illegal labor), both organized and private⁵.

Incidents and injuries are another problem that the construction industry encounters on a regular basis. The statistics of injuries and number of casualties are decreasing but the business of construction is the no. 1 in terms of accidents at the workplace. In 2009 there were 1509 accidents, or 10.2 per thousand employees⁶.

The varied end-product of the industry implies highly dependent stakeholders and a stronger responsibility area. This specific nature of the construction and property market should be reflected in its decision-making and reporting practice. Nevertheless, as Lars-Olle Larsson⁷ informed us in a telephone interview, the construction and property market in Sweden is far behind in its sustainability reporting. Many companies do not report on their sustainability performance at all; other companies do it in a very brief form as an article in the annual report. We consider this to be another reason why the construction and property market is an interesting and relevant research subject in terms of disclosure in sustainability reporting. Moreover, we want to find an answer to the following question: **what lies behind property developers' sustainability performance and reporting?**

To narrow down our area of investigation further we chose to identify the biggest actors in the Swedish construction and property market. The focus lies on the entrepreneurs that build and maintain properties, and not the sector itself and not the one of the end-users.

⁴ YOA – years of age

⁵ <http://www.ekobrottsmyndigheten.se/Documents/Rapporter/Ekor%C3%A5det/Rapport%20om%20den%20ekonomiska%20brottsligheten2010.pdf>

⁶ <http://www.prevent.se/sv/Arbetsliv/Artikel/2010/Rekordlagt-antal-olyckor-i-byggbranschen/>

⁷ Lars-Olle Larsson is a leading practitioner of CSR, an auditor with PriceWaterhouseCoopers, an expert in sustainability reporting, and author of the books “License to Operate,” “Corporate Governance och hållbar affärsutveckling” etc.

1.2 Problem formulation / research question

The problem that the thesis is centered around is the companies' perception of stakeholders' information needs and the way these needs are reflected in the companies' sustainability reporting. We want to find out why sustainability reports of Swedish construction companies are shaped in a certain way and if stakeholders' information needs are a part of the data selection process.

With our thesis we attempt to find the answers to the following questions:

- i. Why do companies report on their sustainability performance?*
- ii. How do they choose the data to report on?*
- iii. How can sustainability performance be understood from a legitimacy perspective?*

1.3 Purpose

The purpose of this thesis is to study the legitimacy perspective in sustainability reporting in the given context, and to find out whether Swedish construction companies define their legitimacy and how they operate in this regard and manage their license to operate.

With this thesis we can learn how and why construction companies in Sweden report on their sustainability performance. Furthermore, we can study the process of managing stakeholders' information needs which results in the report; and hence we can learn how companies treat their stakeholders' needs. We hope with this focus to contribute to the existing framework of legitimacy perspective in sustainability reporting.

Thus, the thesis is focused on the reporting practice in the construction and property market in Sweden from a legitimacy perspective. We do not aim at studying other aspects of CSR and sustainability, such as CSR activities, CSR impact on financial performance, differences in CSR practices in various industries or countries etc. Nevertheless, certain theoretical aspects of CSR will be discussed later in the text in order to present a framework of this notion and further study of the sustainability reporting.

1.4 Limitation and value

The theoretical subject of the thesis is the legitimacy theory in sustainability reporting. We have limited our subject to a particular region and particular industry and have chosen the

construction and property market in Sweden as a basis for the empirical half of the thesis. Thus the empirical subject of the study is sustainability reporting in the Swedish construction and property market. We consider this empiric a proper limitation for the thesis, because the construction and property market with its strong environmental and social responsibility has particularly vulnerable stakeholders, which means that property developers' legitimacy is subject to societal threats resulting from shifts (positive or negative) in stakeholders' perceptions.

The target audience of the thesis may include CSR or sustainability managers, students, consulting agencies, the whole construction and property market and its customers, NGOs, and all concerned stakeholders who take an interest in sustainability issues. We further limit our investigation to producers of dwelling and office houses in the construction and property market.

2 Methodology

In this chapter we present the methods we found suitable for our research and motivate our choice. The research strategy of the thesis is described basing on widely accepted classifications. We then describe the research process along with criticism of the methods.

2.1 Research strategy

In order to conduct a study comprehensively, the scholar should develop a research plan based on a *research strategy*, or a general plan of answering the research questions (Saunders, 2009). Bryman (2007) defines research strategy as a general direction of a study. Academics suggest different research strategies. For example, according to Saunders (2009), the following strategies can be singled out: experiment, survey, case study, action research, grounded theory, ethnography, archival research.

Bryman (2007) divides research strategies into *quantitative* and *qualitative*. Quantitative strategy is based on numeric measurement. Qualitative strategy is employed when the aim of the research is to interpret a context or concept rather than to document its static (Lundahl & Skärvad, 1999).

Likewise, data gathered for an academic study can be classified into two groups – qualitative and quantitative. According to Saunders (2009), qualitative data are non-numeric, while quantitative data are numeric or quantified. Data of both groups can be obtained from any research strategy. Moreover, data obtained during a qualitative study can be quantified by, for example, calculating percentage or applying statistic analysis. Certain differences between qualitative and quantitative data can be summarized as follows:

Quantitative data	Qualitative data
Based on meanings derived from numbers	Based on meanings expressed through words
Collection results in numerical and standardized data	Collection results in non-standardized data requiring classification into categories
Analysis conducted through the use of diagrams and statistics	Analysis conducted through the use of conceptualization

Table 1. Quantitative and qualitative data (adapted from Saunders, 2009)

Bryman (2007) bases his classification of scientific approaches and orientations on the dichotomy of quantitative and qualitative methods:

	Quantitative method	Qualitative method
Scientific approach	<i>Deduction</i> (testing of a theoretical proposition by the employment of a research strategy specifically designed for the purpose of its testing)	<i>Induction</i> (development of a theory as a result of the observation of empirical data)
Epistemological orientation	<i>Positivism</i> (a study of an observable social reality is resulted in a law-like generalization)	<i>Hermeneutics</i> (theory and method of the interpretation of human action, where the need to understand from the perspective of a social actor is emphasized)
Ontological orientation	<i>Objectivism</i> (an assumption that social entities exist in a reality external to, and independent of, social actors concerned with their existence)	<i>Constructionism</i> (an assumption that entities are created from the perceptions and consequent actions of those social actors responsible for their creation)

Table 2. Research strategy (adapted from Bryman, 2007, and Saunders, 2009)

We have chosen to present the methodology of the thesis with help of this classification. The questions that we elaborate in this study – why companies choose certain data to report, how they identify key stakeholders’ information needs, how they try to meet these needs etc (see Appendix 1 for the Interview questions) - are not related to any form of calculation, which means that our *data is qualitative*. Nevertheless, the methods used to obtain the data can be classified as quantitative, since it allows us to make quantifications and comparisons (for example, calculate a percentage). In accordance with the definition of *induction*, we have studied the concept of the thesis through empirical data – reports of Swedish construction companies – and on the basis of these observations we have made certain theoretical conclusion that refer to the application of legitimacy theory in sustainability reporting. As for the epistemological orientation of the thesis, we have used *hermeneutics* as our starting point, since social actors are the key determinant in the context of the thesis’ focus, and their

perspective should be a basis for our conclusions. Logically, in terms of ontological orientation, *constructionism* is the strategy we have used, since this is the method where social actors are emphasized. In our work where we have studied the concepts of sustainability reporting, social actors are an inseparable part of the research process.

2.2 Research process

In order to collect data for the theoretical and empirical analyses we have used literature studies (including annual reports) as our key research tool, and interviews as the research strategy. Interviews were chosen as the empirical method because they can give us information that cannot be obtained only by studying annual financial or sustainability reports or by theoretical research. We have conducted telephone interviews, both when collecting background information on the research objects and when writing the empirical and analytical part of the thesis.

2.2.1 Literature studies

In our literature studies, we have employed the method of intertextual coherence described by Bryman (2007). Thus, ideas from various literature sources are presented in a cohesive way creating a solid framework for the study.

In order to conduct our research, we have collected the necessary data on our theoretical objects – sustainability in business, disclosure and legitimacy theory. The data collection process included searching for literature at libraries (Malmö Public Library, Malmö University library, Blekinge Technical University library) as well as in online databases (online libraries and professional information sites). Since there already exists a certain theoretical ground for sustainability, we have used literature references (both theories and recent reports) as the basis for our data collection. The data obtained have been analyzed and interpreted from the thesis' perspective, and different sources have been integrated thus creating a common framework for the study.

2.2.2 Choice of interviewees

An interview is a form of conversation that has a structure and a purpose (Kvale, 1996). We have used structured interviews with a list of ten pre-formulated questions (Bryman, 2007) since, in our view, this is a reliable and comparable way to collect information from our respondents. The purpose of the interviews was to obtain data necessary to study

sustainability performance and reporting at Swedish property developers from legitimacy perspective. Below we describe the process of preparation of the interview and the way they were conducted.

In preparation for the interviews, the authors have compiled a questionnaire with 10 questions and searched for potential interviewees.

When working on the questionnaire, the authors used the theoretical framework presented in the thesis and tried to formulate the questions in a manner that would relate to the research purpose as closely as possible and cover it in a most comprehensive way. We have ended up with 10 questions that reflect the three research questions, are tied to the theories discussed in the thesis and cover the research object.

The search of interviewees included two phases: choice of a company and search of a relevant manager. As mentioned above, we limit the scope of the thesis to legitimacy theory in sustainability reporting among the leading Swedish property developers (i.e. companies that build directly on their customers' orders, and companies who are project-based), and our choice of the companies and hence interviewees was motivated by the data provided by the Statistic Sweden, the Swedish government agency that works with statistics⁸. Thus, according to Statistic Sweden, the following companies are Sweden's major property developers:

Name of company	Established in	No of employees (2009)	Turnover (TKR) (2009)
Skanska AB	1897	57 931	136 803 000
NCC AB	1935	17 745	51 817 000
PEAB AB	1955	13 633	35 140 000
JM AB	1945	2 095	8 778 000
Midroc AB	1989	1 231	2 200 585

Table 3. Leading Swedish property developers (based on data by SCB, Statistic Sweden)

During the second phase, we have addressed the companies presented above in order to obtain contact information of the managers in charge of the sustainability operations and reporting, or the managers who work with related questions. We have interviewed Eva-Lena Carlén-

⁸ <http://www.scb.se>

Johansson, Manager Sustainability Projects at Skanska AB; Christina Lindbäck, Vice President Environmental Affairs at NCC AB; Kristina Gabriell, Environment Manager at PEAB AB; Lennart Henriz, Head of Operations Development, Quality and Environment at JM AB; Alf Adamsson, Environment and Quality Manager at Midroc AB. The interviewees have long experience within the sustainability sphere and could give qualified replies to our questions.

All interviews have been conducted on the telephone. The authors asked the questions from the questionnaire but provided the interviewees with more explanation or background for a question if it was necessary. The interviews started with a brief presentation of the authors and the thesis, on the one hand, and of the interviewees and their companies, on the other. After that discussions around the questions begun and the questions were taken consequently. Each question was discussed for approximately ten minutes. Some of the discussions lasted longer than other because not all interviewees were acquainted with the terminology of the thesis, which required additional explanation. All interviews have been recorded and the records have been referred to when the chapters on empirical research and analysis were written. The scripts of the interviews were sent to the interviewees for approval and changes if needed, and were not used for further research until the authors obtained confirmation from the interviewees that the data is correct and can be used in the thesis.

2.2.3 Data analysis and interpretation

There is a rather solid theoretical framework of CSR and sustainability on the one hand, and annual reports and web-based data sources on the other hand. We have used qualitative empirical data related to the theoretical basis in order to contribute to the existing academic context of sustainability reporting. During our work on the thesis, we have not conducted any calculations. Quantitative approach was applicable to the analysis when the data was compared and quantified when necessary. The interview questions did not involve numeric data, and were focused solely on contextual and conceptual aspects of our empirical subject. Replies of the interviewees were interpreted from the point of view of the theoretical framework, based on the previous literature studies, and the research questions.

2.3 Validity and Reliability

There is no perfect research method; both qualitative and quantitative approach have their drawbacks and can be criticised (Silverman, 2001). Any method chosen for an academic study

deserves a certain degree of the criticism. As far as the principle we have used in the thesis is concerned, results obtained with it need to be validated and proven reliable.

The results of a study are regarded *reliable* in case they can be repeated in a new study, thus being more applicable for quantitative research (Bryman, 2007). The following factors are used as a basis to define the reliability of results:

- stability of the measures used in the analysis over time that prevents the results from fluctuating;
- internal reliability or consistency of indicators used in the research;
- inter-observer consistency or consistency in the judgments of several observers conducting the research.

These factors can affect our study. The measures used in the analysis can change over time, because of the nature of our empiric object. Sustainability accounting and reporting is undergoing a dynamic development, both institutional and legal, and it is highly probable that new legal demands and reporting tools can be introduced in the near future. Inter-observer consistency is another factor of influence in this study, because it has been done by three authors.

Saunders (2009) argues that answering the following three questions can help determine whether the results are reliable:

- Will the same results be achieved in other occasions?
- Will the same results be achieved by other observers?
- Were the raw data processed transparently?

These questions have interesting answers in terms of this study. It is equally likely that the results will be the same or different if the study is held in other occasions, such as another time (i.e. in five years) or another empiric context (i.e. food industry). Nevertheless, we believe that in the identical context other observers would achieve the same results. The data analysis was transparent and thorough; for example, as it has already been mentioned, in order to provide data consistency we have asked our interviewees for their confirmation of the interview scripts.

There are certain threats to reliability of a study, on the one hand, and ways to respond to them as far as this study is concerned, on the other (Robson, 2002):

Threat to reliability (Robson, 2002)	Way to respond to the threat (as applied to the thesis)
<i>Participant error</i> (responses can vary depending on the circumstances)	e.g. select a context as neutral as possible, demonstrate no preferences towards interviewees
<i>Participant bias</i> (responses can be different from the actual state of things because of certain behaviorist aspects of leadership)	e.g. examine corporate and public profile of the interviewees' companies in order to predict possible bias in their responses, or in order to be able to interpret the responses adequately
<i>Observer error</i> (results of interviews can differ in case there are several interviewers)	this threat is not valid for the thesis because the data collected is qualitative; nevertheless, in order to avoid observer errors that might have been caused by a wrong interpretation of the replies by the authors, we have sent the scripts of the interviews to the respondents in order to obtain their approval of the text
<i>Observer bias</i> (results of interviews can be interpreted in different ways depending on the researcher's preconceptions)	e.g. elaborate a unified pattern for interpretation of the results

Table 4. Reliability of results: threats and solutions

The results of a study are regarded *valid* if the measure used in the research really measured the researched concept (Bryman, 2007). Several types of validity are formulated by Bryman (Ibid.):

- measurement validity (whether the measure is applicable to the concept),
- internal validity (whether the conclusion demonstrates correlation between variables);
- external validity (whether the results can be generalized beyond the specific research);
- ecological validity (whether the measure correlated with the social context).

Our measure is the legitimacy theory; the measurement object is the sustainability reporting. Moreover, this measure correlates with the social context of the empiric study. Thus, we believe that the legitimacy theory is fully applicable in this context because of its theoretical

and practical implications. Legitimacy management as a process can be used to analyze the way companies build their sustainability reporting and maintain their accountability. In the thesis we use legitimacy as a purely theoretical tool; i.e. we do not aim at analyzing sustainability reporting basing on whether companies actually apply legitimacy theory and are aware of the legitimation process, but we study sustainability reporting using legitimacy as a theoretical framework. Robson (2002) formulated a range of threats to validity of a study:

Threat to validity (Robson, 2002)	Way to respond to the threat (as applied to the thesis)
<i>History</i> (responses of the interviewees may be affected by recent events)	e.g. find out if the interviewed companies have recently experienced significant changes, external or internal, that may affect the behavior of the interviewees
<i>Maturation</i> (responses of the interviewees may be affected by various events happening in the sphere in focus)	
<i>Testing</i> (responses of the interviewees may be affected by their assumption that the result of the interviews may bring a negative impact on their work)	e.g. formulate clearly the purpose of the study and explain how the results of the study will be treated; as mentioned above, the scripts of the interviews were sent to the interviewees for review and approval
<i>Instrumentation</i> (responses of the interviewees may be affected by an instruction to enhance the work in the sphere in focus)	e.g. find out whether such instructions have been issued and use this information as additional data
<i>Mortality</i> (the number of the interviewees may be reduced during the time of the survey)	e.g. for each company, make a list of possible interviewees in case the principle interviewee is unavailable
<i>Ambiguity about causal direction</i> (researchers may have difficulty defining the cause and the consequences)	e.g. elaborate a thorough procedure for data analysis and interpretation that would help define causal relationship of empirical data

Table 5. Validity of results: threats and solutions

3 Theory

In this chapter we introduce the theoretical subject of the thesis – legitimacy theory. The legitimacy theory is presented alongside with the broader disclosure theory, sustainability accounting and principal disclosure guidelines and policies. This theory chapter is used as a basis to our analysis in Chapter 5.

3.1 Disclosure theory

“There is a difference between an organization genuinely striving to become sustainable and a company merely employing the rhetoric of sustainability in its external reports without much substance underlying this rhetoric.” (Hopwood, 2010, p.17)

The driving force of the modern society is information. A message communicated properly and timely to stakeholders can play a decisive role for a company, and this should be taken into consideration while presenting annual results in a report. As it was discussed above, the sustainability issues gain more importance for business and this tendency is well reflected in the accounting and reporting practices.

Profound research in the scope of sustainability accounting has been held during the last decades, and certain disclosure theories have been formulated. A *disclosure theory* aims at providing a framework for questions related to informing stakeholders on certain issues (Blowfield, 2008).

Disclosure theories are all about the interaction between a company and its stakeholders. In these theories the communication process is defined and framed. According to Crane (2008), disclosure and dissemination of information are the two factors that enhance the impact of morality on the markets.

Furthermore, the GRI guidelines define transparency of a report with disclosure, claiming that the complete disclosure of information on the topics and indicators required to reflect impacts and enable stakeholders to make decisions, and the processes, procedures, and assumptions used to prepare those disclosures is what makes a report transparent (GRI Sustainability Reporting guidelines, version 3.0, 2006, see Appendix 2).

It is from sustainability disclosures that stakeholders get information about an organization's movements / activities related to / influencing the social and environmental context. Disclosure is an additional method for company to identify key points that their stakeholders are concerned with.

A study of disclosure started for several decades ago. In their early studies from 1978, Ernst and Ernst (cited by Nik Nazli bt Nik Ahmad, Maliah bt Sulaiman, and Dodik Siswantoro in 2003) did an analysis of annual reports of Fortune 500 Companies issued between 1972 and 1978, and the sustainability disclosure in these reports included relation to environment, energy consumption, fair business practices, human resources, community involvement, products and other social responsibility issues.

Later, more studies have been done which contribute to reports in different aspects. For example, Cormier and Magnan (2003) examined the determinants for sustainability disclosures such as information costs, proprietary costs, environmental media visibility and control variables. And Reverte (2008) developed the determinants of sustainability disclosure by investigating listed Spanish companies on the following criteria: size, industry sensitivity, profitability, ownership structure, international listing, media exposure and leverage. Furthermore, Shahed (2000) found that the corporate social performance reporting develops differently in developing countries and developed countries: all the information provided by companies in Bangladesh was qualitative in nature and the disclosure level was very poor. Gray (2001) investigated the relationships between social and environmental disclosures and corporate characteristics: as conclusion, sustainability disclosures vary among different industries.

Deegan and Gordon (1996) divided objectivity of disclosure practices into positive disclosure and negative disclosure:

Positive disclosure: disclosures that could broadly be termed as information presenting the company as operating in harmony with the environment. Example:

- Usage of environmentally sensitive management techniques.
- Compliance with government environmental reports and standards.
- Pollution or waste control in the manufacturing process.
- Merits of the company's environmental position.
- Maintenance or implementation of a strategy to protect the environment.

- Rehabilitation of mining sites.
- Tree replanting schemes implemented.
- Positive outcomes for the firm in response to governmental inquiries or public concern regarding their environmental practices.
- Voluntary adoption of safe environmental practices.
- Introduction of environmental audits.
- Recycling of materials.
- Statement of company aim or mission to protect the environment.
- Energy-saving measures, but not solely in an efficiency context.
- Research into, or support of, environmentally safe products and practices.
- Usage of environmentally safe products in manufacturing.
- Undertaking of environmental impact or assessment studies.
- Evidence of public support / approval of the company's environmental activities.
- Sponsor or recipient of environmental achievement awards.
- Company in harmony with the environment.
- Monitoring of the environment as part of the production process.
- Establishment of wildlife preservation areas.
- Improvements in environmental standards / facilities.
- Review of environmental performance equipment.

Negative disclosure: disclosures that present the company as operating to the detriment of the natural environment. Example:

- Company in conflict with the government view on its environmental activities.
- Admission of causing environmental, including health-related, problems for residents through the company's environmental activities.
- Explicit admission of excessive polluting emissions.
- Company encountering waste disposal problems.
- Government investigation into, and court action concerning, the company's environmental activities.
- Acknowledgement of detrimental effects of activities on the land.
- Admission of environmentally-based community or media sensitivity to the industry or firm.
- Non-compliance with regulation.

- Admission of past problems with the company's environmental activities.

As Reverte (2009) pointed out, there are three main theories used to support sustainability reporting:

- Stakeholder theory: the expectations of different stakeholder groups impact disclosure policies.
- Agency theory: an organization is considered to be an economic agent focused on monetary or wealth aspects.
- Legitimacy theory: it works in contrast to the agency theory.

In this thesis we concentrate on the latter. The legitimacy theory is the theoretical subject discussed in details further in the chapter. The empirical part of the thesis is based on the theoretical subject and the data analysis and interpretation are conducted within the theoretical framework of the legitimacy theory.

3.1.1 Stakeholders

In any sustainability discussion, there are two key components: the business itself and its stakeholders. The notion of a stakeholder is essential to understanding the entire concept of sustainable accounting and reporting. There is a range of definitions of this notion, and we have chosen to use the definition suggested by Blowfield (2008) since this definition seems most suitable for the thesis due to its broad scope:

Stakeholder – an entity with a stake in another organization, by virtue of the fact he, she or it is affected by, or has influence over, that organization. In corporate responsibility terms, “stakeholder” usually refers to the stake that an individual or organization has in a company, and includes employees, local communities, shareholders, customers, and clients (Blowfield, 2008, p.402).

Many companies prefer to define their stakeholders as a very wide group that includes both internal (e.g. employees, suppliers) and external (customers, local communities) actors. These are the stakeholders that, on the one hand, allow businesses to operate, and on the other, receive impacts from business operations. That is why this notion is so crucial for understanding the social responsibility of companies.

Several critical organizational stakeholder groups can be mentioned in this regard (Tilling, 2004):

Stakeholder	Resources controlled
1. The State	Contracts, grants, legislation, regulation, tax (Note that the last three of these could be either a ‘negative’ or ‘positive’ depending on the implementation)
2. The public	Patronage (as customer), support (as community interest), labor
3. The financial community	Investment
4. The media	Few ‘direct resources’; however, can substantially influence the decisions of stakeholders (2) & (3) (if not (1))

Table 6. Critical organizational stakeholder (adapted from Tilling, 2004)

In this thesis, we discuss legitimacy context as an interaction between the company and its generalized stakeholders – the society.

3.2 Legitimacy theory

3.2.1 Definitions and types

One of disclosure theories considered in the thesis is the legitimacy theory. The principal assumption of this theory is that companies consider themselves obliged to create additional value for the society in response to their right to operate. In order for this value to be made public, companies disclose their non-financial performance results: *“the license to operate is central to legitimacy theory and posits that an organization can only continue to exist if its core values are aligned with the core values of the society in which it operates”* (Blowfield, 2008, p.60).

Suchman (1995) describes legitimacy as an assumption that a certain system of norms, values, beliefs and definitions, established within a society define what type of corporate behavior is legitimate. And according to Johnson (2004, p.1), *issues of legitimacy processes have been, and continue to be, of central concern for predicting organizational growth and survival.*

In the academic context two levels of legitimacy are defined (Tilling, 2004):

- Institutional legitimacy relates to the issue of general acceptance of an organization by society at large.
- Organizational legitimacy deals with how organizations seek approval or try to avoid sanctions from the society.

In other words, there is an assumption that an organization should operate adequately in the given social and cultural context by employing its legitimacy as an organizational resource obtained from stakeholders (Blowfield, 2008; Suchman, 1995). This type of legitimacy is both a process and a state (Deegan, 2002) and deals with external influences, i.e. stakeholders impacts (Lindblom, 1994).

There is another typology of legitimacy (Suchman, 1995):

- pragmatic: stakeholders grant legitimacy to a company and expect influence or tangible return basing on their self-interest;
- moral: stakeholders assess actions of a company and decide on a moral approval for its actions;
- cognitive: either the company or its actions are comprehensible or taken for granted.

The first two types of legitimacy (pragmatic and moral) are related to the discourse between the organization and its stakeholders, or, to put it differently, the first two types involve a form of accountability and reporting. Thus, one of the implications of the legitimacy theory is that by communicating the added value to its stakeholders (by e.g. issuing reports), a company reports on its responsibility and the way it is exercised towards stakeholders.

Legitimacy is based on societal perceptions, and the only way to influence these perceptions is to provide the society with relevant information. As a response to a change in stakeholders' expectations, companies use disclosures to report on their progress in innovation, or to explain why no changes are made. In both cases, companies' actions are rooted in their legitimacy, and these actions and strategies constitute the actual focus of the legitimacy theory (Deegan, 2002).

3.2.2 Social contract

However, the legitimacy theory and the license to operate, its key concept, are not new to science; they are deeply rooted in the *social contract* theory, which first appears in the ideas of ancient Greek philosophers and gets finalized in the works of enlighteners – Locke, Hobbes

and Rousseau (Blowfield, 2008; Bertram, 2004). According to Blowfield (2008), the early ideas of social contract have had a significant influence on democracy processes in the world. The social contract posits that those who rule and those who are ruled maintain a certain social relationship, or a contract. Erckel (2008) who compared the main differences between theories of Hobbes, Locke and Rousseau, pointed out that Hobbes' ambition was to create such a safety government capable of preventing the return to the state of nature. Locke advocated for the law of nature and individual rights, while Rousseau considered creating such a society where people would be given the perfect freedom they had possessed long before, although he admitted that the modern human nature makes it impossible to return to the state of nature.

Although they have certain differences in their theories, they agree on the origins of a society. To a certain extent, Erckel (2008) concluded that social contract provides a framework for the "rule" distribution among individuals. Furthermore, in a certain social contract, some rights are given up, and some others are realized.

3.2.3 Business context of legitimacy

It is often argued that the key goal of a business is to generate acceptable returns for its shareholders. The larger the business is the more diverse interests its stakeholders share. And this is the reason why *the triple bottom line* (TBL; a model where social, environmental and financial aspects are equally employed in a company's decision-making. Hopwood, 2010) principle becomes so popular in companies of different sizes and scopes of operation. Despite the fact that legal requirements to sustainability reporting are getting more wide-spread, this practice still remains quite voluntary. This means, in its turn, that the question of motivation behind this voluntary type of accountability is very interesting and still not profoundly researched (Deegan, 2002).

The following motivations can drive management's decisions to disclose (Ibid.):

- legal requirements of certain countries;
- business advantages of creating value;
- society's information needs that should be satisfied, or "responsibility to report";
- borrower's (supplier's, affiliate's, contractor's etc) obligation to provide the lender with information about their social and environmental performance as part of the lender's risk management;

- license to operate – stakeholders’ expectations of accounts of social and environmental performance;
- response to a business threat;
- particular stakeholder groups and their information needs;
- ethical investment funds;
- industrial requirements;
- aspiration towards recognition (ie reporting awards).

In other words, a company chooses to disclose information about its social and environmental performance as a reaction to certain external factors, possibly as an attempt to prevent an adverse shift in the society’s perceptions in case the society is not satisfied with how the company acts. This process is explained by the assumption that companies do not possess the license to operate *a priori*; moreover, they owe their very existence to their stakeholders and society in general (Deegan, 2002). Adverse shifts in the society’s perceptions pose a threat to companies’ legitimacy, which should be dealt with accordingly.

Thus, negative perceptions of the society are a significant threatening factor. Another factor that threatens legitimacy can be external events that affect the company’s performance or image negatively. In the following sub-chapter we will elaborate on the process of managing legitimacy, including responses to the threats to legitimacy and tactics that companies can use when dealing with societal challenges.

3.2.4 Managing legitimacy

As mentioned above, legitimacy is based on societal perceptions regarding a company. On the one hand, legitimacy is conferred externally (by the society); on the other, it can be controlled internally (by the company). And hence, social changes stipulate for internal changes. When using voluntary disclosures, the company signals to the society that legitimacy is managed in a proper way. To be more exact, the annual report is a tool to introduce the company’s tactical responses to the societal shifts. In order to manage legitimacy, a company should (Deegan, 2002):

- identify its conferring publics;
- identify their social and environmental values and perceptions;
- identify aim with any response to a legitimacy threat;
- identify tactics and disclosures relevant to this response.

Companies' responses to societal threats to their legitimacy are determined by the degree of risk brought about by the negative shifts in societal perceptions. In order to maintain legitimacy, companies must come out with an adequate response to a threat. There are several possible responses to threats to legitimacy (Deegan, 2002):

- to adapt existing practices to meet the new demands;
- to alter social legitimacy to adapt it to the existing practices;
- to be identified with symbols, values or institutions that have a strong base of legitimacy.

Lindblom (1994) describes external disclosure strategy for threats as follows:

- inform stakeholders about the changes in the performance;
- change the perception of the stakeholders, but not their behavior;
- manipulate perception by drawing attention to other issues;
- change external expectation of the performance.

Tactical responses to threats can be summarized in the following way (Deegan, 2002):

Tactical response	Example
Avoid	<ul style="list-style-type: none"> • do not enter public debate on the affects or aftermath of the accident; • do not publicize what may be perceived as negative information;
Attempt to alter social values	educate the public on the risks and opportunities associated with a procedure;
Attempt to shape company's perceptions	<ul style="list-style-type: none"> • reiterate past social and environmental achievements of the company; • indicate the company did not breach any current legislative guidelines for the procedure in focus;
Conform to conferring publics' values	announce an immediate inquiry into the cause of the accident and assure the public that such accidents will be prevented from happening in the future.

Table 7. Possible tactical responses to legitimacy threats (adapted from Deegan, 2002)

As a matter of fact, all these strategies can be realized through an annual report. That is why annual reports are regarded a crucial tool of legitimacy.

Apart from the discussion about tactics used to respond to threats, some academics talk about legitimacy as a process. There are four stages of the legitimacy process (Tilling, 2004):

1. Establishing legitimacy:
 - 1.1. financial competence;
 - 1.2. socially constructed standards of quality and desirability;
 - 1.3. accepted standards of professionalism.
2. Maintaining legitimacy:
 - 2.1. assumption of generally favorable for business environment;
 - 2.2. forecasting potential risks to legitimacy.
3. Extending legitimacy:
 - 3.1. entering new markets or changing existing market operations;
 - 3.2. proactive management;
 - 3.3. potential stakeholders.
4. Defending legitimacy:
 - 4.1. the controversy of community's and shareholders' interests;
 - 4.2. changes in disclosure policies during significant social events.

Suchman (1995) called these processes gaining, maintaining and repairing legitimacy. He also said that to manage legitimacy implies interactions with stakeholders, which means that keeping stakeholders informed about the company's sustainability performance through the annual report is a crucial aspect in the legitimacy management process. According to him, *“skillful legitimacy management requires a diverse arsenal of techniques and a discriminating awareness of which situations merit which response”* (Suchman 1995, p.586). Basing on the three above-mentioned processes, Suchman provides a series of strategies for every type of legitimacy (Suchman 1995, p. 600):

Type/challenge	Gain	Maintain	Repair
Pragmatic	Conform to demands: - Respond to needs - Co-opt constituents - Build reputations	Monitor tastes: - Consult opinion leaders	Deny

	Select markets: - Locate friendly audiences - Recruit friendly co-optees	Protect exchanges: - Police reliability - Communicate honestly - Stockpile trust	Create monitors
	Advertise: - Advertise product - Advertise image		
Moral	Conform to ideals: - Produce proper outcomes - Embed in institutions - Offer symbolic displays	Monitor ethics: - Consult professions	Excuse/Justify
	Select domain: - Define goals	Protect priority: - Police responsibility - Communicate authoritatively - Stockpile esteem	Disassociate: - Replace personnel - Revise practices - Reconfigure
	Persuade: - Demonstrate success - Proselytize		
Cognitive	Conform to models: - Mimic standards - Formalize operations - Professionalize operations	Monitor outlooks: - Consult doubters	Explain
	Select labels: - Seek certification	Protect assumptions: - Police simplicity - Speak matter-of-factly - Stockpile interconnections	
	Institutionalize: - Persist - Popularize new models - Standardize new models		

Table 8. Legitimation strategies (adapted from Suchman, 1995)

Besides, according to Suchman, there are two approaches to deal with the process of managing legitimacy:

- strategic approach implies that legitimacy is obtained by manipulating with symbols through communication;
- institutional approach is about the cultural context of the company's operations and its impact on the perception of how the company should behave (Massy 2001, p.155).

As for stakeholder groups, they can differ in their importance or in their influence on the company. That is why the company may and should prioritize – in case it is impossible to meet the needs of all stakeholder groups, those with higher importance should be chosen before less important groups (Deegan, 2002). This is a key tool of legitimacy management in a business with a diverse stakeholder map.

Another crucial tactic of managing legitimacy is to decrease legitimacy gaps. Legitimacy gaps are the incongruence between the company's performance and stakeholders' perceptions. In the figure below, the dark blue area where the circles overlap is the area of congruence of the company's performance and stakeholders' perceptions. Companies' should work to make this area as vast as possible, thus minimizing the risk of adverse shifts or threats and increasing legitimacy:

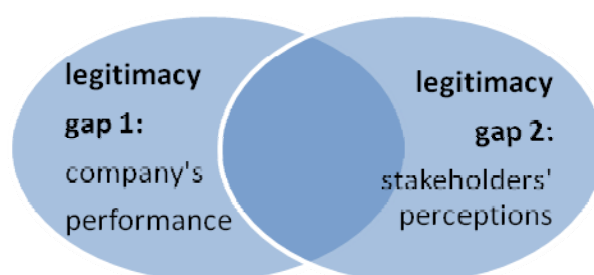


Fig. 5 Legitimacy gap (adapted from Deegan, 2002)

Legitimacy gaps arise for the following reasons (Deegan, 2002):

- the company changes, but the expectations are the same;
- the expectations change, but the company performance is the same;
- both change, but in different directions or with a time lag.

In any of those cases, the company must think of an adequate response to the current external situation, whether it is a proper alteration in its operations, or an explanation of preserving the

present state of things. If the company refrains from a response, its legitimacy is at risk, and hence its license to operate. In other words, the management should constantly analyze the external situation in order to define potential shifts or changes in society's perceptions and design responses proactively, so that the risks to the legitimacy are minimal.

A measurement process applicable to legitimacy is very hard to define, as Tilling (2004) argues, because of its abstract nature. Nevertheless, to measure a company's resources attracted due to its legitimacy is feasible – and as we've pointed out above, organizational legitimacy can be regarded a company's resources granted by its stakeholders.

By discussing whether a company should be alike or different from its competitors, Deephouse (1999) developed strategic balance theory with focus on intermediate levels of differentiation and on the benefits of a company that maintains its legitimacy in the context of reduced competition. Deephouse talks about different types of strategic similarity of the company and its competitors – high and low types. According to his examinations, “*strategic similarity does not influence legitimacy in this range, nor does strategic similarity affect performance through this mechanism*” (Deephouse 1999, p.160). However, according to Deephouse, the competition for companies with high strategic similarity surpasses benefits of their legitimacy, and vice versa companies with low strategic similarity have to deal with legitimacy costs that are higher than benefits of reduced competition.

In Sonpar, Pazzaglia and Kornijenko's study on paradox of managing legitimacy (2010), the authors discuss “stakeholder mismanagement” that can be a result of a strategic focus restricted to managing legitimacy. Although such focus can improve organizational effectiveness, other consequences can be negative. On the other hand, the authors admit that “*an organization's need for legitimacy will change over time*” (Sonpar, Pazzaglia, Kornijenko 2010, p.17).

3.3 Legitimacy context: theory synthesis

Summing up, a company's legitimacy as a process includes several components: company's license to operate granted by the society; company's response in form of a social value; financial value resulted from the company's sustainability endeavors. The following figure is a synthesized presentation of the theory discussed previously in the chapter:

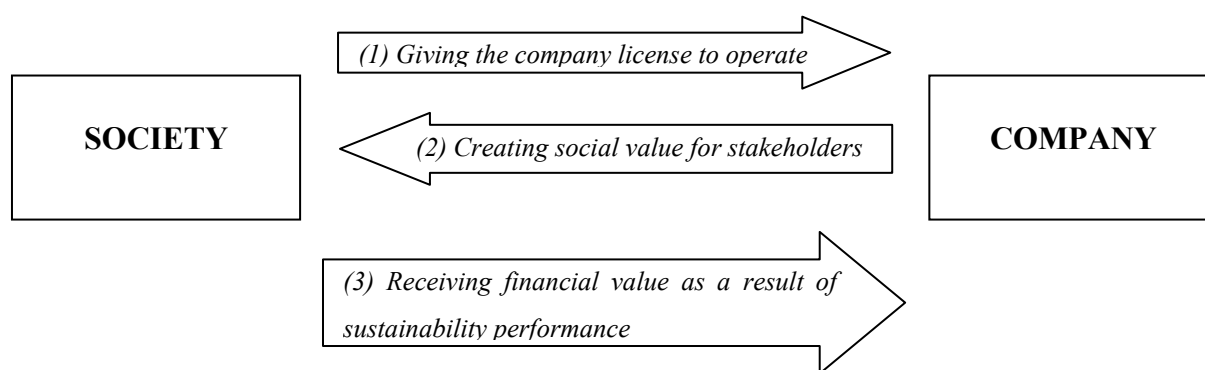


Fig. 6 Legitimacy scheme (designed by the authors)

The above figure is the authors' attempt to synthesize theories described in the chapter. Legitimacy context as we see it has two key participants – the company and the society where it operates as its stakeholders in a very broad sense; three basic processes take place in this context:

1. Giving the company license to operate - arrow (1).
2. Creating social value for stakeholders - arrow (2).
3. Receiving financial value as a result of sustainability performance – arrow (3).

The arrow (1) reflects the permission to operate that a company obtains from its stakeholders. It is not certain that all the stakeholders realize that they give the company this license. But the legitimacy theory presupposes that the society has certain perceptions of how the company should act in order to behold its license to operate.

Nevertheless, the company's response to being granted the license depicted with the arrow (2) is not spontaneous, but is a result of management's decision-making. This is where sustainability or CSR performance comes into action and is used as a way to legitimate the company's operations.

The arrow (3) reflects the process which is embedded into the TBL principle, or in other words the financial value that a company gets from being responsible and sustainable regarding its stakeholders and operations.

As it was discussed above, the annual report where the key performance indicators (KPIs) are presented covering the company's non-financial operations and activities (an integrated report, a sustainability report or simply a sustainability chapter included to the annual report; the types of report are elaborated in the following chapter) is a powerful tool that can be used

to enhance the company's legitimacy. Reporting in compliance with the stakeholders' actual and / or anticipated information needs ensures that the sustainability work conducted by the company is communicated to the society, which, in its turn, can help the management solve a number of problems related to potential risks of negative social perception and further financial consequences.

The legitimacy theory can provide a company with a reporting framework. It was pointed out in the preceding subchapters that an annual report can be used as a powerful tool of legitimacy enhancement, and many companies choose to strengthen their legitimacy through communicating their sustainable and responsible operations to their stakeholders. Depending on how the company succeeded in identifying the stakeholders' information needs and the risks of negative shifts in social perceptions, it can choose data and KPIs to include to the report.

3.4 Sustainability accounting and reporting

3.4.1 Accounting

Accounting is basically used to present financial information that is relevant for a certain company and that can be useful for decision-makers within this company, leaving all externalities (data not relevant for these purposes) behind. Two aspects of accounting can be mentioned (Blowfield, 2008):

- Internal; information based on accomplished results is used to provide guidance on future strategies;
- External; past activity reports are provided both because of legal obligations and because of the company's realization of its responsibilities; this aspect is related to the focus of the thesis, *legitimacy theory* discussed previously in the chapter.

Recently accounting practices have undergone a very strong and significant change towards sustainability issues. As we noted earlier in the text, nowadays many companies report not only on their financial performance, but also on their responsibility for the environment and society. Thus, the modified accounting has obtained new roles (Hopwood, 2010):

- it helps identify not only possible financial impacts and benefits, but social and environmental as well;

- it can be used as one of the tools for strategic planning in the context of growing sustainability challenges;
- dealing with sustainability challenges enhances risk management;
- it can be a channel of communication with third parties and stakeholders in terms of social and environmental responsibility.

The above-mentioned legitimacy theory is directly linked to these new roles of accounting. The legitimacy theory is centered around external aspects of accounting, and implies that the company takes deliberate efforts to create social value and to include sustainability challenges into its risk management policies. Using sustainability reporting as a channel of communication with its stakeholders, a company demonstrates its legitimate actions to the society thus establishing a more profound basis for its further activities and license to operate.

According to Hopwood (Ibid.), an external sustainability accounting is not efficient without a thorough internal work, application of sustainable policies inside an organization. In other words, the two aspects of accounting described above must be addressed in a single report in order to both report sustainability *and* operate sustainably. He argues that companies that do care about sustainability are focused on the following features of their accounting systems:

- inter-complementary internal and external accounting systems;
- interconnected financial and non-financial information;
- sustainability issues are embedded within strategic decision-making and routine operations.

As a matter of fact, internal activities within sustainability should be as efficient as external communication with stakeholders. Since internal sustainability accounting normally is much more discrete than external, it is not certain that all stakeholders comprehend the relationship between this type of accounting and strategic decision-making. In order to fully meet stakeholders' information needs, companies must work thoroughly with the concept of stakeholder, defining key stakeholder groups, their perceptions and expectations. The following sub-chapter deals with the stakeholder concept. We assume that this concept is highly relevant for the discussion around the legitimacy theory since the theory's assumptions and presuppositions can function only in the interactive context of "company—stakeholders".

3.4.2 Reporting

A most traditional way to report on sustainability performance is an annual report. Generally speaking, there are several types of report; we have developed definitions for each type of the report in focus basing on the literature study conducted during the work on the thesis:

- Annual Report – presentation of a firm’s audited accounts for the preceding year, as required in corporate legislation. Annual Report contains only financial data.
- Sustainability Report - presentation of a firm’s audited accounts for the preceding year, structured around the organization’s strategic objectives and focused on non-financial information and performance.
- Integrated Report – presentation of a firm’s audited accounts for the preceding year, integrating both material financial and non-financial information (adapted from www.businessdictionary.com, www.accountingforsustainability.org).
- Another way to report is a text covering sustainability issues that is included to the annual report. This can be a brief article, a description of a CSR project etc.

However, there is one more powerful tool to report sustainability – the Internet. A specific section on the web-page can be updated with any frequency and can contain information in various formats – texts, tables, charts, diagrams, interactive applications, videos etc. In the sustainability-related online section a company may provide additional information such as case studies, projects, initiatives etc not mentioned in the report.

An accounting process begins with data collection and ends with issue of a report. During the process of the report preparation a lot of operations take place at different organizational levels; information is processed, analyzed, verified and documented. Data selection is conducted in compliance with corresponding disclosure policies. As far as sustainability reporting is concerned, or reporting on non-financial performance, certain international guidelines and policies can be used as a framework or basis for data selection. Examples of most well-known and widely used reporting guidelines and policies are UN Global Compact principles, GRI (Global Reporting Initiative) indicators, ISO International Standards and AA 1000 Standards.

Appendix 2. Reporting guidelines contains more detailed information about each of the above-mentioned guidelines together with the ten principles of the UN Global Compact and the full list of GRI indicators.

4 Empirical research

In this chapter we present the results of our research and the data collected. We describe the social and sustainability practice of the construction and property companies within our study. First, the interviews will be presented, and then the focus will be shifted to the actual practice of sustainability reporting, its underlying methods and its development. Research findings.

4.1 Interviews

4.1.1 SKANSKA AB



Skanska is a leading international project development and construction company founded in 1887. Skanska's headquarters are located in Stockholm, Sweden. We established our The first international operations were launched in 1897, and today Skanska is one of the world's ten largest construction companies, employing some 51,000 employees in selected home markets in Europe, the US and Latin America. The President and CEO is Johan Karlström⁹.

We have interviewed Eva-Lena Carlén-Johansson, Manager Sustainability Projects at Skanska AB. Ms. Carlén-Johansson has been responsible for sustainability issues since 1998 and within Skanska for the last four years.

Skanska works with all scopes of the sustainability concept in their agenda: social responsibility, environmental responsibility, and economical development. Skanska wants to be the leading Green building developer when they build new houses and restore older houses. Skanska has five core values that are integrated in its operation on all levels;

- Zero loss-making projects. Loss makers destroy profitability and customer relationships.
- **Zero accidents, whereby the safety of our personnel as well as subcontractors, suppliers and general public is ensured at and around our projects.**
- **Zero environmental incidents, by which our projects should be executed in a manner that minimizes environmental impact.**

⁹ <http://www.skanska.com/en/About-Skanska/Skanska-in-brief/>

- **Zero ethical breaches, meaning that we take a zero tolerance approach to any form of bribery or corruption.**
- Zero defects, with the double aim of improving the bottom line and increasing customer satisfaction .

Of the five core values and quality goals three (marked with bold text) are directly linked to social and environmental aspects of the sustainability agenda.

Skanska has twelve safety standards, which is the global minimum that all parts of Skanska must achieve: Risk Assessment, Personal Protection Equipment, Working at Heights, Induction Training, Incident Management, Confined Spaces, Electrical Safety, Excavation and Trenching, Fire Prevention, Lifting Operations, Temporary Works, Management of Vehicles on Site. These twelve safety standards apply to all employees and all subcontractors. Skanska has been providing courses in safety, “Skanska safety week”, for the last 6 years and invites all kinds of stakeholders (employees, contractors, customers, politicians, communities etc) to participate.

As Ms Carlén-Johansson emphasized, Skanska has society in mind when planning for safety. Skanska believes that they go a bit further than the legislative demands in their efforts to sustain safety.

Ms. Carlén-Johansson believes that society gives Skanska license to operate. First, Skanska fulfills official regulations, and second, Skanska gets contracts because it is perceived as a responsible company; Ms Carlén-Johansson doesn't believe that the price is always conclusive. In infrastructure Skanska engages and interacts with those who live in the surrounding area of its project. Read more at Skanska's website about “Corporate Community Involvement”, Case Studies¹⁰.

Ms. Carlén-Johansson says there are many examples of Skanska's community engagement/outreach. For example: The Cooper River Bridge, South Carolina, U.S.A., was constructed to replace two obsolete bridges over the Cooper River and strived to benefit surrounding communities, the local economy, and protect and enhance wetland environments¹¹. Another example is the Dovegate prison in the UK where Skanska educated

¹⁰ <http://skanska-sustainability-case-studies.com/index.php/Sustainability/Social-Aspects/Corporate-Community-Involvement/>

¹¹ http://skanska-sustainability-case-studies.com/pdfs/12/12_Cooper_v001.pdf

some interns in construction techniques and construction work and later could employ some of them.¹² It can also be very simple things like rebuild a playground in an area where Skanska has projects. Skanska involves the tenants when refurbishing large living areas. The project “Miljonhemmet” in Sweden is a challenge to restore living areas built in 1965-1975.

Skanska’s sustainability work is both a deliberate effort and a part of its general operation. Skanska’s driving force is both financial benefits and doing the good for society. Skanska feels a high demand on a Swedish company in the world. Financially, some costs pay off in a longer term, well-organized projects are better paid off, and work accidents cost a lot of money. Furthermore, Skanska offers 3-year contract to its tenants on energy effective operations where Skanska takes the risk.

In its reporting Skanska imbeds sustainability using the framework of GRI indicators. Nevertheless, Skanska doesn’t follow the GRI indicators since, according to Ms Carlén-Johansson, they are not applicable for a project-based company like Skanska. The first environmental report was issued in 1997, and since 2002 Skanska has reported on sustainability. In 2001, Skanska joined the UN Global Compact.

Sustainability reporting does not play a role in the process of creating social value and/or sustaining the license to operate. Ms. Carlén-Johansson states that Skanska makes risk analysis only with larger projects, when decisions are made on the corporate level. Skanska selects projects thoroughly, ethics is important, e.g. Skanska chose to leave the Russian market because of corruption. “We want to be the leading green constructor, we work with energy effectiveness, carbon dioxide emissions, materials, recycling: we have a goal to recycle 90% (last year almost achieved; 11.8% left to disposal), and again safety issues,” says Ms Carlén-Johansson.

Skanska reveals key stakeholders information needs in an ongoing dialogue with its investors, on the one hand, and in benchmark reports of Skanska performed by analysts, on the other. Moreover, global trainees have recently studied all investors that could be interested of Skanska. Skanska arranges Framtidsdagar (Days of Future) in different places in Sweden, where sustainability is discussed with politicians, customers, competitors and other stakeholders.

¹² <http://skanska-sustainability-case-studies.com/index.php/HMP-Dovegate-UK.html>

In terms of sustainability initiatives, Skanska chooses what to work with from what it believes is important; “we do a little bit of everything”. When reporting on sustainability activities, Skanska’s goal is to represent the entire corporation. There is no established reporting system; the company uses its own sustainability policies and KPIs.

Skanska reports both positive and negative aspects, since the company believes that it must prove itself trustworthy, avoid “greenwash”. According to Ms Carlén-Johansson, the company wants to show that it’s ambition is to do better and develop. See more in Skanska’s annual report under “Challenges and opportunities”.

The link between sustainability activities and business performance is well shown in the five zeros, for example, and moreover is demonstrated in sustainability reporting. Skanska has designed a so-called color palette as a strategic framework and communication tool for Green Business, a part of Skanska’s Sustainable procurement¹³. With the color palette, Skanska measures environmental impact of construction processes. Skanska has held about 50 internal workshops to integrate the color palette thinking.

4.1.2 NCC AB



NCC is one of the leading construction and property development companies in the Nordic region. The Group had sales of SEK 49 billion in 2010, with approximately 17,000 employees. NCC develops and builds residential and commercial properties, industrial facilities and public buildings, roads, civil engineering structures and other types of infrastructure. NCC also offers input materials used in construction, such as aggregates and asphalt, and conducts paving and road services. NCC primarily conducts operations in the Nordic region. In the Baltic region, NCC mainly builds housing on a proprietary basis and in Germany single-family housing. NCC’s CEO is Olle Ehrlén¹⁴.

We have interviewed Christina Lindbäck, Vice President Environmental Affairs at NCC AB since November 2010. She has previously worked with sustainability in a large recycling company and earlier for the Swedish government, in total, for 20 years with environmental issues.

¹³ <http://skanska-sustainability-case-studies.com/index.php/Skanska-Color-Palette.html>

¹⁴ <http://www.ncc.se/en/About-NCC/>

NCC values sustainability high: “We work actively with sustainability, and now even more than ever”, as Ms Lindbäck emphasized. Sustainability is integrated in NCC’s values and ethics and embraces three key spheres: customers, costs, and competences. This is where the TBL principle is integrated; at NCC, sustainability is perceived as a correlation among customer attraction and retention, cost efficiency and high expertise. Sustainability areas that NCC works with are work environment, health, security; the company has a 0-vision for sick leave and accidents statistics.

NCC is a member of BASTA¹⁵ and a beginner to use the Carbon Footprint standard¹⁶. NCC has initiated work with quantifying and measuring the sustainability work. They also introduced “green business offers”, i.e. NCC offers its customers to systematically reduce the negative climate impact from a project. When the utmost is done NCC offers the customer to “climate compensate” the part of the project that still has a CO² impact. The compensation is done through planting a tree in Africa to “compensate for climate effects” within a project. NCC wants to be “climate clever” and manages environmental declarations¹⁷.

Regarding license to operate, Ms Lindbäck says that they try to be a responsible member of society, but the problem is that their buyers in theory want to build green, but in practice very often look at the price of the investment.

The value NCC creates to society is a part of its general operation. The driving force behind NCC’s sustainability effort is financial benefit and the intention to attract present and future employees and clients. As for various sustainability projects, an example is the usage of new GPS technologies in paving machinery, which makes the process more efficient both financially and environmentally. Furthermore, in its operations NCC uses recycled asphalt, Viaco asphalt (stone-rich asphalt paving with significantly extended durability) and alternative fuels (e.g. fish-oil, a waste product from food manufactures). Another example of socially responsible business at NCC is the training in energy savings for households provided for the company’s customers¹⁸.

The NCC 2010 annual report was validated as GRI level C. NCC does this basing on its perception of expectations from the part of its competitors, customers and other stakeholders.

¹⁵ The aim of the BASTA system is to speed up the phasing out of hazardous substances in construction.

¹⁶ Carbon footprint=<http://www.carbonfootprint.com/>

¹⁷ The purpose is to provide accessible, quality-assured and comparable information on products and services by clarifying their environmental characteristics in a life cycle perspective

¹⁸ www.ncc.com

Ms Lindbäck was not informed on how NCC finds out about its stakeholders' information needs, but in the 2009 annual report they present an identification of key stakeholders; customers, users, owners and employees and their main interests. The choice of data collection and selection of information is a working process for NCC right now; they move cautiously and follow up on key ratios. NCC reports on both negative and positive aspects, for example in employee statistics, sick leave and accidents. The company links sustainability activities and business performance by storytelling in every area and in special projects. Although sustainability has its own chapter in the annual report, is not a separate activity, according to Ms Lindbäck. NCC plans to better integrate sustainability into its overall strategy in the near future.

4.1.3 PEAB AB



PEAB is one of the Nordic countries' leading companies in the field of construction and civil engineering. PEAB was founded in 1959 by brothers Erik and Mats Paulsson. Three business areas are united into PEAB group: construction, civil engineering and industry. Today the group's net sales amount to about SEK 38 billion, and PEAB currently employs about 14,000 people. Jan Johansson has been appointed new President and CEO of PEAB and will take up this position at the AGM on 10 May 2011¹⁹.

We have interviewed Kristina Gabriell, PEAB AB, Environment Manager. Kristina Gabriell has been working with environmental issues several years, the past 3 years within PEAB and the last year with sustainability in a broader sense, including reporting of social and environmental issues.

According to Ms Gabriell, it is very important for PEAB to be sustainable, which is repeatedly emphasized by PEAB President Mats Paulsson. Sustainability is a crucial tool the company uses to prove credible to its customers, shareholders, employees and society in general. Within PEAB's vision, sustainable solutions are fed into the entire life cycle. Moreover, PEAB is working, for example, with educational programs for both its employees and communities (PEAB colleges). During the last three years the focus has shifted from energy and materials use to sustainability embracing a broader scope of issues. PEAB admits its license to operate is provided by the society and the company is open for a dialogue and interaction. Moreover, PEAB networks with other companies in terms of sustainability.

¹⁹ <http://www.PEAB.com/>

Previously the process of the social value creation was a part of general operation of the company, but recently the effort has become clearly deliberate. The executive management of PEAB is very enthusiastic about these efforts. A recent example of this is the Ideon Life Science Village in Lund, a new foundation center for research, innovation and business in the medicine. The center was founded by Mats Paulsson and is to support Region Skåne and Lund University. Lund University will establish a cancer research centre at the facility, as well as a centre for innovation, which will include a business incubator. Region Skåne will relocate its biobank to the site, as well as certain parts of the regional cancer centre and other associated activities. Growing medical companies and other life science activities will also be established there (retrieved from www.lth.se²⁰).

PEAB's ambition is to be "Norden samhällsbyggare" ("Society Builder of the North") and Nordic leader in *sustainable social development*. The latter is PEAB's term for sustainability and CSR. All activities at PEAB must be sustainable in a long-term, planned in a responsible manner and conducted in accordance with the company's ethical guidelines.

Financial benefits play the key role as far as the performance aspects are concerned. Social and environmental initiatives are implemented only if they are financially reasonable.

Presently PEAB reports on its CSR activities in the annual report, in specific texts describing their sustainability projects and activities. PEAB does it partly because the society demands more information about these aspects, and partly for transparency reasons.

Sustainability reporting plays a bigger part in the value creation process now than it used to. PEAB and similar companies have diversified stakeholders and the interest is a bit spread. In the parent company PEAB Sverige AB Ms Gabriellii works with gathering, selection and satisfying of stakeholders' demands. PEAB also does trend analyses with help from external consultants. PEAB managers work to determine external impacts such as growing environmental concern and demand for energy efficient technologies, more solid public interest in ethics and social responsibility; the results of such research are consequently used in the reporting. The data selected should be relevant both internally and externally. Today PEAB has its own guidelines and uses measurable goals. PEAB does not yet have an established system but intends to start with GRI next year. In its reports, PEAB emphasizes

²⁰ [http://www.lth.se/english/about_lth/news/news/?no_cache=1&tx_ttnews\[tt_news\]=1767&tx_ttnews\[backPid\]=20587](http://www.lth.se/english/about_lth/news/news/?no_cache=1&tx_ttnews[tt_news]=1767&tx_ttnews[backPid]=20587)

good examples, but still tries to be as open and transparent as possible - Ms Gabriellii says they have no other choice.

4.1.4 JM AB



JM is one of the Nordic region's leading developers of housing and residential areas established in 1945 by John Mattson. For the last 65 years the company has been working with residential project development. JM develops residential areas in Sweden, Norway, Denmark, Finland and Belgium. Currently Lars Lundquist is the CEO.

We have interviewed Lennart Henriz, Head of Operations Development, Quality and Environment, who has been working with environmental affairs within JM since 1998. In general, JM launched its sustainability work in 1999, but the first environmental policy was created already in 1994. As Mr Henriz told us, sustainability is very important for JM. JM works within the framework of the Bruntland commission's definitions of sustainability²¹, with ecological and social responsibility; however the focus on economic responsibility is not as strong.

According to JM, the society gives the company license to operate, and JM considers itself to be a natural part of society in terms of its business operations. The company engages with community in various social projects (e.g. Mentor project²²) and when developing new living areas; for example an area toxic from industries is detected, then decontamination begins. In 2008 JM announced its decision to exclusively build low energy houses (demand in Sweden is max 110kwh/m²; JM's houses are max 75kwh/m²).

JM was the first company to create environmental management, and for four years ago was one of the founders of the "Haga initiative²³". For the last two years JM has been following the CDP²⁴. In other words, JM works primarily with environment; the focus on social aspects is much weaker, and as for sustainability in general, this notion is used in a broader sense.

²¹ Bruntland commission (World Commission of Environment and Development) was established by the UN in 1983 in order to respond to the challenges of economic, environmental and social development.

²² MENTOR, non-profit association for care of youth, founded by HM Queen Silvia of Sweden.

²³ the Haga Initiative – Business for active climate responsibility.

²⁴ Carbon Disclosure Project= The Carbon Disclosure Project launched in 2000 to accelerate solutions to climate change by putting relevant information at the heart of business, policy and investment decisions

Social value creation is however an integrated part of JM's general operation: the company develops building projects and is by definition a "builder of society." Financial benefits determine JM's sustainability performance, to be a responsible citizen is "good for JM."

JM reports on its sustainability performance in its annual report and on the website. According to Mr Henriz, the sustainability reporting does not have any role in the social value creation at JM; the company reports basing on its values and internal perceptions of what information is expected and required. Stakeholders are not mapped. When selecting data to include to the report, JM analyses the recent year's activities and considers GRI indicators. No established system of KPIs is however implemented.

Reports include both positive and negative aspects of JM's operation since the company strives to be trustworthy and transparent. Moreover, in its reports JM demonstrates the link between sustainability and profitability by describing profitable sustainability projects.

4.1.5 Midroc AB



Midroc AB is a development group advocating a marketing concept that brings together the European based Midroc companies. The group was set up in 1996 on the basis of several well-reputed contractors. The majority of the groups' operations are undertaken in Sweden but services are also provided in Germany, UK, France, Poland etc. The groups' turnover totaled SEK 4 000 million year 2009. The number of employees within the groups totals 2 500. Midroc Europe, owned by Mohammed Al-Amoudi and the Wikström family, is managed by an Executive Committee.

Midroc consists of a group of companies that work separately with individual annual reports. We have been in touch with Alf Adamsson, Environment and Quality Manager at Property Management Midroc. Mr Adamsson has been working with environmental issues for 20 years, the past 6 years within Midroc. The company is divided into three major regions (Africa, Asia, Europe), and every region is working with different sustainability aspects. Externally, the company works primarily with its clients' and suppliers' sustainability. Internally, there are well-established environmental and work place policies.

Mr Adamsson emphasized that it is very important for Midroc to be sustainable. Midroc's license to operate is given by the society, and the company is working within its clients' networks to make sure that social and environmental demands are met. Moreover, Midroc

creates social value in its everyday operations by, for example, using old industrial districts for new construction objects.

Social value creation is a part of the general operation of Midroc. Nevertheless, such initiatives as selecting old lots for new construction objects can be considered a deliberate effort of value creation.

Financial benefits play the key role in Midroc's sustainability performance. Social and environmental initiatives are implemented only if they are financially reasonable.

Midroc has been reporting on its environmental performance during the last 5 years. Sustainability data is included to the Annual Report, no sustainability report is issued. Nevertheless, some information about Midroc's sustainability performance is published in a magazine for clients LINQ. As Mr Adamsson remarked, sustainability reporting is not crucial to the social value creation process at Midroc. At Midroc, stakeholders play a vital role. Stakeholder analyses and trendspotting are conducted regularly.

4.2 Summary of empirical findings

In our interviews we have addressed managers of five leading Swedish property developers with 10 questions (for the full list of questions see Appendix 1).

According to all interviewees, sustainability is an important question for their companies. Nevertheless, the extent to which the companies have developed their sustainability performance, vary. Thus, certain companies are more advanced in this regard than their peers. The financial benefits (or their absence) associated with a more active sustainability performance can be an explanation to this. As one of the interviewees said, customers are ready to pay more for "sustainable" products in theory, while in practice it is the price that is the key factor when choosing constructors and property developers.

The interviews and reports study have shown that none of the interviewed companies use any international standard or guideline discussed previously in the thesis. Some of the interviewees said they consult GRI indicators, either to see if their report covers most important issues, or to get inspiration. There is still much room for improvement in terms of stakeholder analysis: only a few companies have indicated that they do some research of their stakeholders, including mapping and trendspotting. But the extent to which findings of this research are embedded into sustainability strategy and reporting is mostly unclear.

The companies employ at least one manager responsible for sustainability issues, but the focus is unevenly distributed among three sustainability areas in the following order:

- 1) environmental issues;
- 2) work environment;
- 3) social issues.

This order is natural considering that most of our interviewees – as well as most actors of the Swedish construction and property market - started their sustainability work with environmental issues only, and sustainability in a broader sense still is undergoing a development stage. Thus, the cooperation with the society is carried out through specific profile projects, which means that community engagement is not formulated as a separated sustainability activity.

The majority of the interviewees recognized the term “triple bottom line” and said that their companies use this principle in their business. In other words, they said that their companies try to embed sustainability into the general mindset of the management, connecting social, environmental and financial perspectives in the corporative strategy.

Apart from interviewing relevant managers and studying annual reports, we have searched websites of each company in order to see how sustainability is reflected in its business concepts or relevant concepts, such as goals or values (in case a company has no formulated business concept provided on its website). Below are the companies’ business concepts:

PEAB: (elaboration of the Business Concept) Our ambition is to be a company that prioritizes *sustainable development and good environmental knowhow*. For us building for the future means that what we build today must also meet tomorrow’s *ethical requirements and demands for well thought-through environmental work*. The strength of the PEAB brand is evaluated based on our ability to build for the future.

NCC: (Business Concept) Business concept – *responsible enterprise*. NCC develops and builds future environments for working, living and communication. Supported by its values – focus, simplicity and *responsibility* – NCC and its customers jointly identify needs-based, cost-effective and high-quality solutions that create *added value for all of NCC’s stakeholders* and contribute to *sustainable social development*.

Skanska: (Goals) We create *sustainable solutions* and aim to be a leader in *quality, green construction, work safety and business ethics*. We also aim to maximize the potential of Skanska with regard to returns (...)

JM: (Business Concept) To create attractive living and working environments that satisfy individual needs both today and in the future.

Midroc: (Our Values) Midroc offers large professional freedom for motivated and responsibility taking staff. Internally, we have a straight forward information exchange and we listen extra carefully to those co-workers who work directly with our clients - they are our best sources for constantly staying updated on current realities.

We have included the statements presented above retrieved from the companies' websites to the study. Obviously, not all of the companies include sustainability in their business concept or relative directory. As we mentioned above, the eldest companies (Skanska, PEAB and NCC) are more advanced in their sustainability performance and sustainability embedding into the general strategy. And this peculiarity is demonstrated by the business concepts of the companies. We consider this piece of information to be interesting and relevant for the research.

5 Analysis

In this chapter we compare the theoretical framework in chapter 3 with the empirical findings. With the base of our research questions we search after links and differences.

We have researched sustainability reporting of Sweden's five biggest property developers from a legitimacy perspective. The research included interviews with managers responsible for sustainability issues and studies of all available annual reports of these companies. In this subchapter we present the analysis of the empiric materials. The analysis was conducted within the theoretical framework of Chapter 3. Specifically, the following issues from the theoretical discussions have been selected:

1. **Level of legitimacy: institutional and organizational** (Tilling, 2004; see 3.2.1)
2. **Voluntary accounting and reporting actions** (Deegan, 2002; see 3.2.1 and 3.2.3)
3. **Motivations behind disclosures: why do companies' reports look the way they do?** (Deegan, 2002; see 3.2.3)
4. **Responding to legitimacy threats** (Lindblom, 1994; Deegan, 2002; see 3.2.4)

We have chosen the above issues for the analysis because we consider them to be a comprehensive presentation of the focus of our study. First, we defined how engaged the company is from a legitimacy perspective. Then we moved towards reflecting upon whether the company finds it necessary to provide certain information, and how it provides this information. The third issue is the motivation that drives the company's choice of data to include to the report, both to meet a legal demand and voluntarily. And, finally, we analyzed the companies' recent annual reports (2010) to find if legitimacy threats are recognized and dealt with through disclosures. Below follows a detailed analysis per company.

5.1 Skanska

1. Level of legitimacy: institutional and organizational

Skanska demonstrates both levels of legitimacy. Tilling (2004) describes institutional legitimacy as an issue of general acceptance of an organization by the society; in Skanska's case, the company is accepted by the society, and is aware of this fact. Skanska seeks approval from the society by engaging with it in crucial (for the society as well as for Skanska) issues, such as safety and construction-related activities, which is consistent with

Tilling's definition of organizational legitimacy (how companies try to avoid threats from the society by seeking approval). The following data regarding such issues is publicly available: five sustainability zeros (core values), twelve safety standards, courses in safety – “Skanska safety week”. The choice of issues, although not necessarily supported by a concrete stakeholder mapping, demonstrate that Skanska is willing to meet the needs of the society by collaborating on the ones that normally are associated with the construction and real-estate market. However, the examples of Skanska's community engagement/outreach obtained during the interview show that the company cooperates with its stakeholders in other ways which are all related to its core competency - construction.

2. Voluntary accounting and reporting actions

Skanska engages in voluntary accounting and reporting by, for example, using voluntary reporting guidelines (GRI, UNGC) or devising its own policies (5 Zeros). This shows Skanska's intention to meet information needs of its stakeholders by reporting on the most material issues of its performance. In other words, analyzing Skanska's voluntary accounting and reporting actions in accordance with Deegan's idea (Deegan, 2002), we can say that the intention to meet stakeholders' information needs motivates disclosure.

3. Motivations behind disclosures: why do companies' reports look the way they do?

As Deegan points out (Deegan, 2002), companies' being driven by certain motivations in their decisions to disclose indicates that the license to operate is not given by the society by default; it is obtained and ought to be managed. In this regard, the following motivations listed in 3.2.3 can be observed in Skanska's accountability and reporting processes:

- In terms of safety Skanska believes it surpasses certain legal norms. This can be regarded an indicator of the company's intention (probably non-deliberate) to defend its legitimacy by a more advanced accountability.
- Skanska recognizes business advantages of creating value. In this regard the value creation is considered both as a movement towards sustainability (Zero accidents – lower costs for the company) and responsibility (being perceived as a responsible company, Skanska attracts investors and business partners). Skanska's intention to embed sustainability into its strategic mindset and inform stakeholders about this process may be an explanation to the fact that annual reports demonstrate the link between sustainability activities and business performance. Skanska does so to

maintain legitimacy by creating shared value within the chain of financial benefits yielded from sustainable projects and maintain investments into sustainability.

- Skanska recognizes its “responsibility to report” by covering sustainability issues, and both positive and negative information, in its annual reporting. Skanska’s perceptions of what the society is most concerned with (e.g. safety) together with global reporting traditions (e.g. GRI) make the foundation for its reporting framework.
- In its reporting, Skanska aims at a broad representation of the entire corporation, which in its turn brings about a responsibility of affiliates and business units to report on its performance according to the same pattern as the headquarters.
- Skanska acknowledges its license to operate, and hence might be reporting because of a moral obligation to be accountable to the society.
- The thoroughness with which Skanska selects projects is indicative of its intention to avoid business threats connected with e.g. business ethics (e.g. leaving the Russian market). Such events are described in the annual reports accordingly, in order to inform stakeholders of the measures taken in this regard.
- The ongoing dialogue that Skanska maintains with its investors can be considered the company’s efforts to map information needs of its key stakeholder groups, which should be met by the annual reporting.

4. Responding to legitimacy threats

There is a wide range of the ways to respond to legitimacy threats, and as we have pointed out previously in 3.2.4, an annual report can be used to realize all of the respond strategies. Using its annual report, Skanska responds to the following social threats:

- Skanska has chosen to be identified with a number of institutions that have a strong base of legitimacy, e.g. UN Global Compact and Caring for Climate.
- Skanska does not use an external revision of the sustainability reporting, because of the nature of their project-based business, and because it is not applicable for revisions made on other industries. We interpret this statement as a way of informing and educating the stakeholders to avoid criticism.
- Skanska reports on relevant key indicators thus educating the reader on what is material for the company.
- Skanska focuses on reducing emissions and number of casualties by presenting the 0-vision on work-related accidents and company’s own “Journey to deep green”,

targeted basically at managing legitimacy through working in a business with traditionally high volumes of emissions and numbers of work-related casualties.

5.2 NCC

1. Level of legitimacy

Institutionally, NCC is recognized by the society and it tries to be a responsible member of society; organizationally, it makes efforts to respond to this recognition by e.g. applying comprehensive reporting standards that cover a wide range of stakeholders' information needs (GRI). Both characteristics suit the definitions of legitimacy levels suggested by Tilling (2004), which allows us to say that NCC demonstrates both levels of legitimacy.

2. Voluntary accounting and reporting actions

NCC doesn't limit its reporting to GRI; it applies certain environmental declarations and Carbon Footprint standard which clearly demonstrates its intention to be accountable for its performance to the society. Moreover, the company attempts to quantify and measure its sustainability performance thus providing its stakeholders with new KPIs which probably will create a more comprehensive picture of NCC's financial and sustainability performance and thus raise credibility and strengthen legitimacy. In other words, the intention to disclose most relevant indicators to the society in order to be accountable motivates NCC to report, which answers Deegan's question about voluntary accounting and reporting in 3.2.3.

3. Motivations behind disclosures: why do companies' reports look the way they do?

There are a number of factors that motivate NCC in its disclosure process. Applying Deegan's reflections (Deegan, 2002) to NCC, we have identified the following motivations:

- In its sustainability reporting, NCC emphasises customers and customer retention. The company values its sustainability performance high in this regard, considering it an important factor that affects positively its business (customer retention).
- Sustainability thinking integrated into NCC's values and ethics and embracing customers, costs and competences represents a quite comprehensive strategic overview of the core business centered around delivering competencies in the construction and real-estate market (sustainable performance) for a sustainable price to

satisfy a customer (create value). Reflecting this mindset the annual report can have favorable effect on the business, in terms of trustworthiness, reputation etc.

- NCC uses GRI to meet stakeholders' expectations.
- NCC performs stakeholder analysis and one can assume that NCC's choice of sustainability areas to work with (work environment, health, security) is linked to this process. These areas are likely to be of a particularly high interest to the stakeholders; the company puts itself in an accountable position, where its intention to meet this interest can be realized by means of reporting.
- Reporting both on positive and negative aspects helps the company stay trustworthy and transparent.
- NCC considers the price to be the key motivator for its investors, but nevertheless the company recognizes the importance of being sustainable and responsible because of its license to operate.
- NCC performs analysis of its key stakeholders and their main interest.
- The results of such analysis can be used in the materiality discussion in the reporting, which provides a basis for disclosure.

It is obvious that, in terms of motivations behind decisions to disclose as presented in 3.2.3, NCC is driven primarily by the business advantages of creating value and the intention to satisfy information needs of crucial stakeholder groups.

4. Responding to legitimacy threats

We found that in its reporting NCC uses certain response tactics discussed in 3.2.4. The identified tactics regard basically NCC's stakeholder-oriented reporting:

- NCC has made its first attempt of sustainability reporting in its 2010 annual report, where in the first lines NCC states that it is well aware of the stakeholders' high demands and expectations since NCC is Sweden's second largest contractor and property developer.
- NCC discloses that the quote of work-related accidents increased in 2010 compared to the last couple of years but then present a 0-vision of accidents. This information informs the stakeholders about changes in the performance and thereby manipulates the stakeholder's perception by drawing attention to future, better, performance.

5.3 PEAB

1. Level of legitimacy

As for the institutional level, PEAB admits it's important to be a sustainable business, which implies that the company recognizes the society's positive perception of it and takes the opportunity to run the business provided within this perception. As for the organizational level, PEAB obviously makes attempts to respond to the society's perceptions by acting sustainably and managing its credibility. In other words, applying Tilling's definition of organizational legitimacy (Tilling, 2004), with its sustainability performance PEAB seek approval or tries to avoid sanctions from the society.

2. Voluntary accounting and reporting actions

As for the voluntary nature of disclosure emphasized by Deegan (2002), PEAB applies its own guidelines, that are as voluntary as GRI (PEAB doesn't use GRI indicators). By doing so, PEAB informs the society on what it deems most relevant thus aiming at meeting the stakeholders' information needs properly. Sustainability-related texts included to the annual reports are designed to provide the society with sufficient information, which is also indicative of the company's good will in terms of accounting and reporting.

3. Motivations behind disclosures: why do companies' reports look the way they do?

- PEAB recognizes financial benefits of sustainable business by using the financial criterion when selecting projects to work with. In other words, PEAB has experience of gaining financial benefits from previous sustainability projects, and is willing to keep working in this direction. Long-term sustainability and compliance with ethical guidelines apply to all PEAB's projects and activities.
- PEAB is obviously interested to know its stakeholders' expectations, since it studies changes in their information needs such as growing concern about environment, ethics and social responsibility. Moreover, the results of these studies are used in reporting, which is a tool of legitimacy management. Nevertheless, we don't believe that stakeholder analysis is a motivation behind the reporting; PEAB doesn't report to study its stakeholders, but it studies stakeholders to write a report.

- The license to operate is sustained by dialogue and interaction with the society and networking with other companies in terms of sustainability. This interaction is described in PEAB's reporting.
- Since PEAB's sustainability efforts have become more deliberate (moving from being a part of the general operation to obtaining a more specific framework), we can assume that the company has started to use its sustainability as a way to tackle business threats. Another fact in favor of this assumption is the analysis of external impacts, stakeholders' information need, demand for energy efficient technologies etc.
- Particular stakeholder groups and their information needs can also be named among motivations behind PEAB's sustainability accounting and reporting. PEAB gathers, selects and tried to satisfy its stakeholders' information needs in order to use the results in the reporting; but these results can be used in overall management, too.

Thus, a strong emphasis in PEAB's disclosure principles lies on stakeholders. The company's efforts in stakeholder analysis, mapping and engagement affect its accountability and reporting.

4. Responding to legitimacy threats

Like NCC, in 2010 PEAB first reported on sustainability. We have studied its 2010 annual report and have found that the company makes efforts to avoid threats as described by Deegan (2002):

- PEAB, like most of its competitors, wants to be identified with a number of institutions that have a strong base of legitimacy, e.g. to follow the guidelines of GRI.
- The vision of 0 work related accidents is adapted by PEAB like Skanska and NCC, to inform stakeholders and draw attention to other issues/better performance.

5.4 JM

1. Level of legitimacy

Institutionally, JM recognizes being accepted by the society, which is obvious from its perception of its license to operate. Tilling (2004) describes this level as general acceptance of an organization by society at large, and according to our interviewee from JM, the company considers its business operation to be a natural part of society and values its license to operate

high Organizationally, JM is in a dialogue and interaction with the society, via social engagement, sustainable construction projects etc. Nevertheless, social focus of its sustainability performance is much weaker compared to environmental focus. This can be regarded a more traditional approach to the sustainability in the construction and real-estate market where environment is treated as the key focus area in terms of accountability and responsibility.

2. Voluntary accounting and reporting actions

JM does voluntary reporting by “story-telling” in its annual reports (or analyses of the recent year’s activities), engaging into Carbon Disclosure Project and Haga Initiative. Nevertheless, all these efforts are basically focused on the environment. However, this does not mean that JM is not working with its legitimacy. By being accountable for and informing stakeholders about its environmental impact, JM manages its legitimate status to a certain extent.

3. Motivations behind disclosures: why do companies’ reports look the way they do?

JM’s annual report is not integrated; nor does the company issue a separate sustainability report. In its reporting, JM includes texts on sustainability topics describing its sustainability performance. Nevertheless, we have been able to identify certain motivations behind this “story-telling” using the list proposed by Deegan (2002):

- For JM, financial benefit is the driving force behind the process of selection of sustainability projects to work with. This, in its turn, means that JM is aware of these benefits. Admitting that it is advantageous to be responsible, JM admits that well-maintained corporate responsibility can have multiple effects on its business.
- Since description of profitable sustainability projects is included to the annual reports to demonstrate financial benefits from sustainability, we can assume that JM manages its legitimacy by providing stakeholders with strategic data on sustainability integrated into the business.
- Although JM does not map its stakeholders, their information needs are still considered in terms of managing legitimacy. Thus, since JM builds its reporting basing on its perceptions of what information is required, we can say that JM takes into account external information needs.
- The license to operate is recognized by JM which means that the company gives its legitimacy high importance. Although the social focus of sustainability is quite weak,

JM is still engaged into various social projects which can be treated as its efforts to manage legitimacy. The social engagement is described in the reporting, thus providing the society with accounting data.

- JM strives for transparency and trustworthiness by reporting on positive and negative aspects, and we assume that doing so in order to maintain legitimacy is a factor influencing the annual reporting.

4. Responding to legitimacy threats

JM is a veteran in terms of responding to legitimacy threats. JM has reported on sustainability issues (developed from environmental to social) since 1985. JM proudly informs its stakeholders in the latest annual report of a very broad scope of its sustainability performance. We believe JM's 2010 annual report is formed to fit a large group of stakeholders that are private family-house buyers.

JM informs its stakeholders of work-related accidents and quotes of sick leave as well as the policy of exclusively producing environmentally classified buildings. This statement is strong and alters social legitimacy to the existing practices.

5.5 Midroc

1. Level of legitimacy

Since Midroc is a group of companies that work with their own sustainability projects, the legitimacy levels are more complex here, thus we cannot apply Tilling's classification from 3.2.1 to a full extent. Nevertheless, one can talk about external and internal organizational legitimacy: externally, Midroc works with its clients' and suppliers' sustainability; internally, Midroc works with environment and safety.

2. Voluntary accounting and reporting actions

Midroc engages in a form of voluntary reporting by providing its stakeholders with sustainability data in specific texts in the annual reports and in the clients' magazine LINQ. We assume that sustainability reporting is not a high priority in Midroc's value creation and legitimacy management. Thus, the question of voluntary reporting deemed interesting by Deegan (2002) is not highly relevant to Midroc's reporting; the company limits itself to brief discussions around its sustainability performance in the annual report, and in a stakeholder-

specific communication material – the magazine LINQ. However, the focus of this study is the annual reporting, and thus we have not studied other communication channels.

3. Motivations behind disclosures: why do companies' reports look the way they do?

- Midroc selects sustainability projects to work with depending on their financial return, which means that Midroc's goal is to work only with those sustainability projects that can have a positive effect on the profits. This, in its turn, means that Midroc is aware that such projects can be designed. We assume that Midroc admits financial advantages of working with sustainability. Results of such projects can be used in the reporting as a tool of legitimacy management.
- Midroc is definitely interested in relevant and regularly updated information about its stakeholders, and that is why the company performs stakeholder analysis and trendspotting. Moreover, Midroc is working to meet the expectations of its clients' stakeholders.
- License to operate and Midroc's social responsibility is obviously one of the motivations behind the company's sustainability reporting (both in the annual report and the clients' magazine). In order to maintain its legitimacy and give a comprehensive feedback to the society, Midroc provides it with accounting on its social and environmental projects, as well as works with the secondary responsibility – that of its clients' and suppliers'.

Thus, applying Deegan's list of motivations from 3.2.3 we can say that Midroc's disclosures in terms of sustainability reporting are motivated by business advantages and the intention to meet stakeholders' information needs. However, sustainability reporting does not play an important role in this process; it is more likely that the issues described above have another objectives (it might be marketing, investor relations etc).

4. Responding to legitimacy threats

Midroc has no sustainability reporting. So, using Deegan's and Lindblom's theories on tactical responses to legitimacy threats (Deegan, 2002; Lindblom, 1994) we can only comment that Midroc responds to threats of legitimacy by informing its stakeholders about the changes in the financial performance. Otherwise, the company uses other methods to handle social threats and manage risks.

6 Conclusion and discussion

In this chapter we draw a generalized conclusion of the research and reflect over the possible outcomes related to the area of research and suggest issues for further study.

6.1 Conclusion

In our study we have attempted to answer three questions:

- i. Why do companies report on their sustainability performance?
- ii. How do they choose the data to report on?
- iii. How can sustainability performance be understood from a legitimacy perspective?
 - i. On the basis of the conducted research we can conclude that the companies whose managers we have interviewed and whose reports we have studied do not report with a single purpose to support their license to operate. Nevertheless, not having legitimacy as the only formulated purpose of the reporting does not mean that the companies do not manage their legitimacy. On the contrary, sustainability reporting works as a tool to maintain legitimate status in the social context. From the point of view of the legitimacy theory, companies can get motivation to report their sustainability from their perceived obligation to support license to operate. In other words, our answer to this question is: *Companies report on their sustainability performance to maintain their legitimate status, although this process is not necessarily deliberate.*
 - ii. Not all the companies use stakeholder analysis in the preparation of annual reports, which lets us assume that the companies base their choice of data mainly on internal perceptions of what is required. Obviously, data is not selected basing only on what company itself finds interesting; stakeholders' information needs are reflected in the selection process, although, just like in the first question, not necessarily deliberately. Thus, our answer is: *Companies choose the data to report on basing on their internal perceptions of what their stakeholders' information needs are.*
 - iii. It is obvious from the empiric research that all of the companies are aware of and give high priority to sustainability-related benefits. Certainly, the key motivation behind both financial and non-financial performance is increased profit. Nevertheless, financial rationale is merely a criterion when choosing sustainability projects to work

with; it does not define whether a company is focusing on sustainability in general. Thus we conclude that, *from a legitimacy perspective, the companies' sustainability performance and reporting are driven by an intention to be sustainable, accountable for financial and non-financial performance and to inform stakeholders about relevant issues in reporting.* Nevertheless, most of the companies that we have studied have not yet developed a profound understanding of their role in the society. In our thesis we have researched five biggest companies in the Swedish property market, and this empirical object is representative enough to conclude that the market on the whole is only beginning to discover its social role.

Generally speaking, legitimacy perspective in sustainability reporting is mostly about motivation behind reporting and disclosures applied to the data. The companies that we have interviewed all stated that their aspiration is to align their values with the values of the society. From a legitimacy perspective, this is a way to manage and defend legitimacy by interacting with stakeholders and working with their information needs. This study demonstrates how five property developers in Sweden work in this regard. Moreover, the study shows that sustainability reporting, in terms of legitimacy, can be perceived as a risk management tool used to maintain organizational growth and survival. These two aspects – sustainability reporting from a legitimacy perspective and as a risk management tool – can be named this study's contribution to the legitimacy theory and sustainability reporting theory.

6.2 Discussion

We are convinced that the property and construction market is a very exiting empirical object. A lot is going on in this sector. For example, recently Skanska which is definitely very advanced in terms of sustainability accounting and reporting has been fined for the breach of safety norms for work environment (the bridge collapse in 2008 with two casualties and three injuries; our research has shown that this tragic accident was reported in the 2008 annual report), and managed to maintain its transparency. And the fact that the biggest companies of this business gradually turn towards sustainability, is indicative of a broader tendency.

Moreover, there is a legal trend: now all state-owned companies in Sweden must report their sustainability performance on an annual basis.

The stakeholder perspective is definitely very interesting, both in terms of sustainable development and profitability. Should companies dig deep into their stakeholder's

information needs and base their communication on the findings of such research? Will it affect the sustainability performance, TBL performance and social value creation process? Can a report based solely on stakeholders' information needs be an effective communication (external) and management (internal) tool? These are several suggestions that we can make for further research within the area.

Legitimacy gaps are another field of interest that can be recommended for further research. In our thesis we have touched upon legitimacy gap briefly when discussing legitimacy theory, and of course a more profound research would be highly relevant for this theoretical object.

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For details of the interviews, contact the authors of the thesis.

Appendices

Appendix I. Interview questionnaire

Name, name of the company, position with the company

No of years working (a) with social issues in general and (b) with sustainability reporting within the company: (a) _____ (b) _____

1. Does your company deem it necessary to be sustainable? If yes, what do you do in this regard (social, environmental)?
 2. Do you think that the society gives your company license to operate? If yes, what do you do in response (acting as a responsible member of society, engaging with communities etc)?
 3. If you create value to the society, is it a deliberate effort or a part of your general operation?
 4. What is the driving force behind your sustainability performance: financial benefits or doing the good for society?
 5. Do you report on your sustainability activities? If yes, since when and why?
 6. What role does sustainability reporting play in the process of creating social value and/or sustaining your license to operate?
 7. Do you define your key stakeholders and their information needs? If yes, how do you find out about the information needs of your stakeholders?
 8. How do you choose data to report upon (sustainability disclosure policy, international guidelines, stakeholders' information needs, or other determinants)? Do you have an established system of sustainability reporting indicators (quantitative and/or qualitative)?
 9. Do you report both positive and negative aspects (from stakeholders' perspective) of your performance in terms of sustainability? If yes, why do you do that?
 10. In your reporting, do you describe the link between sustainability activities and business performance?
-

Appendix 2. Reporting guidelines

United Nations Global Compact

The United Nations Global Compact (UNGC) is a policy platform and a practical framework for companies committed to sustainability and responsible business practices²⁵. UNGC is “*global and local; private and public; voluntary yet accountable*”²⁶: it operates through 80 local networks, and has over 8,000 signatures based in 135 countries, being world’s largest corporate responsibility initiative. The UNGC has two key objectives:

- provide principles for business operations applicable for companies around the world;
- strengthen the movement towards broader UN goals, including the Millennium Development Goals²⁷.

Sustainability is placed very high on the UN agenda, and many companies are eager to become members. The following demands are imposed on a company that joins the UNGC²⁸:

- UNGC and its principles should be made an integral part of business strategy, day-to-day operations, and organizational culture;
- UNGC and its principles should be incorporated in highest-level decision-making;
- UN goals and issues should be supported;
- Communication on Progress: member company should communicate annually with its stakeholders on progress made to implement the principles, ideally integrated into the annual report or similar public document;
- UNGC should be advanced through active dialogue with all stakeholders.

UNGC provides a vast platform where member companies can share their experience and best practices in their aspiration towards a more sustainable performance. The core of the UNGC is the list of ten principles that members cover in their reporting²⁹; these principles, grouped

²⁵ http://www.unglobalcompact.org/docs/news_events/8.1/GC_brochure_FINAL.pdf

²⁶ http://www.unglobalcompact.org/docs/news_events/8.1/GC_brochure_FINAL.pdf

²⁷ The Millennium Development Goals (MDG) are described in the Millennium Declaration (2000). There are eight MDG: 1. Eradicate extreme poverty and hunger. 2. Achieve universal primary education. 3. Promote gender equality and empower women. 4. Reduce child mortality. 5. Improve maternal health. 6. Combat HIV/AIDS, malaria and other diseases. 7. Ensure environmental sustainability. 8. Develop a global partnership for development.

²⁸ http://www.unglobalcompact.org/docs/news_events/8.1/after_the_signature.pdf

²⁹ http://www.unglobalcompact.org/docs/news_events/8.1/GC_brochure_FINAL.pdf

into four categories (human rights, labor rights, environment, anti-corruption) represent core values that companies may choose to share, enhance and develop on a mutual platform.

UN Global Compact principles

Human rights	1. Businesses should support and respect the protection of internationally proclaimed human rights; and
	2. make sure that they are not complicit in human rights abuses.
Labour	3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
	4. the elimination of all forms of forced and compulsory labour;
	5. the effective abolition of child labour; and
	6. the elimination of discrimination in respect of employment and occupation.
Environment	7. Businesses are asked to support a precautionary approach to environmental challenges;
	8. undertake initiatives to promote greater environmental responsibility; and
	9. encourage the development and diffusion of environmentally friendly technologies.
Anti-corruption	10. Businesses should work against corruption in all its forms, including extortion and bribery.

Global Reporting Initiative

One of the most significant reporting guidelines is the Global Reporting Initiative or GRI³⁰, a global disclosure framework for comprehensive sustainability reporting that embeds the TBL principle (Hopwood, 2010). The idea behind GRI guidelines is to bring together financial and non-financial reporting practice as close as possible. The G3 Guidelines launched in 2006 are the most popular sustainability reporting guidelines used by modern business in their non-financial accounting. These guidelines provide a framework within two directions³¹:

Reporting principles and guidance:

- report content: materiality, stakeholder inclusiveness, sustainability context, completeness;
- report quality: balance, comparability, accuracy, timeliness, reliability, and clarity;

Standard disclosures:

- strategy and profile;
- management approach;

³⁰GRI was launched in 1997 as a division of Ceres, a national network whose mission is to integrate sustainability into capital markets (<http://www.ceres.org/Page.aspx?pid=415>). The first Sustainability Reporting Guidelines were published in 2000 followed by 50 companies worldwide. In 2002 GRI was transformed into a separated institution independent from Ceres.

³¹<http://www.globalreporting.org/ReportingFramework/G3Guidelines/>

- report boundary
- performance indicators

The G3 include several blocks of indicators that companies are supposed to report against:

- economic;
- environmental;
- social: labor practices; human rights; society; product responsibility

Each block contains up to 30 indicators divided into core and additional indicators. The level of compliance with the G3 (from A down to C) can be defined by the company or by a third part (in this case a plus (e.g. A+) follows the letter).

GRI performance indicators

Economic

Economic Performace

- EC1 Economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.(Core)
- EC2 Financial implications and other risks and opportunities for the organization's activities due to climate change. (Core)
- EC3 Coverage of the organization's defined benefit plan obligations. (Core)
- EC4 Significant financial assistance received from government. (Core)

Market Presence

- EC5 Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation. (Additional)
- EC6 Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation. (Core)
- EC7 Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation. (Core)

Indirect Economic Impacts

- EC8 Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement. (Core)
- EC9 Understanding and describing significant indirect economic impacts, including the extent of impacts. (Additional)

Environmental

Materials

- EN1 Materials used by weight or volume. (Core)
- EN2 Percentage of materials used that are recycled input materials. (Core)

Energy

- EN3 Direct energy consumption by primary energy source. (Core)
- EN4 Indirect energy consumption by primary source. (Core)

- EN5 Energy saved due to conservation and efficiency improvements. (Additional)
- EN6 Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives. (Additional)
- EN7 Initiatives to reduce indirect energy consumption and reductions achieved. (Additional)

Water

- EN8 Total water withdrawal by source. (Core)
- EN9 Water sources significantly affected by withdrawal of water. (Additional)
- EN10 Percentage and total volume of water recycled and reused. (Additional)

Biodiversity

- EN11 Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas. (Core)
- EN12 Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas. (Core)
- EN13 Habitats protected or restored. (Additional)
- EN14 Strategies, current actions, and future plans for managing impacts on biodiversity. (Additional)
- EN15 Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk. (Additional)

Emissions, Effluents, and Waste

- EN16 Total direct and indirect greenhouse gas emissions by weight. (Core)
- EN17 Other relevant indirect greenhouse gas emissions by weight. (Core)
- EN18 Initiatives to reduce greenhouse gas emissions and reductions achieved. (Additional)
- EN19 Emissions of ozone-depleting substances by weight. (Core)
- EN20 NO_x, SO_x, and other significant air emissions by type and weight. (Core)
- EN21 Total water discharge by quality and destination. (Core)
- EN22 Total weight of waste by type and disposal method. (Core)
- EN23 Total number and volume of significant spills. (Core)
- EN24 Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally. (Additional)
- EN25 Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff. (Additional)

Products and Services

- EN26 Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation. (Core)
- EN27 Percentage of products sold and their packaging materials that are reclaimed by category. (Core)

Compliance

- EN28 Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations. (Core)

Transport

- EN29 Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce. (Additional)

Overall

- EN30 Total environmental protection expenditures and investments by type. (Additional)

Social Performance: Labor Practices & Decent Work

Employment

- LA1 Total workforce by employment type, employment contract, and region. (Core)
- LA2 Total number and rate of employee turnover by age group, gender, and region. (Core)
- LA3 Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations. (Additional)

Labor/Management Relations

- LA4 Percentage of employees covered by collective bargaining agreements. (Core)
- LA5 Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements. (Core)

Occupational Health and Safety

- LA6 Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs. (Additional)
- LA7 Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region. (Core)
- LA8 Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases. (Core)
- LA9 Health and safety topics covered in formal agreements with trade unions. (Additional)

Training and Education

- LA10 Average hours of training per year per employee by employee category. (Core)
- LA11 Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings. (Additional)
- LA12 Percentage of employees receiving regular performance and career development reviews. (Additional)

Diversity and Equal Opportunity

- LA13 Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity. (Core)
- LA14 Ratio of basic salary of men to women by employee category. (Core)

Social Performance: Human Rights

Investment and Procurement Practices

- HR1 Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening. (Core)
- HR2 Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken. (Core)
- HR3 Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained. (Additional)

Non-Discrimination

- HR4 Total number of incidents of discrimination and actions taken. (Core)

Freedom of Association and Collective Bargaining

- HR5 Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights. (Core)

Child Labor

- HR6 Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labor. (Core)

Forced and Compulsory Labor

- HR7 Operations identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of forced or compulsory labor. (Core)

Security Practices

- HR8 Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations. (Additional)

Indigenous Rights

- HR9 Total number of incidents of violations involving rights of indigenous people and actions taken. (Additional)

Social Performance: Society

Community

- SO1 Nature, scope, and effectiveness of any programs and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting. (Core)

Corruption

- SO2 Percentage and total number of business units analyzed for risks related to corruption. (Core)
 SO3 Percentage of employees trained in organization's anti-corruption policies and procedures. (Core)
 SO4 Actions taken in response to incidents of corruption. (Core)

Public Policy

- SO5 Public policy positions and participation in public policy development and lobbying. (Core)
 SO6 Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country. (Additional)

Anti-Competitive Behavior

- SO7 Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes. (Additional)

Compliance

- SO8 Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations. (Core)

Social Performance: Product Responsibility

Customer Health and Safety

- PR1 Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures. (Core)
 PR2 Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes. (Additional)

Products and Service Labeling

- PR3 Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements. (Core)
 PR4 Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes. (Additional)
 PR5 Practices related to customer satisfaction, including results of surveys measuring customer satisfaction. (Additional)

Marketing Communications

- PR6 Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship. (Core)
 PR7 Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes. (Additional)

Customer Privacy

- PR8 Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data. (Additional)

Compliance

- PR9 Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services. (Core).

ISO International Standards

Another institution that assists companies in their reporting (including sustainability reporting) that we describe in the thesis is the ISO, or International Organization for Standardization, a non-governmental network of 163 national standards institutes that, according to its web-page³², “enables a consensus to be reached on solutions that meet both the requirements of business and the broader needs of society.”

ISO develops series of International Standards (presently over 18000) on varied subjects. Most popular standards used within sustainability sphere are ISO 9000 family (standards on quality management), ISO 14000 family (standards on environmental management) and ISO 31000:2009 standard (standards on risk management). *ISO 26000:2010* (Guidance on Social Responsibility), launched in October 2010, deals with the following topics (Ibid.):

- concepts, terms and definitions related to social responsibility;
- the background, trends and characteristics of social responsibility;
- principles and practices relating to social responsibility;
- the core subjects and issues of social responsibility;
- integrating, implementing and promoting socially responsible behavior throughout the organization and, through its policies and practices, within its sphere of influence;
- identifying and engaging with stakeholders;
- communicating information related to social responsibility.

ISO 26000:2010 is not certifiable; nor does it contain requirements to companies and organizations. Thus, ISO 26000:2010 was not developed as a guideline or international standard; this is purely a voluntary framework for those organizations who want to diversify or enhance their sustainability reporting, and not to use ISO 26000:2010 as the only reporting policy.

³² <http://www.iso.org/iso/home.htm>

AA1000 Standards

The final influential guideline described in the thesis is AA1000 Series of Standards developed and introduced by *AccountAbility*³³. Sustainability guidelines of AccountAbility are a vital part of its operation. AA1000 AccountAbility Principles Standard, or *AA1000 PS*, is the corner stone of AA1000. It includes the following principles:

- inclusivity (stakeholders' role in organization's response to sustainability challenges);
- materiality (if an issue affects sustainability decision-making and performance);
- responsiveness (how organization deals with its stakeholders' issues that affect sustainability decision-making and performance).

Keeping in mind the principles mentioned above, AA1000 PS can be linked to the following assumptions:

- all material issues are taken into account in the organizational strategy;
- this strategy can be evaluated on the basis of certain standards;
- only credible information about the organization's performance is disclosed to its stakeholders.

AA1000 Assurance Standard 2008 is a tool for assessing disclosure procedures stipulated for in AA1000 PS. AA1000 Stakeholder Engagement Standard or AA1000 SES provides a framework for stakeholder engagement and is linked to the first principle – inclusivity.

³³ An international organization founded in 1995 in order to assist corporations, non-profits and governments in integrating environmental, social and governance accountability into their regular accounting. According to its web-site, AccountAbility is working primarily with three spheres: (1) research (organizational accountability, responsible competitiveness, collaborative governance, citizen participation); (2) standards (AA1000 AccountAbility Principles Standard, AA1000 Assurance Standard, AA1000 Stakeholder Engagement Standard); (3) advisory services (Strategy and Governance, Reporting and Assurance, Stakeholder Engagement, Performance Management Systems, Program Management) (<http://www.accountability.org/index.html>).